

Audit, Pensions and Standards Committee

Agenda

Tuesday 13 September 2016

7.00 pm

COMMITTEE ROOM 1 - HAMMERSMITH TOWN HALL

MEMBERSHIP

Administration:	Opposition
Councillor Iain Cassidy (Chair) Councillor Ben Coleman Councillor Michael Cartwright Councillor PJ Murphy Councillor Guy Vincent	Councillor Michael Adam Councillor Nicholas Botterill Councillor Mark Loveday Councillor Donald Johnson

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www.lbhf.gov.uk/Directory/Council_and_Democracy

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Date Issued: 05 September 2016

Audit, Pensions and Standards Committee Agenda

13 September 2016

<u>Item</u>		<u>Pages</u>
1.	MINUTES OF THE PREVIOUS MEETING To approve the minutes of the meeting held on 15 June 2016 as an accurate record and note any outstanding actions.	1 - 9
2.	APOLOGIES FOR ABSENCE	
3.	DECLARATIONS OF INTEREST More information about declarations of interest can be found on the next page.	
4.	ANNUAL STATEMENT OF ACCOUNTS 2015-16	10 - 242
5.	TREASURY OUTTURN REPORT 2015-16	243 - 251
6.	INTERNAL AUDIT QUARTERLY REPORT - APRIL TO JUNE 2016	252 - 289
7.	HEAD OF INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2015-16	290 - 313
8.	INTERNAL AUDIT CHARTER AND STRATEGY	314 - 323
9.	DATES OF FUTURE MEETINGS The next meeting will be held on 7 December 2016.	
10.	EXCLUSION OF THE PUBLIC AND PRESS The Committee is invited to resolve, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.	
11.	EXEMPT MINUTES OF THE PREVIOUS MEETING	Exempt
12.	FINAL INTERNAL AUDIT REPORT - FULHAM PRIMARY SCHOOL 2015-16	Exempt

13. FINAL INTERNAL AUDIT REPORT - MITIE HEALTH AND SAFETY CHECKS 2015-16

Exempt

More Information About Declarations of Interest

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

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

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

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

London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee Minutes



Wednesday 15 June 2016

PRESENT

Committee Members: Councillors Iain Cassidy (Chair), Michael Cartwright, Ben Coleman, PJ Murphy, Guy Vincent, Mark Loveday, Michael Adam, and Donald Johnson

Officers: Hitesh Jolapara, Geoff Drake, Mike Sloniowski, Matt Butler, Andrew Hyatt, Kathleen Corbett, Paul Danek, Paul Monforte, Stella Baillie, George Lepine, John Quinn, and David Abbott

Other Councillors: Stephen Cowan (the Leader of the Council) and Greg Smith (as a trustee of Riverside Trust)

Guests: Andrew Sayers (Partner at KPMG), Jennifer Townsend (Senior Audit Manager at KPMG), William Burdett Coutts (Artistic Director of Riverside Studios), and Sir Christopher Powell (Trustee of Riverside Trust)

1. MINUTES OF THE PREVIOUS MEETING

RESOLVED

That the minutes of the meeting held on 22 March 2016 were agreed as a correct record and were signed by the Chair.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Nicholas Botterill.

Apologies for lateness were received from Councillor Donald Johnson.

3. DECLARATION OF INTEREST

Councillor Mark Loveday declared a non-pecuniary interest in item 17, 'Limited and Nil-Assurance Audit Reports – Garages', as he rented a garage from the Council.

Councillor PJ Murphy declared a non-pecuniary interest in item 7, Riverside Studios Report, as he had been the Council's nominee to the Riverside Trust Board.

Councillor Greg Smith noted that he had attended the meeting as a private citizen and trustee of the Riverside Trust.

4. APPOINTMENT OF VICE CHAIR

RESOLVED

That Councillor Michael Adam be appointed Vice Chair of the Committee.

5. PENSIONS SUB-COMMITTEE MEMBERSHIP

RESOLVED

That the Committee approved the 2016/17 membership of the Pensions Sub-Committee.

6. EXTERNAL AUDIT PLAN

Andrew Sayers, Partner at KPMG, and Jennifer Townsend, Senior Audit Manager at KPMG, presented their plan for the audit of the 2015-16 Statement of Accounts that will take place during July and August 2016. The final accounts will be presented to the Committee in September 2016.

Andrew Sayers highlighted the key risks starting on page 3 of the report including; management override of controls, property, managed services, and to a lesser degree the Council's pension fund investments (due to their size), materiality, and governance.

Councillor Michael Adam asked if the risk assessment took account of the medium term expenditure profile. Andrew Sayers responded that they looked at the controls and processes in place designed to ensure the delivery of savings. Councillor Adam noted that the scope of the reduction in income was of a different magnitude to previous years and that radical changes sometimes brought greater risk. He asked that the auditors consider this when determining the proper level of risk.

Councillor Guy Vincent asked how the issues with managed services would affect the audit. Andrew Sayers said there would be detailed testing of the transactions and balances and auditors would look at the controls and processes that the finance team had put in place to ensure the figures were correct.

Councillor PJ Murphy asked the external auditors if, considering the significant reductions to the Council's budget, they would consider lowering their fees for 2016/17. Andrew Sayers noted that the fee was set nationally and was currently out for consultation. He said the fee was likely to remain at last year's level but it would be kept under review. The Chair thanked Andrew Sayers and Jennifer Townsend for their attendance.

RESOLVED

That the Committee noted the 2015/16 Audit Plan (Appendix 1 of the report) and Progress Report and Technical Update (Appendix 2 of the report) as put forward by KPMG.

7. RIVERSIDE STUDIOS REPORT

William Burdett Coutts (Artistic Director of Riverside Studios), Sir Christopher Powell (trustee of Riverside Trust), and Councillor Greg Smith (in his capacity as a trustee of Riverside Trust) attended the meeting to represent Riverside Trust.

Matt Butler, Head of Policy & Spatial Planning, presented the report and noted that it was produced in response to actions from the Committee at its meeting on 14 December 2015 regarding the planning permission for the redevelopment of the Riverside Studios and Queens Wharf. The previous report advised of a possible funding shortfall for the full re-provision of Riverside Studios, despite assurances from Riverside Studios and Mount Anvil at the planning application stage. It was on the basis of these assurances that the council effectively substituted significant numbers of affordable homes for a re-provided Riverside Studios.

Councillor PJ Murphy asked if Riverside Trust had received £7,000,000 of public funds, in the form of Section 106 payments. Sir Christopher Powell responded that the Trust had received a cash payment from the developer Mount Anvil in exchange for their lease. Councillor Murphy asked if there was any connection between the money given to the developer by the Council as Section 106 payment and the money given by the developer to the Trust. Sir Christopher Powell said they were separate deals and he did not accept that the Trust had received public money.

Councillor PJ Murphy noted that 5.22 of the report said the Trust had made it, “very clear in their commitment that the planning application with the £7 million Section 106 would fund and deliver a re-provided facility including studio, theatre and cinema”. Matt Butler added that the correspondence with Rolfe Judd Planning (page 133 of the agenda) confirmed that £7,000,000 would be sufficient for re-provision of the studios. Sir Christopher Powell disagreed and said they had always been clear that an additional £10,000,000 to £20,000,000 would be required.

Councillor Ben Coleman asked what involvement Councillor Greg Smith had in negotiating with the developer on behalf of the Council. Councillor Greg Smith said that during his time as Cabinet Member under the former administration he had recused himself from the negotiations and decisions related to Riverside Studios.

Councillor Ben Coleman asked if the Trust were aware that the money given to them by the developer for the lease was Section 106 funding. William Burdett Coutts said the developer never said that it was Section 106 money.

Councillor Michael Cartwright noted that on 19 December 2013, the previous administration called an emergency meeting of the Planning and Development Control Committee to discuss Riverside Studios. At the time, Councillor Cartwright

asked the Chair to cancel the meeting because Labour members weren't able to attend and residents wouldn't have been represented. Councillor Cartwright noted that the viability studies were confidential at that time and were not made easily available to the planning committee members. Any members who wanted to view them had to sign a non-disclosure agreement and read them in the planning offices. Any notes members made while reading them were photocopied and sent to the developer. Greg Smith said he had no knowledge of that. On 10 December 2013 the Theatre Trust had contacted the Council to raise concerns about the re-provision of community facilities (letter at appendix D of the report).

Councillor Mark Loveday asked the Leader of the Council if he had asked officers to find documents that stated £7,000,000 would be sufficient to fund the community arts facility. The Leader of the Council said he didn't believe so though he did ask officers to clarify if the Trust had received public money. He said he had serious concerns about the delivery of the community arts facility and it was right to ask for a report investigating those issues.

Councillor Michael Adam asked if representatives from the Trust could clarify the funding gap and what action they had taken to fill it (i.e. talks with prospective funders to get support letters). Sir Christopher Powell said there had always been a funding gap, it was known from the start that the £7,000,000 was not sufficient for the level of facilities planned. The Trust were currently in the process of trying to raise the additional funding.

Councillor PJ Murphy asked who, from the Trust, signed the Section 106 agreement. The representatives from the Trust were not sure who signed it but they had discussed the requirements of the agreement as a board. Councillor Murphy asked the Trust to inform the Committee who signed the Section 106 agreement, after the meeting.

Councillor Guy Vincent, addressing the Trustees, noted he had been a long-time supporter of Riverside Studios and wanted it to flourish in the future. He asked when the developer would finish their work and what Riverside Studios would get from them. Sir Christopher Powell said the developer would provide a concrete shell and core, with soundproofing, but £10,000,000 to £12,000,000's worth of additional work would be required. Councillor Vincent asked what that money would be spent on. Sir Christopher Powell said he could provide a detailed breakdown outside of the meeting. Councillor Vincent asked if the additional funding had been sourced yet. Sir Christopher Powell said they had an 'in principle' deal in place with debt funders and they expected to enter into a facility agreement at the beginning of 2019.

Councillor Guy Vincent noted that any funding would need to be serviced through interest and capital repayments leading to high annual costs. Sir Christopher Powell said debt payments would be funded by commercial leases throughout the building. Consultants had carried out an in-depth analysis of the requirements and the lenders understood their commercial position. Councillor Vincent asked if they had any commitments from businesses. William Burdett Coutts said conversations were ongoing and there should be no concerns about filling the commercial space.

Councillor Guy Vincent asked what would happen to the building if the Trust could not raise the necessary funding. Sir Christopher Powell said they could get a loan against their income stream from commercial events. Councillor Vincent asked what would happen if that was not possible. William Burdett Coutts said there were provisions in the contract with the developer but it was confidential.

Councillor Guy Vincent noted that Riverside Studios had a reputation for supporting and showing interesting, commercially risky art and asked if there would be a temptation for the Board to 'dumb down' in order to fund debt repayments. William Burdett Coutts said it was a constant challenge to balance the competing needs of art and commerce and would continue to be in the future. Those issues had been exacerbated by losing Arts Council funding recently, although they were exploring digital projects with the Arts Council to make the arts more accessible. They were also working to build relationships with other arts groups, i.e. recording shows with SPACE.

Councillor Guy Vincent felt schedule 10 of the Section 106 agreement regarding community use was very thin on provision. He asked if the Trust could go further to ensure that the studios were a part of the local community and offered real benefits to residents. Sir Christopher Powell agreed to consider additional community benefits.

Councillor Michael Adam noted that the cost of servicing the debt could be around £750,000 per year. He asked what the cash flow was for the old facility, and what it was projected to be for the new one. William Burdett Coutts said the old facility had cash flow of £2,500,000 per year and for the new facility, in year three, it would be £6,000,000. He assured the Committee that debt servicing was built into the business plan. Councillor Adam asked what the operating margin was. Sir Christopher Powell noted that a lot of income came from rentals, in excess of £1,000,000, but income from the artistic activities was very hard to predict.

Councillor Mark Loveday asked if the Trust could deliver condition 55 of the planning agreement for £7,000,000. William Burdett Coutts said no. Councillor Loveday asked what could be delivered for that level of funding. Mr Coutts said he couldn't say. Councillor Loveday noted that the Committee had concerns that condition 55 wouldn't be delivered. He asked how much additional funding was required to deliver it. Mr Coutts said around £10,000,000 to £20,000,000. Councillor Loveday noted that if the Trust didn't deliver condition 55 the developer would be in breach of the planning conditions.

Councillor Mark Loveday asked if the letter from the developer and the letter from William Burdett Coutts represented the sum total of assurances given to the Council about the facility's viability. Matt Butler responded that the viability study was assessed by Strutt & Parker and the Council was assured that £7,000,000 was sufficient. Councillor Loveday noted that the £7,000,000 figure came from the developer and they should come before the Committee to discuss delivery.

Councillor PJ Murphy asked if the Council was involved in negotiating the £7,000,000. Matt Butler confirmed that the Council had negotiated that amount as part of the wider obligations secured within the S106. Councillor Murphy asked if the Council had consulted with Riverside Studios or Riverside Trust during those

negotiations. Matt Butler said they had not, the figure was based on assurances from the developer that it was sufficient with the security that the Riverside Trust were committed as signatories to the S106.

Councillor PJ Murphy asked that the developer be invited to discuss these issues with the Committee. He also asked that the Council write to the Charities Commission to raise concerns about the running of Riverside Trust.

Councillor Stephen Cowan, Leader of the Council, addressed the Committee and noted that the Trust received £7,000,000 of Section 106 money and signed the Section 106 agreement. He said he found it difficult to believe the Trustees were not aware that the money was Section 106 funding. He asked where the money was and how it was being used. He also asked for clarification about what the facility would become if it was not used for the promised community arts venue.

Councillor Mark Loveday said he had reservations about the way the report had been presented and what it proposed. The responsibilities of the Audit function was clearly set out, its role was to advise the Executive on strategic processes and accounting policies. It was not a Policy and Accountability Committee. He had concerns that the administration had sight of the report prior to the Committee and that the Leader of the Council was advising the Committee on recommendations. He also said it was difficult to see how writing to the Charities Commission was within the remit of the Committee.

Councillor PJ Murphy responded that the Council gave £7,000,000 to an organisation and the Committee want to know where it is being spent. The purpose of writing to the Charities Commission was to highlight potentially inappropriate governance.

Councillor Ben Coleman asked why the Trust had rejected the Council's nominees to the Board. Sir Christopher Powell said the Trust had asked to meet the new nominees to see if they were like-minded. He said it was important to have a viable Board to deliver the project.

The Chair proposed the following recommendations:

- That the Committee write to the Trust for a full account of the £7,000,000.
- That the Committee write to the developer Mount Anvil to clarify who they were negotiating S106 payments with, in particular the £7m S106 payment to the Trust.
- That the Committee write to the Arts Council and Charities Commission to raise concerns about the governance of the Trust.

Councillor Mark Loveday said he couldn't support all of the proposed recommendations, however he agreed that the Committee should write to the developer as they were under planning obligations to deliver the arts facility.

Councillor Guy Vincent said he would like the Committee to have access to the contract between the developer and the Trust. He also asked that Riverside Trust be invited to provide a regular update (e.g. every three months) to the Committee on progress in raising the funding of between £10,000,000 - £20,000,000.

Councillor Michael Adam noted that the Committee's key concern was ensuring the arts facility was opened and the Trustees believed that it would happen. However, he felt they could engage further and provide evidence of where the money was being spent and give updates to the Committee.

Councillor Michael Cartwright supported inviting the developer Mount Anvil as they were the applicant. He felt the Committee should defer writing to the Charities Commission before all of the facts could be established.

RESOLVED

1. That the Committee write to Riverside Trust for a full account of the funds provided for the re-provision of a community arts facility and regular updates on progress.
2. That the Committee write to the developer Mount Anvil to clarify who they were negotiating S106 payments with, in particular the £7m S106 payment to the Trust.
3. That officers circulate the lease of land and sale of land contracts.
4. That Riverside Trust be invited to provide a regular update (e.g. every three months) to the Committee on progress in raising the funding of between £10,000,000 - £20,000,000.
5. That the Committee ask Riverside Trust to ensure that the studios will be part of the local community and offer real benefits to residents.

8. CORPORATE ANTI-FRAUD END OF YEAR REPORT

This item was deferred due to time.

9. RISK MANAGEMENT HIGHLIGHT REPORT

This item was deferred due to time.

10. INTERNAL AUDIT QUARTERLY REPORT

Geoff Drake presented the report that summarised internal audit activity from 1 January 2016 to 31 March 2016 and reported on the performance of the Internal Audit Service.

RESOLVED

That the Committee noted the contents of the report.

11. ANNUAL GOVERNANCE STATEMENT ACTION PLAN AND OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT

This item was deferred due to time.

12. HEAD OF INTERNAL AUDIT ANNUAL REPORT 2015/16

This item was deferred due to time.

13. INTERNAL AUDIT CHARTER AND STRATEGY - 2016 REVIEW

This item was deferred due to time.

14. DATES OF FUTURE MEETINGS

The following dates were scheduled:

- 13 September 2016
- 7 December 2016

15. EXCLUSION OF THE PUBLIC AND PRESS

RESOLVED

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

16. EXEMPT MINUTES OF THE PREVIOUS MEETING

RESOLVED

That the exempt minutes of the meeting held on 22 March 2016 were agreed as a correct record and were signed by the Chair.

17. LIMITED AND NIL-ASSURANCE AUDIT REPORTS (EXEMPT)

Limited Assurance Report – Garages

The Committee considered the report.

Limited Assurance Report - Section 75 Agreements – Mental Health

The Committee considered the report.

RESOLVED

That the Committee noted the contents of the report.

Meeting started: 7.00 pm
Meeting ended: 10.10 pm

Chair

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Agenda Item 4

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>13 September 2016</p>	
ANNUAL STATEMENT OF ACCOUNTS 2015/16 (INCLUDING PENSION FUND)	
Report of the Strategic Finance Director	
Open Report	
Classification: For Information Key Decision: No	
Wards Affected: All	
Accountable Executive Director: Hitesh Jolapara, Strategic Finance Director	
Report Author: Christopher Harris, Head of Corporate Accountancy and Capital	Contact Details: Tel: 020 8753 6440 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 2015/16 and the external auditor's (KPMG) draft opinion on the accounts. In summary, the auditor anticipates issuing an unqualified opinion on the Council's accounts and on the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').
- 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)' (appendix 2) 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 2015/16, including the Pension Fund (as included at appendix 1).
- 2.5. To note the Annual Governance Statement which is included in the Statement of Accounts on pages 106-114.
- 2.6. To approve the Pension Fund Annual Report 2015/16 (as included at appendix 4)

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 2015.

4. INTRODUCTION AND BACKGROUND

4.1. INTRODUCTION

- 4.1.1. KPMG's Report to those Charged with Governance (ISA260) for Hammersmith and Fulham 2015/16 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.

- 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.

4.2. STATEMENT OF ACCOUNTS 2015/16

- 4.2.1. The Narrative Statement which starts on page 7 of the Statement of Accounts, gives an outline of the Council's financial activity during 2015/16. In summary the key points are:

- A General Fund revenue account under-spend of £4.5m
- A General Fund balance of £19.0m.
- A Housing Revenue Account (HRA) surplus of £5.3m for the year, increasing its working balance to £18.5m.
- Earmarked reserves at 31 March 2016 of £112.9m.

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 2015/16 audit. KPMG, as the appointed auditors, state that:

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

The auditor has highlighted the headline information from the audit on pages 5-8 of the report, with detailed findings commencing from page 9. The audit identified a number of disclosure adjustments to the draft accounts, pertaining to Debtors, Creditors and Exit Packages. These are detailed in Appendix 2 of the ISA260 report. **These accounting adjustments have had no impact on the Council's General Fund balance or other usable reserves** – i.e. there has been no impact on the 'bottom line' from these adjustments.

There were also a small number of other presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting in the United Kingdom ('the Code')*.

4.3.2. The auditor has made a number of recommendations. These, together with the Council's responses, are set-out in Appendix 1 of the ISA260 report.

4.3.3. 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. As there is still outstanding work on two areas (detailed in the ISA260 report) the auditors are currently unable to issue an opinion. An oral update will be given to the Committee.

4.4.2. The Pension Fund Annual Report is attached at Appendix 4 and includes reports on the various aspects of the operation of the Fund – investments, administration and funding, as well as the Pension Fund financial statements. The committee are required to approve the Annual Report, so that it can be published once the audit is complete.

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 2015, 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.

13. IMPLICATIONS FOR LOCAL BUSINESSES

13.1. Not applicable.

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

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	KPMG Reports to those Charged with Governance (ISA260)	Christopher Harris, 020 8753 6440	Corporate Accountancy and Capital, Room 10, Hammersmith Town Hall

LIST OF APPENDICES:

Appendix 1 – London Borough of Hammersmith and Fulham Annual Statement of Accounts 2015/16 (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

Appendix 4 – Pension Fund Annual Report

STATEMENT OF ACCOUNTS

2015/16

Auditor's Report to follow.

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**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 13 September 2016

Councillor Iain Cassidy
13 September 2016

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The Strategic Finance Director's Narrative Report, the Council's Statement of Accounts for the Year Ended 31 March 2016 and the Council's Annual Governance Statement are set out on the following pages.

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THE STRATEGIC FINANCE DIRECTOR'S NARRATIVE REPORT

An Introduction from Hitesh Jolapara, Strategic Finance Director

Hammersmith and Fulham is a dynamic, diverse and exciting place to live and work. Sitting alongside four and half miles of the River Thames and nestled between Europe's busiest airport, the City of London and London's West End, the Borough is a significant centre for business, the arts, culture and leisure.

Many people may not find local authority finances to be the most exciting of subjects but they underpin everything we do. And what we do is a lot! – from housing to education, social care to transport, libraries to leisure. And whether it is protecting children in care, meeting the challenges of an ageing population or simply making preparations for next year's boat race, finance will play a crucial role.

Hammersmith and Fulham, like most local authorities, has faced significant financial challenges in recent years. The austerity agenda has triggered unprecedented cuts while at the same time demand for our services has increased. During this time the importance of finance has only been reinforced as we look for ever more efficient ways to make diminishing resources go further.

The Statement of Accounts presented here not only bears witness to the challenges we face but also demonstrates how we at Hammersmith and Fulham have risen to those challenges.

Looking back to 2015/16, the Council has had another successful year. At the beginning of the year – through our budget process - we found savings and efficiencies of £23.8m and were able to cut Council Tax by 1%, while at the year-end we have been able to deliver an underspend of over £5m. The Council moves into 2016/17 with a balanced budget and an additional planned contribution to reserves of £4m. Our strong balance sheet and healthy level of one-off reserves enables us to plan with confidence for the future.

The financial challenge facing all local authorities is ongoing and, if anything, increasing. The Council continues to put financial considerations at the heart of everything it does and is using innovative approaches – such as smarter budgeting (outcomes transformation programme) – to continue delivering sound finances.

THE COUNCIL'S PERFORMANCE

The development of the Delivery Plan model at the start of 2015/16 meant that monitoring of strategic performance could be carried out by both Cabinet members and senior officers. Outcome-based deliverables were assigned to lead Cabinet members and to accountable officers in order to ensure clear lines of political and managerial responsibility. Progress reports were taken monthly at H&F Business Board and quarterly by Cabinet members. The Council adopted 219 deliverables of which nearly 90% were complete or 'on track or on time' at the end of the year. The following is a summary of achievements in 2015/16 broken down by Delivery Plan headings.

Area	Deliverables	%age Complete or On Track
Health and Adult Social Care	28	100%
Affordable Homes	41	95%
Delivering Greater Efficiency	24	88%
Social Inclusion	42	79%
Stronger Local Economy and Power to Local Communities	20	75%
Safer, Greener Borough	35	89%
Best Start for Young People	29	97%
Total	219	89%

Priorities for 2016/17

The Delivery Plan priorities for 2016/17 have been grouped slightly differently in anticipation of the Smarter Budgeting programme from 2017/18 onwards. Smarter Budgeting is the corporate outcomes-based budgeting transformation initiative which seeks to better allocate budgets and activities/services to achieve improved outcomes for residents. Social inclusion, value for money and responsiveness to residents is at the heart of the programme and headline themes for deliverables are as follows:

- **Economic growth**
- **The Best Start in Life for Children**
- **Resident Involvement**
- **Decent Homes**
- **Reducing Homelessness and Overcrowding**
- **Supporting Vulnerable Adults**
- **Safer & Healthier place**
- **Cleaner, Greener, Sustainable borough**

FINANCIAL PERFORMANCE

Economic climate and Future Outlook

Local government finances continue to be dominated by the austerity agenda. From 2010/11 to 2015/16 the Council's government funding was cut by £66m and further cuts will continue until at least 2019/20. Despite this pressure the Council remains well positioned in a demanding environment.

The Council has embedded the Medium Term Financial Strategy (MTFS) within its business planning framework. The MTFS has been the vehicle for allocating resources to the Council's priorities, driving through efficiency savings and monitoring their delivery. It provides the Council with a forum for challenging budget and service proposals, identifying and developing savings and efficiencies; and dealing with significant financial risks. The Council's funding reduction from government was £8.2m in 2016/17. In addition the Government has imposed £3.4m of unfunded new burdens on the Council for 2016/17. Funding is forecast to reduce by a further £25m from 2017/18 to 2019/20.

For 2016/17 the Council has frozen Council Tax, which included not levying a 2% 'social care precept' as suggested by Central Government. This means that H&F residents will pay Council Tax at 3.75% below the level modelled (2% social care precept and 1.75% for Council Tax) by the Government in 2016/17.

The Council's 2016/17 Budget Strategy recognised the challenge in delivering the scale of budget reductions and recommended that the range for the optimal level of general balances be maintained at £14m - £20m. The actual general balances carried forward at the close of 2015/16 are £19m.

For 2017/18 we have started a major change programme to better focus our services on the positive differences they make for H&F residents. This smarter budgeting programme will see us better align our strategy and resources with the 8 outcomes that matter most to our residents.

Financial Management – A look back

Revenue

Annually, the Council sets the revenue budget – this sets out the Council's spending plans on day-to-day expenditure which includes everything from staff salaries, building maintenance and the costs of running refuse vehicles. It is a legal requirement of the Council to set a balanced budget i.e. expenditure cannot be more than the Council's income. In brief, the 2015/16 budgets included:

- A Council Tax reduction of 1%;
- Savings of £24m off-setting cost pressures and grant losses; which produced:
- a net revenue budget requirement of £158.4m funded from Council Tax, the local share of business rates and Revenue Support Grant from government within a gross budget of £667m

The revenue outturn for 2015/16 includes:

- A General Fund under-spend of £5.2m. After deducting departmental carry-forwards of £0.7m the net General Fund underspend was £4.5m.
- General Fund and earmarked reserves at 31 March 2016 of £109m and
- A stable balance sheet (total net assets have increased, but due substantially to the annually updated revaluation of property, plant and equipment).

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

The net under-spend on the General Fund of £4.5m reflected a 2 per cent under-spend by departments. The under-spend has been transferred to the Managed Services Reserve and the Efficiency Reserve.

The summary **General Fund outturn** position is as set out below:

Department	Budget	Actual	Over/ (Under) Spend
	£'000	£'000	£'000
Children's Services	54,913	55,469	556
Adult Social Care	63,842	63,781	(61)
Housing & Regeneration	8,723	8,710	(13)
Controlled Parking Account	(20,040)	(22,210)	(2,170)
Environmental Services	46,772	46,405	(367)
Public Health	4	4	-
Libraries and Archives	2,199	2,200	1
Corporate Services	21,991	21,308	(683)
Centrally Managed Budgets	19,272	16,831	(2,441)
Gross Operating Expenditure	197,676	192,498	(5,178)
less approved budget carried forward	(700)	-	700
Net Operating Expenditure	196,976	192,498	(4,478)
Technical and Financial Accounting Adjustments	(8,561)	(8,561)	-
Non-Domestic Rates (NDR) Tariff	2,937	2,937	-
Capital Grants	(16,129)	(16,129)	-
Non-Ring-fenced Revenue Grants	(10,580)	(10,580)	-
Net Contribution to Earmarked Reserves	(6,215)	(1,737)	4,478
Net Contribution to General Reserves	-	-	-
Total Net Expenditure	158,428	158,428	-

Funded by:			
Formula Grant	47,791	47,791	-
Localised NDR	56,417	56,417	-
Council Tax	54,220	54,220	-
Total Funding	158,428	158,428	-
Final Position	-	-	-

The Net Operating Expenditure is reconciled to the financial statements in Note 6.

The Statement of Accounts also includes the ring-fenced **Housing Revenue Account** for the provision of social housing. The Housing Revenue Account generated a surplus of £5.4m, after transfers to earmarked reserves. This surplus has been transferred to the HRA working balance. Full details are set out in the HRA Statement of Accounts.

The Council's **Balance Sheet** as at 31 March 2016 is summarised below. The overall position is substantially stable.

LBHF Summary Balance Sheet	31-Mar-16	31-Mar-15
	£m	£m
Long Term Assets	1,899	1,757
Current Assets	444	437
Current Liabilities	(206)	(190)
Net Pension Liabilities	(491)	(522)
Other Long Term Liabilities	(250)	(257)
Net Assets	1,395	1,225
<i>Represented by:</i>		
Usable Reserves	(258)	(267)
Unusable reserves	(1,137)	(958)
Total Reserves	(1,395)	(1,225)

The breakdown of the usable reserves is set out below:

LBHF Summary Usable Reserves	31-Mar-16	31-Mar-15
	£m	£m
General Fund Balance	(19)	(19)
General Fund Earmarked Reserves	(90)	(90)
HRA Balance and Earmarked Reserves	(41)	(28)
Schools Reserves	(14)	(15)
Capital Reserves (Receipts and Grants)	(94)	(115)
Total	(258)	(267)

Pension Liabilities

The Council has net pension liabilities of £491m on its Balance Sheet. This reflects the value of pension liabilities which the Council is required to pay in the future as they fall due, offset by the value of assets invested in the pension fund. In addition, the Council's pension fund has to be revalued every three years to set future contribution rates. The current contribution rate is set on the basis of the cost of the future benefit accrual, increased to bring the funding level back to 100% over a period of 22 years. This was set from the latest triennial actuarial valuation as at 31st March 2013. The next actuarial valuation of the pension fund will be as at 31st March 2016 and will be published in 2017.

Capital

The Council's Capital Programme captures the spending of what is typically "one-off" money to purchase or improve the Council's long-term assets (such as buildings and vehicles). In 2015/16, the actual capital expenditure (outturn) totalled £96 million. The table below summarises capital expenditure by service area:

Department	2015/16	2014/15
	£'000	£'000
Adult Social Care	1,392	1,122
Children's Services	19,039	28,609
Environmental Services	9,644	10,413
Housing Revenue Account Programme	53,592	49,803
Housing and Regeneration	12,023	6,987
Libraries and Archives	89	1,036
Total	95,779	97,970

The 2015/16 capital programme was financed as follows:

Capital Financing	2015/16 £'000	2014/15 £'000
Capital receipts	49,013	41,538
Increase in Capital Finance Requirement (CFR)	1,117	-
Capital Grants and Contributions	22,744	30,135
Major Repairs Reserve (MRR)	16,685	23,256
Council and School reserves	3,608	2,884
Housing Revenue Account	2,300	113
General Fund Revenue Account	312	44
Total	95,779	97,970

Financial Management – A look forward

Revenue

The 2016/17 budget was approved by Council in February 2016. This budget focused on protecting front-line services and value for money and included the following:

- A freeze to Council Tax, which included not levying a 2% 'social care precept' as suggested by Central Government.
- Growth of £6.3m to meet statutory obligations, demographic and service pressures and key local priorities, off-set by:
- Savings of £15.4m to balance the 2016/17 budget and to meet the ongoing challenge of unprecedented government funding cuts.
- An additional contribution to reserves of £4m to fund future efficiency projects
- A standard up lift of 1.1% in fees and charges based on August 15 retail price index, with all Adult Social care, Children's services, parking and Housing charges frozen.

Capital

The Council has an ambitious capital programme for the period 2016-20. The Council plans to spend £286.3m over this period.

The programme includes:

- A Housing programme in excess of £200m.
- The continuation of the School's Organisation Strategy (within Children's Services) which is committed to increasing school places in the Borough.
- The continuation of the Council's rolling programmes for Disabled Facilities Grants, Planned Building Maintenance, Footways and Carriageways and Parks.
- The planned refurbishment of Hammersmith Town Hall (within the Planned Building Maintenance programme). This project is designed to increase the usage and occupancy of the Town Hall, thereby allowing other corporate property to be vacated and savings realised.

A summary of planned expenditure by department and funding is shown below:

LBHF Capital Programme 2016/17 to 2019/20

	Indicative Budgets				Total Budgets (all years) £000
	2016/17 £000	2017/18 £000	2018/16 £000	2019/20 £000	
CAPITAL EXPENDITURE					
Children's Services	30,199	12,045	390	-	42,634
Adult Social Care	1,707	450	450	450	3,057
Environmental Services	11,311	7,731	7,731	7,731	34,504
Libraries	250	-	-	-	250
Total Non-Housing Expenditure	43,467	20,226	8,571	8,181	80,445
HRA Programme	47,836	26,117	21,131	21,943	117,027
Decent Neighbourhoods Programme	21,315	21,421	28,222	17,829	88,787
Total Housing Expenditure	69,151	47,538	49,353	39,772	205,814
TOTAL EXPENDITURE	112,618	67,764	57,924	47,953	286,259

CAPITAL FINANCE					
Government/Public Body Grants	(21,508)	(4,756)	(2,298)	(2,157)	(30,719)
Developers Contributions (S106)	(5,010)	-	-	-	(5,010)
Leaseholder Contributions (Housing)	(4,093)	(2,849)	(2,849)	(2,849)	(12,640)
Total Specific/External Financing	(30,611)	(7,605)	(5,147)	(5,006)	(48,369)
Capital Receipts - General Fund	(11,280)	(5,550)	(5,480)	(5,480)	(27,790)
Capital receipts - Housing	(28,443)	(8,794)	(9,064)	(16,488)	(62,789)
Revenue Funding - General Fund	(544)	(544)	(544)	(544)	(2,176)
Revenue Funding - HRA	(3,514)	(3,702)	(353)	(1,562)	(9,131)
Major Repairs Reserve (Housing)	(17,377)	(17,820)	(18,325)	(18,873)	(72,395)
Total Mainstream Funding	(61,158)	(36,410)	(33,766)	(42,947)	(174,281)
Internal Borrowing	(20,849)	(23,749)	(19,011)	-	(63,609)
TOTAL CAPITAL FINANCING	(112,618)	(67,764)	(57,924)	(47,953)	(286,259)

The Capital Programme is fully funded from internal resources or internal borrowing. As at the end of 2015/16 the Council's Capital Finance Requirement (CFR) remains close to the lowest levels experienced in the past ten years. There are currently no plans to borrow externally, however the Council has access to the borrowing facilities of the Public Works Loans Board were the need to arise. The Council will continue to review capital borrowing through the Capital Programme and the Treasury Management Strategy.

The Referendum on Britain's Membership of the European Union

On 23rd June 2016 a referendum was held on the UK's membership of the European Union (EU). The result was in favour of the UK to leave the EU.

While there has been market volatility since the referendum, a reasonable estimate of the medium to long-term financial effect of 'Brexit' cannot be made at this stage. The government has yet to trigger Article 50 of the Lisbon Treaty – which will initiate proceedings for the UK to leave the EU – and thereafter negotiations may take up to two years.

The Council continues to monitor closely the impact of Brexit and will factor these impacts into its medium term financial planning as and when they become clear.

THE ENVIRONMENT

Carbon reduction

Reducing carbon emissions helps the environment and saves money. Simple changes can make our homes, schools, workplaces and local services more energy efficient.

We are committed to doing everything we can to improve our energy efficiency and reduce our carbon footprint. In 2007 we signed up for the Nottingham Declaration on Climate Change which commits us to actively tackling climate change and reducing our carbon emissions.

We also support the Climate Change Act 2008 which is the UK framework to improve carbon management.

Air quality and climate change

Despite improvements in air quality since the 1950s, air pollution continues to affect our health. In any urban environment, the major source of airborne pollutants is exhaust emissions from traffic. Hammersmith & Fulham has the eighth highest percentage of early deaths attributable to nitrogen dioxide and to particulate matter air pollution in London, according to a report by King's College London. The report, commissioned by the Greater London Authority and Transport for London, estimates that this contributes to the early deaths of 203 residents per year.

In response to this, the Council has established a resident-led Air Quality Commission to look into the problem. The commission will engage with external experts and local residents in examining the causes and dangers of local air pollution and propose potential solutions to help reduce it. Visit the Air Quality Commission's web page.

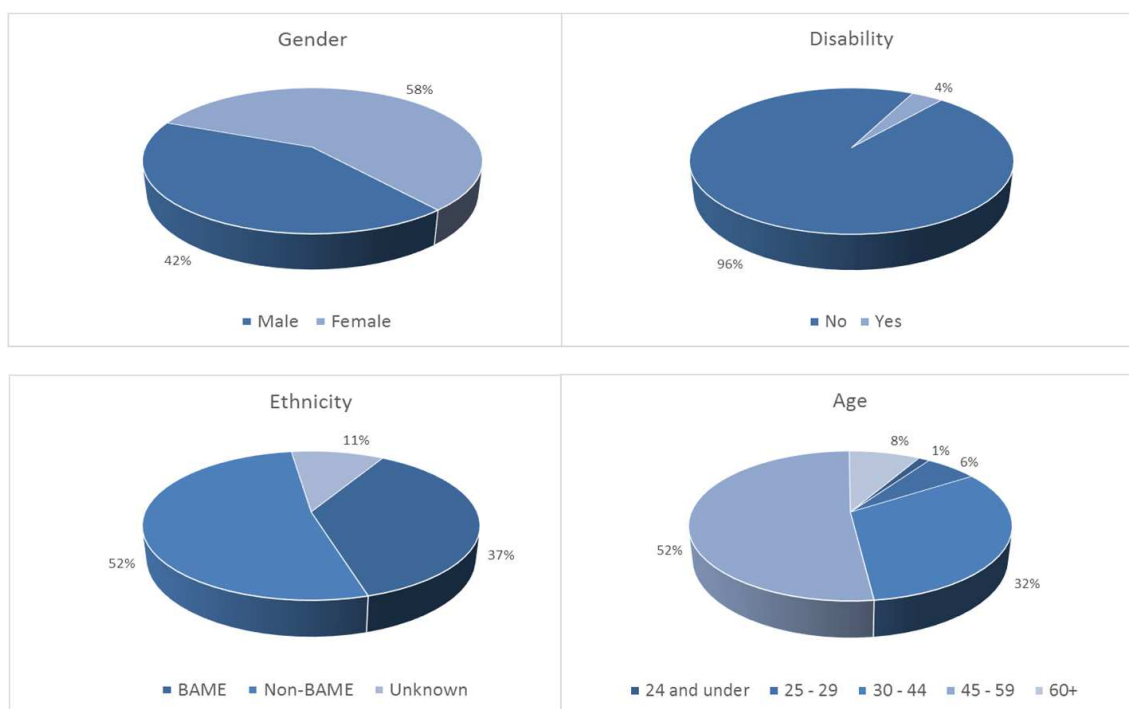
Two pollutants Nitrogen dioxide and Benzene have been monitored at sites around the Borough. This monitoring provides average concentrations over a period of several weeks and is useful in establishing general trends. We also measure pollutants called Polycyclic Aromatic Hydrocarbons (PAHs) – a group of organic compounds associated with emissions from motor vehicles. We also use monitoring stations to measure pollution at Hammersmith Broadway, Brook Green, Scrubs Lane and Shepherds Bush Green. Further details are on our air quality monitoring station page.

Further details on how the Council is tackling a range of environmental issues, including contaminated land and the control of hazardous substances are available on the Council's website here:

<https://www.lbhf.gov.uk/environment/pollution-and-air-quality>

PEOPLE

The Council employs 3,454 people in full time and part-time contracts. The Council's workforce generally reflects the diversity of residents across the Borough. Below is a detailed breakdown of the Council's employees.



PRINCIPAL RISKS AND UNCERTAINTIES

A risk management strategy is in place to identify and evaluate risks. There are clearly defined steps to support better decision making through the understanding of risks, whether a positive opportunity or a threat and the likely impact. The risk management process is reviewed periodically. The table below shows our top risks.

Below are our top risks derived from the Council's high level risk register.	Impact.	Mitigation.
Continued reductions in government funding, which restricts revenue spending.	May adversely impact on the Council's ability to run full services and may mean that some services are changed or reduced.	Robust Medium Term Financial Strategy (MTFS) Process; Smarter Budgeting initiative; Collaborative working with partners and subsidiaries.
Safeguarding, protecting young people from harm.	Potential harm to children.	Policies, training and management controls, lessons learnt from reviews and enhanced checks.
Additional demands created by new legislation in particular the Care Act.	Increased demand for adult and children care services, creating additional budgetary pressures. Increased strain on service.	Further focus on integration with health services, focus on preventative and re-ablement services.
Risks associated with major system and process change following implementation of the Managed Services Programme.	Potential inaccuracy or incompleteness of financial or human resources transactions. Increased difficulty in executing transactions in a timely manner.	Programme management, relationship management with the service provider, retention of in-house staff and systems. Robust analytical reviews.
Information risks associated with Cyber-crime.	Disruption to the continuity IT function. Theft of data.	Continuity planning and deployment of technological controls.
Large scale Transformation Programmes, in particular the I.T. service moving to a new service providers.	New service provider is not operational in time or data is not transferred in good order.	Transformation programme.
Contract management.	Contractor underperforms impacting directly or indirectly on service users.	Improved processes and systems utilising the council's electronic procurement and contract management software system.

FINANCIAL STATEMENTS

The Statement of Accounts sets out the Council's income and expenditure for the financial year 2015/16 and its Balance Sheet at 31 March 2016. This covers the General Fund, Housing Revenue Account, Pension Fund and the Collection Fund.

The Statement of Accounts comprises:

Key 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 2016. 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.

Explanatory Notes

- 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.

Supplementary Financial Statements

- The **Housing Revenue Account** shows the income and expenditure relating to the provision of housing and associated services to the Council's 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 2016 (Net Assets Statement).

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.

ACCOUNTING POLICIES

The 2015/16 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 2015 (the Code) which is based on IFRS.

The accounting policies adopted by the Council comply with the Code and are set out in Note 1 to the Statement of Accounts. These are substantially unchanged from 2014/15.

GROUP ACCOUNTS

As with the 2014/15 Statement of Accounts, Group Accounts have not been included in the 2015/16 Statement of Accounts on the grounds that they do not have a material effect on the overall statements. Their inclusion does not provide any more usefulness to readers. The Council considers the Hammersmith and Fulham Bridge Partnership (HFBP) as a Subsidiary. Details on the total 2015/16 net assets and profit and loss for HFBP (with 2014/15 comparators) can be found in Note 38 (Interest in Companies) to the key financial statements, along with contact details for the procurement of the full accounts.

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 Strategic Finance Director.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

Responsibilities of the Strategic Finance Director

The Strategic Finance Director is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Strategic Finance Director has:

- selected suitable accounting policies and applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice on Local Authority Accounting.

The Strategic Finance Director 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 STRATEGIC FINANCE DIRECTOR

I confirm 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 2016 and income and expenditure for the year for the financial year 2015/16.



Hitesh Jolapara
Strategic Finance Director
13 September 2016

CORE FINANCIAL STATEMENTS

Movement in Reserves Statement

Comprehensive Income and Expenditure Statement

Balance Sheet

Cash Flow Statement

Notes to the Accounts

Movement in Reserves Statement

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

Notes	General Fund (GF) Balance £000	Schools Balance £000	Earmarked Reserves £000	Capital Grants Unapplied £000	Housing Revenue Account (HRA) £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Reserves £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	
Balance at 31 March 2014	(19,004)	(16,746)	(92,589)	(42,694)	(7,494)	(6,668)	(71,049)	(878)	(257,122)	(922,423)	(1,179,545)	
Movement in Reserves during 2014/15												
(Surplus) or Deficit on Provision of Services (Restated)	3,520	-	-	-	(89,274)	-	-	-	(85,754)	-	(85,754)	
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	-	40,558	40,558	
Total Comprehensive Income and Expenditure	3,520	-	-	-	(89,274)	-	-	-	(85,754)	40,558	(45,196)	
Adjustments between accounting basis & funding basis under regulations	7	(12,053)	2,395	-	(1,415)	79,790	6,668	914	-	76,299	(76,299)	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves		(8,533)	2,395	-	(1,415)	(9,484)	6,668	914	-	(9,455)	(35,741)	(45,196)
Transfers to/(from) Earmarked Reserves	8	8,533	(624)	(11,721)	-	3,812	-	-	-	-	-	-
(Increase)/Decrease in 2014/15		-	1,771	(11,721)	(1,415)	(5,672)	6,668	914	-	(9,455)	(35,741)	(45,196)
Balance at 31 March 2015	(19,004)	(14,975)	(104,310)	(44,109)	(13,166)	-	(70,135)	(878)	(266,577)	(958,164)	(1,224,741)	
Movement in Reserves during 2015/16												
(Surplus) or Deficit on Provision of Services	26,912	-	-	-	(51,301)	-	-	-	(24,389)	-	(24,389)	
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	-	(146,043)	(146,043)	
Total Comprehensive Income and Expenditure	26,912	-	-	-	(51,301)	-	-	-	(24,389)	(146,043)	(170,432)	
Adjustments between accounting basis & funding basis under regulations	7	(28,869)	2,862	-	477	37,942	(406)	21,184	-	33,190	(33,190)	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves		(1,957)	2,862	-	477	(13,359)	(406)	21,184	-	8,801	(179,233)	(170,432)
Transfers to/(from) Earmarked Reserves	8	1,957	(1,420)	(8,542)	-	8,005	-	-	-	-	-	-
(Increase)/Decrease in 2015/16		0	1,442	(8,542)	477	(5,354)	(406)	21,184	-	8,801	(179,233)	(170,432)
Balance at 31 March 2016 carried forward	(19,004)	(13,533)	(112,852)	(43,632)	(18,520)	(406)	(48,951)	(878)	(257,776)	(1,137,397)	(1,395,173)	

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 2016			Year Ended 31 March 2015			
	Notes	Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
		£000	£000	£000	£000	£000	£000
Central services to the public		9,442	(5,587)	3,855	10,959	(4,518)	6,441
Cultural and Related Services		9,317	(3,404)	5,913	11,534	(3,838)	7,696
Environment and Regulatory Services		34,694	(8,876)	25,818	35,147	(8,799)	26,348
Planning Services		12,610	(7,244)	5,366	10,724	(6,086)	4,638
Education and children's services		188,217	(131,459)	56,758	204,033	(132,725)	71,308
Highways and transport services		44,062	(41,014)	3,048	42,423	(42,069)	354
Local authority housing (HRA)		61,050	(82,267)	(21,217)	62,273	(80,644)	(18,371)
Local authority housing (HRA) - Dwelling Revaluation	9	(26,633)	-	(26,633)	(56,622)	-	(56,622)
Other housing services		181,975	(171,533)	10,442	186,968	(177,491)	9,477
Adult social care		93,965	(30,843)	63,122	91,560	(29,055)	62,505
Public Health		21,481	(21,476)	5	19,149	(19,149)	-
Corporate and democratic core		4,852	(170)	4,682	4,274	(820)	3,454
Non distributed costs - General		9,655	-	9,655	9,215	(449)	8,766
Cost of Services		644,687	(503,873)	140,814	631,637	(505,643)	125,994
Other Operating Expenditure	10	4,801	(1,876)	2,925	7,811	(37,549)	(29,738)
Financing and investment income and expenditure	11	31,245	(4,169)	27,076	34,429	(6,191)	28,238
Taxation and non-specific grant income and expenditure	12	2,937	(198,141)	(195,204)	2,882	(213,130)	(210,248)
(Surplus) or Deficit on Provision of Services				(24,389)			(85,754)
(Surplus) or deficit on revaluation of Property, Plant and Equipment assets				(96,176)			(38,087)
(Surplus) or deficit on revaluation of available for sale financial assets				585			525
Remeasurements of the net defined benefit liability (asset)	32			(50,452)			78,120
Other Comprehensive Income and Expenditure				(146,043)			40,558
Total Comprehensive Income and Expenditure				(170,432)			(45,196)

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, are 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 2016	31 March 2015
		£000	£000
Property, Plant and Equipment	13	1,807,251	1,666,821
Heritage Assets	15	8,023	8,023
Investment Property	14	80,940	79,310
Intangible Assets		805	883
Long Term Investments	25	100	100
Long Term Debtors	25	1,637	1,648
Long Term Assets		1,898,756	1,756,785
Assets Held for Sale	21	3,889	2,401
Short Term Investments	25	264,830	320,596
Short Term Debtors	19	74,125	55,558
Inventories		55	74
Cash and Cash Equivalents	20	100,665	58,823
Current Assets		443,564	437,452
Short Term Borrowing	25	(9,869)	(18,856)
Short Term Creditors	22	(174,902)	(138,563)
Provisions	24	(12,676)	(20,411)
Grants and Contributions Receipts in Advance	35	(8,367)	(12,595)
Current Liabilities		(205,814)	(190,425)
Long Term Borrowing	25	(225,073)	(232,144)
Long Term Creditors	25	(100)	(100)
Provisions	24	(303)	(717)
Other Long Term Liabilities	23	(499,345)	(531,178)
Grants and Contributions Receipts in Advance	35	(16,512)	(14,932)
Long Term Liabilities		(741,333)	(779,071)
NET ASSETS		1,395,173	1,224,741
Usable Reserves	7	(257,776)	(266,577)
Unusable Reserves	7	(1,137,397)	(958,164)
TOTAL RESERVES		(1,395,173)	(1,224,741)

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. The Cashflow Statement has been prepared using the indirect method.

	Notes	2015/16 £000	2014/15 £000
Net surplus or (deficit) on the provision of services		24,389	85,754
Adjustments to net surplus or deficit on the provision of services for non-cash movements	27	27,327	3,528
Adjust for items in the net deficit on the provision of services that are investing or financing activities		(28,236)	(73,394)
Net cash flows from Operating Activities		23,480	15,888
Investing Activities			
Purchase of Property, plant and equipment, investment property and intangible assets		(76,397)	(82,171)
Purchase of short-term and long-term investments		-	(39,125)
Proceeds from sale of property, plant and equipment, investment property and intangible assets		28,235	73,394
Proceeds from short-term and long-term investments		55,766	-
Other receipts from investing activities		25,793	15,693
Net cash flows from Investing Activities		33,397	(32,209)
Financing Activities			
Cash receipts of short and long term borrowing		-	-
Other receipts from financing activities		990	24,416
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts		(505)	(793)
Repayments of short and long term borrowing		(15,520)	(2,890)
Other payments for financing activities		-	-
Net cash flows from Financing Activities		(15,035)	20,733
Net increase or (decrease) in cash and cash equivalents		41,842	4,412
Cash and cash equivalents at the beginning of the reporting period		58,823	54,411
Cash and cash equivalents at the end of the reporting period	20	100,665	58,823

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 2015, 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 2015/16 (the Code) and the Service Reporting Code of Practice 2015/16 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016.

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 an allowance 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 2015/16 (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 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 - current value, determined using the basis of existing use value for social housing (EUV-SH).
- council offices - current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV), except for a few offices that are situated close to the council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value.
- school buildings - current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value.
- surplus assets - the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.
- all other assets - current 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 current value where there is no market-based evidence of current value because of the specialist nature of an asset, for example schools.

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

Assets included in the Balance Sheet at current 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.

1. Statement of Accounting Policies (cont'd)

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, where material, for depreciation that would have been charged if the loss had not been recognised.

Depreciation

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

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

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 4 to 25 years.
- Community Assets are generally depreciated over a 5 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, leading to a significantly different depreciation profile, 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 assessed 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. 75% of receipts relating to Right to Buy disposals (net of statutory deductions and allowances) is payable to the Government, except where receipts have been retained under the 1-4-1 replacement scheme.

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 property, plant or equipment is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1. Statement of Accounting Policies (cont'd)

ix. HERITAGE ASSETS

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

Valuation Policy

The Council has decided to disclose Heritage Assets on a market valuation basis on the balance sheet. Heritage assets are accounted for in accordance with the Council's accounting policies on property, plant and equipment, except where it is not practical to obtain a valuation. Valuations may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external Valuers, nor is there any prescribed minimum period between valuations.

Depreciation, amortisation and impairment policy

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

The Council has reported four categories of heritage assets:

(i) Art Collections

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

(ii) Books & Printed Materials

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

(iii) Ceramics & Glass

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

(iv) Other Heritage Assets

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

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, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. 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.

1. Statement of Accounting Policies (cont'd)

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

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

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.

1. Statement of Accounting Policies (cont'd)

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

Operating Leases

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

Sale and Leaseback Assets

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

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

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

xii. PRIVATE FINANCE INITIATIVE (PFI) AND SIMILAR CONTRACTS

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

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

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the Council's existing PFI scheme (which provides services for vulnerable older people in the borough) the liability was written down by an initial capital contribution of £2.9m.

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

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

- fair value of the services received during the year - debited to Adult Social Care service in the Comprehensive Income and Expenditure Statement
- finance cost - an interest charge between 8-17% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent - increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability - applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).

xiii. INTANGIBLE ASSETS

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

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

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.

1. Statement of Accounting Policies (cont'd)

The depreciable amount of an intangible asset is amortised over its useful life, usually 4 years but ranging 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.

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.

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.

1. Statement of Accounting Policies (cont'd)

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.

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.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

Level 1 inputs - quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date.

Level 2 inputs - inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 inputs - unobservable inputs for the asset.

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).

1. Statement of Accounting Policies (cont'd)

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.

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 3.6% (3.3% in 2014/15). The discount rate is the annualised yield at the 18 year point on the Merrill Lynch AA-rated corporate bond yield curve which is consistent with the approach used in 2014/15.
- 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
 - unlisted securities - current bid price
 - property - market value.

1. Statement of Accounting Policies (cont'd)

- 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.

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.

1. Statement of Accounting Policies (cont'd)

Contingent Liabilities

A contingent liability arises where:

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

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

Contingent Assets

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

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

xix. RESERVES

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

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

xx. INTERESTS IN COMPANIES AND OTHER ENTITIES

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

The Council has interests in a number of companies and other entities however, based on consideration of criteria to determine what constitutes a material interest, the Council has determined that a full set of Group Accounts is not required for 2015/16. Companies in which the Council has an interest are detailed in Note 36 to the Core Financial Statements.

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.

1. Statement of Accounting Policies (cont'd)

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.

xxv. FAIR VALUE MEASUREMENT

The Council measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council uses external Valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant. Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.

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

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the Code.

There are a number of minor amendments to International Financial Reporting Standards and anticipated presentational changes including IFRIC21 levies which clarifies the point of recognition for payment of levies. This is not expected to have any impact on this authority.

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 continues to be 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 has entered into various shared-services arrangements with other local authorities. Current proposals will not reduce the level of service provided by the Council and plans to align systems continue to be developed. The Council believes that it is not necessary to impair any non-current assets in light of shared-service working.

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

Accounting for Schools - Balance Sheet Recognition of Schools

The Council has been required to take a view on which school assets are recognised on the Council's balance sheet. The Council has recognised Community schools and Voluntary Controlled schools. The Council has not recognised Voluntary Aided, Free, or Academy Schools as it is of the view that these school assets are - to varying degree - beyond the control of the Authority. This position was thoroughly reviewed in light of guidance issued in 2014/15.

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 2016 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 2016/17 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 (£132.5million) would result in a reduction of the Revaluation Reserve of £27 million and a £105.5 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 CIES 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 £1.784 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 £2.05m for every year that useful lives had to be reduced.
Fair value measurements	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities. Where Level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the authority's chief valuation officer and external valuer). Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in Note 1.	The Council uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties and financial assets. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets). Significant changes in any of the unobservable inputs could result in a significantly lower or higher fair value measurement for the investment properties and financial assets. Any significant change would however largely be between asset values and the corresponding adjustment accounts - as such this would be unlikely to significantly affect the Council's revenue position or usable reserves.
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 2016. They were authorised for issue by the Strategic Finance Director on 13 September 2016. There are no material adjusting events after the balance sheet date to report.

As referred to in the Narrative Statement, the result of the referendum on EU Membership, held on 23 June 2016, was in favour of the UK to leave the EU. The financial impacts of 'Brexit' cannot, as yet, be easily ascertained, however given that this condition did not exist at the balance sheet date any such impacts, insofar as they could be ascertained, constitute a non-adjusting event.

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 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 2015/16	Children's Services £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 and Archives £000	Environment, Leisure & Residents' Services £000	Housing Revenue Account £000	Total £000
Customer & Client Receipts	(4,451)	(276)	(12,877)	(2,105)	(1,488)	(44,172)	-	(115)	(7,053)	(80,834)	(153,371)
Government Grants	(111,218)	(228)	(3,224)	(1,267)	(144,868)	(1,552)	(21,414)	-	(891)	(1,096)	(285,758)
Internal Recharge Income	(229)	(1,395)	(128)	(3,786)	(137)	(3,351)	-	(15)	(1,913)	(47)	(11,001)
Other Reimbursements & Contributions	(12,376)	(28,451)	(222)	(3,740)	(14,112)	(4,262)	(63)	(370)	(3,748)	(1,280)	(68,624)
Total Income	(128,274)	(30,350)	(16,451)	(10,898)	(160,605)	(53,337)	(21,477)	(500)	(13,605)	(83,257)	(518,754)
Capital Charges	10,856	1,718	169	13	-	13,654	-	(864)	1,309	(6,258)	20,597
Employee Expenses	91,512	16,662	6,246	20,667	6,686	18,301	76	1,588	5,822	10,665	178,225
Other	2	1,228	-	-	2,400	-	-	-	1,298	32,295	37,223
Premises Related Expenditure	7,816	451	557	47	2	3,835	6	348	3,725	15,975	32,762
Supplies and Services	19,754	10,169	2,216	8,763	3,597	5,174	11	275	2,678	4,117	56,754
Support Services	7,686	5,423	2,303	(30,450)	6,209	(3,380)	3,076	920	2,720	5,495	2
Third Party Payments	37,579	48,044	13,143	23,092	1,050	11,363	18,312	418	23,603	4,094	180,698
Transfer Payments	4,047	9,630	526	10,064	157,498	-	-	-	9	199	181,973
Transport Related Expenditure	2,070	806	1	10	(6)	115	-	15	911	52	3,974
Use of Balances & Reserves	2,421	-	-	-	-	-	-	-	-	16,623	19,044
Total Expenditure	183,743	94,131	25,161	32,206	177,436	49,062	21,481	2,700	42,075	83,257	711,252
Net Expenditure	55,469	63,781	8,710	21,308	16,831	(4,275)	4	2,200	28,470	-	192,498

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

Department Income and Expenditure 2014/15	Children's Services £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 and Archives £000	Environment, Leisure & Residents' Services £000	Housing Revenue Account £000	Total £000
Customer & Client Receipts	(3,955)	(879)	(12,911)	(1,789)	(559)	(46,726)	-	(130)	(7,654)	(77,104)	(151,707)
Government Grants	(109,107)	(362)	(2,964)	(1,053)	(150,668)	(31)	(19,149)	-	-	(5,417)	(288,751)
Internal Recharge Income	(239)	(863)	(113)	(3,409)	-	(3,887)	-	(6)	(2,064)	(87)	(10,668)
Other Reimbursements & Contributions	(14,171)	(25,434)	(554)	(3,744)	(14,404)	(4,150)	-	(604)	(4,158)	(1,382)	(68,601)
Total Income	(127,472)	(27,538)	(16,542)	(9,995)	(165,631)	(54,794)	(19,149)	(740)	(13,876)	(83,990)	(519,727)
Capital Charges	24,315	1,152	115	620	-	15,136	-	499	1,095	(38,278)	4,654
Employee Expenses	94,105	15,691	6,177	21,421	8,666	17,688	221	1,587	5,788	10,005	181,349
Other	-	1,251	-	78	3,781	6	-	-	1,368	70,844	77,328
Premises Related Expenditure	10,038	668	10,083	106	2	5,349	11	331	3,451	17,097	47,136
Supplies and Services	19,927	10,896	1,583	9,019	3,496	4,842	349	627	2,086	3,516	56,341
Support Services	7,641	5,964	2,552	(31,260)	5,580	(4,579)	1,486	845	4,860	6,318	(593)
Third Party Payments	35,047	45,363	845	21,081	445	12,126	17,082	435	23,503	4,691	160,618
Transfer Payments	4,236	8,967	2,632	9,815	160,107	-	-	-	-	257	186,014
Transport Related Expenditure	2,302	855	10	28	2	175	-	18	1,194	55	4,639
Use of Balances & Reserves	1,767	-	-	-	-	-	-	-	-	9,485	11,252
Total Expenditure	199,378	90,807	23,997	30,908	182,079	50,743	19,149	4,342	43,345	83,990	728,738
Net Expenditure	71,906	63,269	7,455	20,913	16,448	(4,051)	-	3,602	29,469	-	209,011

(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.

	2015/16 £000	2014/15 £000
Net expenditure in the Department Analysis	192,498	209,011
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	1,616	(1,862)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(53,300)	(81,155)
Cost of Services in Comprehensive Income and Expenditure Statement	140,814	125,994

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

(c) Reconciliation to Subjective Analysis

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

	Department Analysis £000	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
2015/16								
Customer & Client Receipts	(153,371)	-	-	2,828	-	(150,543)	(2,731)	(153,274)
Government Grants	(285,758)	-	1,997	972	-	(282,789)	(79,392)	(362,181)
Internal Recharge Income	(11,001)	-	-	-	-	(11,001)	-	(11,001)
Other Reimbursements & Contributions	(68,624)	-	-	810	-	(67,814)	(3,056)	(70,870)
Interest and Investment Income	-	-	-	-	-	-	(1,943)	(1,943)
Other Operating Income	-	-	-	-	-	-	-	-
Income from Council Tax	-	-	-	-	-	-	(53,434)	(53,434)
Non-domestic rates income and expenditure	-	-	-	-	-	-	(60,131)	(60,131)
Total Income	(518,754)	-	1,997	4,610	-	(512,147)	(200,687)	(712,834)
Capital Charges	20,597	-	-	(106)	-	20,491	106	20,597
Employee Expenses	178,225	-	-	(142)	-	178,083	142	178,225
Other	37,223	-	-	(37,223)	-	-	-	-
Premises Related Expenditure	32,762	-	-	(371)	-	32,391	371	32,762
Supplies and Services	56,754	-	-	(280)	-	56,474	280	56,754
Support Services	2	-	-	(160)	-	(158)	159	1
Third Party Payments	180,698	-	(381)	(579)	-	179,738	579	180,317
Transfer Payments	181,973	-	-	-	-	181,973	-	181,973
Transport Related Expenditure	3,974	-	-	(5)	-	3,969	5	3,974
Use of Balances & Reserves	19,044	-	-	(19,044)	-	-	431	431
Interest Payments	-	-	-	-	-	-	13,958	13,958
Precepts and Levies	-	-	-	-	-	-	2,854	2,854
Net interest on the net defined benefit liability (asset)	-	-	-	-	-	-	16,856	16,856
Payments to the Housing Receipts Capital Receipts Pool	-	-	-	-	-	-	201	201
Gains/losses on the disposal of non-current asset:	-	-	-	-	-	-	1,768	1,768
Income and expenditure in relation to investment properties and changes in their fair value	-	-	-	-	-	-	(2,226)	(2,226)
Total Expenditure	711,252	-	(381)	(57,910)	-	652,961	35,484	688,445
Surplus or deficit on the provision of services	192,498	-	1,616	(53,300)	-	140,814	(165,203)	(24,389)

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

	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
2014/15								
Customer & Client Receipts	(151,707)	-	-	2,885	-	(148,822)	(2,885)	(151,707)
Government Grants	(288,751)	-	-	5,417	-	(283,334)	(107,280)	(390,614)
Internal Recharge Income	(10,668)	-	-	6	-	(10,662)	(6)	(10,668)
Other Reimbursements & Contributions	(68,601)	-	-	814	-	(67,787)	(984)	(68,771)
Interest and Investment Income	-	-	-	-	-	-	(1,794)	(1,794)
Other Operating Income	-	-	-	-	-	-	-	-
Income from Council Tax	-	-	-	-	-	-	(52,512)	(52,512)
Non-domestic rates income and expenditure	-	-	-	-	-	-	(50,286)	(50,286)
Total Income	(519,727)	-	-	9,122	-	(510,605)	(215,747)	(726,352)
Capital Charges	4,654	-	-	(92)	-	4,562	92	4,654
Employee Expenses	181,349	-	(1,862)	(118)	-	179,369	118	179,487
Other	77,328	-	-	(77,325)	-	3	-	3
Premises Related Expenditure	47,136	-	-	(4)	-	47,132	4	47,136
Supplies and Services	56,341	-	-	(421)	-	55,920	421	56,341
Support Services	(593)	-	-	(205)	-	(798)	205	(593)
Third Party Payments	160,618	-	-	(849)	-	159,769	849	160,618
Transfer Payments	186,014	-	-	-	-	186,014	-	186,014
Transport Related Expenditure	4,639	-	-	(11)	-	4,628	12	4,640
Use of Balances & Reserves	11,252	-	-	(11,252)	-	-	1,143	1,143
Interest Payments	-	-	-	-	-	-	14,916	14,916
Precepts and Levies	-	-	-	-	-	-	2,888	2,888
Net interest on the net defined benefit liability (asset)	-	-	-	-	-	-	18,370	18,370
Payments to the Housing Receipts Capital Receipts Pool	-	-	-	-	-	-	4,902	4,902
Gains/losses on the disposal of non-current assets	-	-	-	-	-	-	(35,524)	(35,524)
Income and expenditure in relation to investment properties and changes in their fair value	-	-	-	-	-	-	(4,397)	(4,397)
Total Expenditure	728,738	-	(1,862)	(90,277)	-	636,599	3,999	640,598
Surplus or deficit on the provision of services	209,011	-	(1,862)	(81,155)	-	125,994	(211,748)	(85,754)

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 2014/15

	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 2014	(19,004)	(16,746)	(92,589)	(42,694)	(7,494)	(6,668)	(71,049)	(878)	(257,122)
Surplus or (deficit) on the provision of services	3,520	-	-	-	(89,274)	-	-	-	(85,754)
Total Comprehensive Income and Expenditure	3,520	-	-	-	(89,274)	-	-	-	(85,754)
Adjustments between accounting basis & funding basis under regulations									
Depreciation of Property, Plant and Equipment	(20,753)	-	-	-	(303)	-	-	-	(21,056)
Amortisation of Intangible Assets	(154)	-	-	-	(34)	-	-	-	(188)
Dwelling Depreciation	-	-	-	-	17,923	(17,923)	-	-	-
Reversal of Major Repairs Allowance credited to the HRA	-	-	-	-	(19,259)	1,336	-	-	(17,923)
Impairment/Revaluation losses (charged to the CIES)	(8,670)	-	-	-	56,622	-	-	-	47,952
Revenue expenditure funded from capital under statute (REFCUS)	(13,355)	-	-	-	(82)	-	-	-	(13,437)
Movements in the market value of investment properties	4,108	-	-	-	-	-	-	-	4,108
Difference between fair value depreciation and historical cost depreciation	-	-	-	-	-	-	-	-	-
Capital grants and contributions applied	11,626	-	-	1,460	5,417	-	-	-	18,503
Capital grants and contributions applied (REFCUS)	4,185	-	-	7,447	-	-	-	-	11,632
Use of capital receipts reserve to finance capital expenditure (including REFCUS)	-	-	-	-	-	-	41,538	-	41,538
Use of capital reserve to finance capital expenditure	-	-	-	-	-	-	-	-	-
Capital expenditure charged against the General Fund and HRA balances	533	2,395	-	-	113	-	-	-	3,041
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	-	23,255	-	-	23,255
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement (CIES)	10,322	-	-	(10,322)	-	-	-	-	-
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(25,720)	-	-	-	(12,150)	-	-	-	(37,870)
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	40,467	-	-	-	34,403	-	(74,870)	-	-
Contribution from the Capital Receipts Reserve towards admin costs of non-current asset disposals (In-Year)	(144)	-	-	-	(237)	-	381	-	-
Removal of revaluation reserve balances for Property, Plant and Equipment disposed of in prior year	-	-	-	-	-	-	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	-	-	-	-	(23)	-	(23)
Deferred costs in respect of disposals transferred to the CAA	(345)	-	-	-	(750)	-	-	-	(1,095)
Release of Deferred costs from CAA to UCR upon receipt of cash	-	-	-	-	-	-	486	-	486
Contribution from the Capital Receipts Reserve to finance the payments to the Govt Capital Receipts Pool (Housing Pooled Capital Receipts)	(4,902)	-	-	-	-	-	4,902	-	-
Statutory provision for the financing of capital investment (Minimum Revenue Provision)	1,126	-	-	-	-	-	-	-	1,126
Voluntary repayment of debt (above Minimum Revenue Provision)	63	-	-	-	-	-	-	-	63
HRA Self-Financing Resettlement	-	-	-	-	-	-	-	-	-
Statutory provision for finance lease liabilities (including PFI)	1,105	-	-	-	-	-	-	-	1,105
Voluntary application of capital receipts	-	-	-	-	-	-	28,500	-	28,500
Reversal of items relating to retirement benefits debited or credited to the CIES made in accordance with IAS19 (Note 32)	(32,109)	-	-	-	(3,592)	-	-	-	(35,701)
Employer's pensions contributions and direct payments to pensioners	16,272	-	-	-	1,839	-	-	-	18,111
Pension reserve adjustment relating to the transfer of H&F Homes	-	-	-	-	-	-	-	-	-
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	54	-	-	-	(86)	-	-	-	(32)
Amount by which council tax and NDR income credited to the CIES is different from the income calculated for the year in accordance with statutory requirements	4,198	-	-	-	-	-	-	-	4,198
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	40	-	-	-	(34)	-	-	-	6
Total Adjustments between accounting basis & funding basis under regulations	(12,053)	2,395	-	(1,415)	79,790	6,668	914	-	76,299
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(8,533)	2,395	-	(1,415)	(9,484)	6,668	914	-	(9,455)
Transfers (to)/from Earmarked Reserves (Note 8)	8,533	(624)	(11,721)	-	3,812	-	-	-	0
(Increase)/Decrease in year	(0)	1,771	(11,721)	(1,415)	(5,672)	6,668	914	-	(9,455)
Balance at 31 March 2015 carried forward	(19,004)	(14,975)	(104,310)	(44,109)	(13,166)	-	(70,135)	(878)	(266,577)

7. Adjustments between Accounting Basis and Funding Basis under Regulations (cont'd)
Movement on Usable Reserves 2015/16

	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 2015	(19,004)	(14,975)	(104,310)	(44,109)	(13,166)	-	(70,135)	(878)	(266,577)
Surplus or (deficit) on the provision of services	26,912	-	-	-	(51,301)	-	-	-	(24,389)
Total Comprehensive Income and Expenditure	26,912	-	-	-	(51,301)	-	-	-	(24,389)
Adjustments between accounting basis & funding basis under regulations									
Depreciation of Property, Plant and Equipment	(20,782)	-	-	-	(260)	-	-	-	(21,042)
Amortisation of Intangible Assets	(143)	-	-	-	(34)	-	-	-	(177)
Dwelling Depreciation	-	-	-	-	19,917	(19,917)	-	-	-
Reversal of Major Repairs Allowance credited to the HRA	-	-	-	-	(22,743)	2,826	-	-	(19,917)
Impairment/Revaluation losses (charged to the CIES)	12,344	-	-	-	26,633	-	-	-	38,977
Revenue expenditure funded from capital under statute (REFCUS)	(18,275)	-	-	-	(163)	-	-	-	(18,438)
Movements in the market value of investment properties	1,446	-	-	-	-	-	-	-	1,446
Difference between fair value depreciation and historical cost depreciation	-	-	-	-	-	-	-	-	-
Capital grants and contributions applied	3,823	-	-	1,302	972	-	-	-	6,097
Capital grants and contributions applied (REFCUS)	5,926	-	-	10,720	-	-	-	-	16,646
Use of capital receipts reserve to finance capital expenditure (including REFCUS)	-	-	-	-	-	-	49,013	-	49,013
Use of capital reserve to finance capital expenditure	-	-	-	-	-	-	-	-	-
Capital expenditure charged against the General Fund and HRA balances	1,059	2,862	-	-	2,300	-	-	-	6,221
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	-	16,685	-	-	16,685
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement (CIES)	11,545	-	-	(11,545)	-	-	-	-	-
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(22,385)	-	-	-	(7,724)	-	-	-	(30,109)
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	7,405	-	-	-	21,909	-	(29,314)	-	-
Contribution from the Capital Receipts Reserve towards admin costs of non-current asset disposals (In-Year)	(47)	-	-	-	(180)	-	227	-	-
Removal of revaluation reserve balances for Property, Plant and Equipment disposed of in prior year	-	-	-	-	-	-	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	-	-	-	-	(11)	-	(11)
Deferred costs in respect of disposals transferred to the CAA	(45)	-	-	-	(626)	-	-	-	(671)
Release of Deferred costs from CAA to UCR upon receipt of cash	-	-	-	-	-	-	166	-	166
Contribution from the Capital Receipts Reserve to finance the payments to the Govt Capital Receipts Pool (Housing Pooled Capital Receipts)	(201)	-	-	-	-	-	201	-	-
Statutory provision for the financing of capital investment (Minimum Revenue Provision)	38	-	-	-	-	-	-	-	38
Voluntary repayment of debt (above Minimum Revenue Provision)	63	-	-	-	-	-	-	-	63
HRA Self-Financing Resettlement	-	-	-	-	-	-	-	-	-
Statutory provision for finance lease liabilities (including PFI)	502	-	-	-	-	-	-	-	502
Voluntary application of capital receipts	-	-	-	-	-	-	902	-	902
Reversal of items relating to retirement benefits debited or credited to the CIES made in accordance with IAS19 (Note 32)	(33,191)	-	-	-	(3,775)	-	-	-	(36,966)
Employer's pensions contributions and direct payments to pensioners	16,130	-	-	-	1,802	-	-	-	17,932
Pension reserve adjustment relating to the transfer of H&F Homes	-	-	-	-	-	-	-	-	-
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	29	-	-	-	(86)	-	-	-	(57)
Amount by which council tax and NDR income credited to the CIES is different from the income calculated for the year in accordance with statutory requirements	5,822	-	-	-	-	-	-	-	5,822
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	68	-	-	-	-	-	-	-	68
Total Adjustments between accounting basis & funding basis under regulations	(28,869)	2,862	-	477	37,942	(406)	21,184	-	33,190
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(1,957)	2,862	-	477	(13,359)	(406)	21,184	-	8,801
Transfers (to)/from Earmarked Reserves (Note 8)	1,957	(1,420)	(8,542)	-	8,005	-	-	-	0
(Increase)/Decrease in year	0	1,442	(8,542)	477	(5,354)	(406)	21,184	-	8,801
Balance at 31 March 2016 carried forward	(19,004)	(13,533)	(112,852)	(43,632)	(18,520)	(406)	(48,951)	(878)	(257,776)

7. Adjustments between Accounting Basis and Funding Basis under Regulations (cont'd)
Movement on Unusable Reserves 2014/15

	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 2014	(102,060)	(1,255,035)	(90)	426,638	1,053	(40)	3,419	3,692	(922,423)	(257,122)	(1,179,545)
Surplus or (deficit) on the provision of services	-	-	-	-	-	-	-	-	-	(85,754)	(85,754)
Surplus or deficit on revaluation of Property, Plant and Equipment assets	(38,087)	-	-	-	-	-	-	-	(38,087)	-	(38,087)
Actuarial gains/losses on pension assets / liabilities	-	-	-	78,120	-	-	-	-	78,120	-	78,120
Gains/losses on Available for Sale Financial Assets	-	-	-	-	-	525	-	-	525	-	525
Total Comprehensive Income and Expenditure	(38,087)	-	-	78,120	-	525	-	-	40,558	(85,754)	(45,196)
Adjustments between accounting basis & funding basis under regulations											
Depreciation of Property, Plant and Equipment	-	21,056	-	-	-	-	-	-	21,056	(21,056)	-
Amortisation of Intangible Assets	-	188	-	-	-	-	-	-	188	(188)	-
Dwelling Depreciation	-	-	-	-	-	-	-	-	-	-	-
Reversal of Major Repairs Allowance credited to the HRA	-	17,923	-	-	-	-	-	-	17,923	(17,923)	-
Impairment/Revaluation losses (charged to the CIES)	-	(47,952)	-	-	-	-	-	-	(47,952)	47,952	-
Revenue expenditure funded from capital under statute (REFCUS)	-	13,437	-	-	-	-	-	-	13,437	(13,437)	-
Movements in the market value of investment properties	-	(4,108)	-	-	-	-	-	-	(4,108)	4,108	-
Difference between fair value depreciation and historical cost depreciation	1,932	(1,932)	-	-	-	-	-	-	-	-	-
Capital grants and contributions applied	-	(18,503)	-	-	-	-	-	-	(18,503)	18,503	-
Capital grants and contributions applied (REFCUS)	-	(11,632)	-	-	-	-	-	-	(11,632)	11,632	-
Use of capital receipts reserve to finance capital expenditure (including REFCUS)	-	(41,538)	-	-	-	-	-	-	(41,538)	41,538	-
Use of capital reserve to finance capital expenditure	-	-	-	-	-	-	-	-	-	-	-
Capital expenditure charged against the General Fund and HRA balances	-	(3,041)	-	-	-	-	-	-	(3,041)	3,041	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	(23,255)	-	-	-	-	-	-	(23,255)	23,255	-
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	-	37,870	-	-	-	-	-	-	37,870	(37,870)	-
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)	-	-	-	-	-	-	-	-	-	-	-
Reversal of revaluation reserve balances for Property, Plant and Equipment disposed of	541	(541)	-	-	-	-	-	-	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	23	-	-	-	-	-	23	(23)	-
Deferred costs in respect of disposals transferred to the CAA	-	1,095	-	-	-	-	-	-	1,095	(1,095)	-
Release of Deferred costs from CAA to UCR upon receipt of cash	-	(486)	-	-	-	-	-	-	(486)	486	-
Contribution from the Capital Receipts Reserve to finance the payments to the Govt Capital Receipts Pool (Housing Pooled Capital Receipts)	-	-	-	-	-	-	-	-	-	-	-
Statutory provision for the financing of capital investment (Minimum Revenue Provision)	-	(1,126)	-	-	-	-	-	-	(1,126)	1,126	-
Voluntary repayment of debt (above Minimum Revenue Provision)	-	(63)	-	-	-	-	-	-	(63)	63	-
HRA Self-Financing Resettlement	-	-	-	-	-	-	-	-	-	-	-
Statutory provision for finance lease liabilities (including PFI)	-	(1,105)	-	-	-	-	-	-	(1,105)	1,105	-
Voluntary application of capital receipts	-	(28,500)	-	-	-	-	-	-	(28,500)	28,500	-
Reversal of items relating to retirement benefits debited or credited to the CIES made in accordance with IAS19 (Note 32)	-	-	-	35,701	-	-	-	-	35,701	(35,701)	-
Employer's pensions contributions and direct payments to pensioners	-	-	-	(18,111)	-	-	-	-	(18,111)	18,111	-
Pension reserve adjustment relating to the transfer of H&F Homes	-	-	-	-	-	-	-	-	-	-	-
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	-	-	-	32	-	-	-	32	(32)	-
Amount by which council tax and NDR income credited to the CIES is different from the income calculated for the year in accordance with statutory requirements	-	-	-	-	-	-	(4,198)	-	(4,198)	4,198	-
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	-	-	-	-	-	-	-	(6)	(6)	6	-
Total Adjustments between accounting basis & funding basis under regulations	2,473	(92,213)	23	17,590	32	-	(4,198)	(6)	(76,299)	76,299	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(35,614)	(92,213)	23	95,710	32	525	(4,198)	(6)	(35,741)	(9,455)	(45,196)
Transfers (to)/from Earmarked Reserves (Note B)	-	-	-	-	-	-	-	-	-	-	-
(Increase)/Decrease in year	(35,614)	(92,213)	23	95,710	32	525	(4,198)	(6)	(35,741)	(9,455)	(45,196)
Balance at 31 March 2015 carried forward	(137,674)	(1,347,248)	(67)	522,348	1,085	485	(779)	3,686	(958,164)	(266,577)	(1,224,741)

7. Adjustments between Accounting Basis and Funding Basis under Regulations (cont'd)
Movement on Unusable Reserves 2015/16

	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 2015	(137,674)	(1,347,248)	(67)	522,348	1,085	485	(779)	3,686	(958,164)	(266,577)	(1,224,741)
Surplus or (deficit) on the provision of services	-	-	-	-	-	-	-	-	-	(24,389)	(24,389)
Surplus or deficit on revaluation of Property, Plant and Equipment assets	(96,176)	-	-	-	-	-	-	-	(96,176)	-	(96,176)
Actuarial gains/losses on pension assets / liabilities	-	-	-	(50,452)	-	-	-	-	(50,452)	-	(50,452)
Gains/losses on Available for Sale Financial Assets	-	-	-	-	-	585	-	-	585	-	585
Total Comprehensive Income and Expenditure	(96,176)	-	-	(50,452)	-	585	-	-	(146,043)	(24,389)	(170,432)

Adjustments between accounting basis & funding basis under regulations

Depreciation of Property, Plant and Equipment	-	21,042	-	-	-	-	-	-	21,042	(21,042)	-
Amortisation of Intangible Assets	-	177	-	-	-	-	-	-	177	(177)	-
Dwelling Depreciation	-	-	-	-	-	-	-	-	-	-	-
Reversal of Major Repairs Allowance credited to the HRA	-	19,917	-	-	-	-	-	-	19,917	(19,917)	-
Impairment/Revaluation losses (charged to the CIES)	-	(38,977)	-	-	-	-	-	-	(38,977)	38,977	-
Revenue expenditure funded from capital under statute (REFCUS)	-	18,438	-	-	-	-	-	-	18,438	(18,438)	-
Movements in the market value of investment properties	-	(1,446)	-	-	-	-	-	-	(1,446)	1,446	-
Difference between fair value depreciation and historical cost depreciation	3,316	(3,316)	-	-	-	-	-	-	-	-	-
Capital grants and contributions applied	-	(6,097)	-	-	-	-	-	-	(6,097)	6,097	-
Capital grants and contributions applied (REFCUS)	-	(16,646)	-	-	-	-	-	-	(16,646)	16,646	-
Use of capital receipts reserve to finance capital expenditure (including REFUS)	-	(49,013)	-	-	-	-	-	-	(49,013)	49,013	-
Use of capital reserve to finance capital expenditure	-	-	-	-	-	-	-	-	-	-	-
Capital expenditure charged against the General Fund and HRA balances	-	(6,221)	-	-	-	-	-	-	(6,221)	6,221	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	(16,685)	-	-	-	-	-	-	(16,685)	16,685	-
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	-	30,109	-	-	-	-	-	-	30,109	(30,109)	-
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 disposed of	4,298	(4,298)	-	-	-	-	-	-	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	11	-	-	-	-	-	11	(11)	-
Deferred costs in respect of disposals transferred to the CAA	-	671	-	-	-	-	-	-	671	(671)	-
Release of Deferred costs from CAA to UCR upon receipt of cash	-	(166)	-	-	-	-	-	-	(166)	166	-
Contribution from the Capital Receipts Reserve to finance the payments to the Govt Capital Receipts Pool (Housing Pooled Capital Receipts)	-	-	-	-	-	-	-	-	-	-	-
Statutory provision for the financing of capital investment (Minimum Revenue Provision)	-	(38)	-	-	-	-	-	-	(38)	38	-
Voluntary repayment of debt (above Minimum Revenue Provision)	-	(63)	-	-	-	-	-	-	(63)	63	-
HRA Self-Financing Resettlement	-	-	-	-	-	-	-	-	-	-	-
Statutory provision for finance lease liabilities (including PFI)	-	(502)	-	-	-	-	-	-	(502)	502	-
Voluntary application of capital receipts	-	(902)	-	-	-	-	-	-	(902)	902	-
Reversal of items relating to retirement benefits debited or credited to the CIES made in accordance with IAS19 (Note 32)	-	-	-	36,966	-	-	-	-	36,966	(36,966)	-
Employer's pensions contributions and direct payments to pensioners	-	-	-	(17,932)	-	-	-	-	(17,932)	17,932	-
Pension reserve adjustment relating to the transfer of H&F Homes	-	-	-	-	-	-	-	-	-	-	-
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	-	-	-	57	-	-	-	57	(57)	-
Amount by which council tax and NDR income credited to the CIES is different from the income calculated for the year in accordance with statutory requirements	-	-	-	-	-	-	(5,822)	-	(5,822)	5,822	-
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	-	-	-	-	-	-	-	(68)	(68)	68	-
Total Adjustments between accounting basis & funding basis under regulations	7,614	(54,016)	11	19,034	57	-	(5,822)	(68)	(33,190)	33,190	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(88,562)	(54,016)	11	(31,418)	57	585	(5,822)	(68)	(179,233)	8,801	(170,432)
Transfers (to)/from Earmarked Reserves (Note 8)	-	-	-	-	-	-	-	-	-	-	-
(Increase)/Decrease in year	(88,562)	(54,016)	11	(31,418)	57	585	(5,822)	(68)	(179,233)	8,801	(170,432)
Balance at 31 March 2016 carried forward	(226,236)	(1,401,264)	(56)	490,930	1,142	1,070	(6,601)	3,618	(1,137,397)	(257,776)	(1,395,173)

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 2015/16.

	Balance at 31 March 2014	Transfers Out 2014/15	Transfers In 2014/15	Movement Between Reserves 2014/15	Balance at 31 March 2015	Transfer s Out 2015/16	Transfers In 2015/16	Movement Between Reserves 2015/16	Balance at 31 March 2016
	£000	£000	£000	£000	£000	£000	£000	£000	£000
General Fund									
1 Insurance Fund	(4,820)	-	(1,022)	-	(5,842)	122	-	-	(5,720)
2 Controlled Parking Fund	(695)	599	(707)	90	(713)	454	(894)	-	(1,153)
3 Computer Replacement Fund	(2,165)	-	(248)	1,000	(1,413)	176	-	-	(1,237)
4 IT Infrastructure	(2,813)	410	(2,000)	(1,000)	(5,403)	1,847	(800)	(172)	(4,528)
5 Efficiency Projects Reserve	(10,396)	1,599	(2,308)	(2,176)	(13,281)	1,158	(4,681)	2,252	(14,552)
6 Corporate Demand Pressures	(3,516)	-	(5,600)	-	(9,116)	1,445	(2,392)	930	(9,133)
7 Debtors/Creditors Review	(619)	-	-	-	(619)	-	-	-	(619)
8 Dilapidations/Office Moves	(3,726)	-	(585)	-	(4,311)	63	-	-	(4,248)
9 Housing Benefit	(2,415)	167	-	-	(2,248)	-	-	-	(2,248)
10 Planning Inquiries	(358)	-	(130)	-	(488)	197	-	-	(291)
11 LPFA Sub Fund	(1,000)	-	-	-	(1,000)	-	-	-	(1,000)
12 Bishops Park	(358)	41	-	-	(317)	-	-	-	(317)
13 Imperial Wharf	(800)	-	-	-	(800)	-	-	800	-
14 King Street Regeneration	(668)	72	-	-	(596)	33	-	-	(563)
15 Temporary Accommodation	(3,506)	-	-	-	(3,506)	-	-	-	(3,506)
16 ASC Pressures & Demands	(3,097)	740	(2,044)	-	(4,401)	1,407	-	-	(2,994)
17 Community Safety Reserve	(382)	25	(3)	-	(360)	-	-	-	(360)
18 Local Lead Flood Authority	(603)	-	(70)	-	(673)	125	-	-	(548)
19 Contribution to Local Election	(325)	266	(75)	-	(134)	-	(76)	-	(210)
20 Human Resources Reserve	(1,000)	-	-	-	(1,000)	80	-	-	(920)
21 Capital Reserves	(1,534)	55	-	-	(1,479)	559	-	(800)	(1,720)
22 Supporting People	(1,989)	-	-	-	(1,989)	180	-	-	(1,809)
23 CHS Pressures and Demands	(755)	25	-	-	(730)	311	-	-	(419)
24 CHS Shared Service	(363)	257	-	-	(106)	106	-	-	-
25 MTFs Delivery Risk	(7,000)	852	-	-	(6,148)	-	-	-	(6,148)
26 Legal Fees Reserve	(340)	30	-	290	(20)	20	-	-	-
27 Managed Services	(4,750)	3,284	(1,000)	1,590	(876)	2,252	(550)	(3,110)	(2,284)
28 VAT Reserve	(2,500)	-	-	-	(2,500)	-	-	-	(2,500)
29 Business Board Reserve	(1,358)	-	(252)	787	(823)	-	(257)	-	(1,080)
30 ELRS Fulham Palace Reserve	(459)	31	(140)	-	(568)	-	-	-	(568)
31 TFM Reserve	(929)	167	-	(351)	(1,113)	273	-	(50)	(890)
32 3SIF Grant Reserve	-	-	(542)	-	(542)	-	(399)	-	(941)
33 ASC Portfolio Management	(457)	122	-	-	(335)	-	-	-	(335)
34 Troubled Families	(709)	298	-	-	(411)	235	(403)	-	(579)
35 Focus on Practice	(350)	-	-	-	(350)	-	(695)	-	(1,045)
36 PSL Incentive Payments	(400)	190	(129)	-	(339)	25	-	-	(314)
37 NDR Deficit Support	(6,021)	5,264	(2,485)	-	(3,242)	34	-	-	(3,208)
38 HFD Budget Reserve	-	-	-	(600)	(600)	361	-	-	(239)
39 Customer Services Reserve	-	-	(450)	-	(450)	-	-	-	(450)
40 Stock Options Appraisal	-	-	(1,200)	-	(1,200)	734	-	-	(466)
41 Redundancy Reserves	(3,028)	-	(719)	-	(3,747)	-	-	-	(3,747)
42 Other Funds	(3,221)	968	(1,780)	361	(3,672)	1,175	(566)	150	(2,913)
General Fund Sub-Total	(79,425)	15,462	(23,489)	(9)	(87,461)	13,372	(11,713)	-	(85,802)

(Cont'd Overleaf)

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

	Balance at 31 March 2014	Transfers Out 2014/15	Transfers In 2014/15	Movement Between Reserves 2014/15	Balance at 31 March 2015	Transfer s Out 2015/16	Transfers In 2015/16	Movement Between Reserves 2015/16	Balance at 31 March 2016	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	
HRA										
43	HRA IT Recharges Reserve	(205)	-	(142)	-	(347)	-	(379)	-	(726)
44	HRA Efficiency Reserve	(1,020)	-	(391)	-	(1,411)	-	-	-	(1,411)
45	HRA Non-dwellings Impairment Reserve	(6,346)	357	(646)	-	(6,635)	-	(780)	-	(7,415)
46	HRA Strategic Regeneration and Housing Development	(1,746)	-	-	-	(1,746)	-	(1,004)	(500)	(3,250)
47	HRA Utilities Reserve	(761)	-	(500)	-	(1,261)	-	(4,250)	-	(5,511)
48	HRA Commercial Property leases	(200)	106	-	-	(94)	-	-	-	(94)
49	HRA Legal Costs	(200)	-	-	-	(200)	200	-	-	-
50	Improved Voids Specification	(500)	-	-	-	(500)	-	-	500	-
51	Sheltered Housing	-	-	(871)	-	(871)	230	-	-	(641)
52	Deed Pack Review Reserve	-	-	(300)	-	(300)	-	-	-	(300)
53	Stock Options Appraisal	-	-	(300)	-	(300)	-	(108)	-	(408)
54	Welfare Reform Reserve	-	-	(500)	-	(500)	-	(1,000)	-	(1,500)
55	Parking Charges Review	-	-	(606)	-	(606)	-	-	-	(606)
56	Community Pot	-	-	(19)	-	(19)	-	(19)	-	(38)
57	Customer Service Improvement Programme	-	-	-	-	-	-	(200)	-	(200)
58	Council Tax Voids	-	-	-	-	-	-	(95)	-	(95)
59	Office Reorganisations	-	-	-	-	-	-	(50)	-	(50)
60	Managed Services	-	-	-	-	-	-	(300)	-	(300)
61	Commercial Properties Debt	-	-	-	-	-	-	(250)	-	(250)
	HRA Sub-Total	(10,978)	463	(4,275)	-	(14,790)	430	(8,435)	-	(22,795)
Revenue Grants										
62	TFL Street Management	(129)	-	-	-	(129)	-	-	-	(129)
63	S106 - Revenue Schemes	(1,340)	112	(170)	-	(1,398)	10	(2,246)	-	(3,634)
64	ALSS SFA 2011/12 Allocation	(187)	102	-	-	(85)	-	-	-	(85)
65	CHS Adoption Reform	(226)	86	-	-	(140)	-	-	-	(140)
66	Other Revenue Grants	(304)	129	(141)	9	(307)	40	-	-	(267)
	Revenue Grants Sub-Total	(2,186)	429	(311)	9	(2,059)	50	(2,246)	-	(4,255)
	Total	(92,589)	16,354	(28,075)	-	(104,310)	13,852	(22,394)	-	(112,852)

8. Earmarked Reserves Description

The main purpose of each earmarked reserve is explained below:

- Insurance Fund - this was established to underwrite a proportion of the Council's insurable risks.
- 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.
- Computer Replacement Fund - this is for the enhancement to the Council's IT systems required to meet existing commitments and future demands.
- IT Infrastructure - this reserve has been set up for future IT improvement programmes.
- Efficiency Projects Reserve - this reserve will fund future revenue expenditure and capital investment that will provide future revenue savings.
- Corporate Demand Pressures - To meet unbudgeted demands and pressures.
- 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.
- Dilapidations/Office Moves - this reserve has been set up to fund potential office moves and the repair of office accommodation dilapidations.
- 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.
- Planning Inquiries - this reserve has been established to fund possible future costs of planning inquiries that may become chargeable to the General Fund.
- LPFA Sub Fund - this reserve has been set aside to cover a potential pensions liability to the LPFA.
- Bishops Park - this reserve has been set aside as part of the Bishops Park lottery funded development scheme.
- Imperial Wharf - this reserve has been set up to under write the construction of Imperial Wharf Overground station.
- King Street Regeneration - this reserve is to meet the preliminary costs that are emerging in connection with the King Street Regeneration.
- 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.
- ASC Pressures & Demands - this reserve is to address non-recurring new financial pressures within Adult Social Care.
- Community Safety Reserve - this is for funding the Integrated Offender Management Support Programme.
- Local Lead Flood Authority - DEFRA grant monies given under the Flood & Water Management Act 2010.
- Contribution to Local Election - Funds set aside to fund the next local election in 2018.
- Human Resources Reserve - this is a reserve to fund any requirements in relation to Human Resources.
- Capital Reserves - this is a revenue-backed reserve to support capital expenditure and to provide bridging finance pending receipts of grants, etc.
- 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.
- CHS Pressures and Demands - this reserve is to address non-recurring new financial pressures within Children's Services.
- CHS Shared Service - this reserve is to address one off costs arising from shared service integration projects.
- MTFS Delivery Risk - This reserve is to mitigate the risks associated with the implementation of new MTFS projects.

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

26.	Legal Fees Reserve	- this reserve has been created to cover future one off legal costs relating to planning and environmental health.
27.	Managed Services	- this reserve has been set up to fund one off costs relating to the implementation of managed services.
28.	VAT Reserve	- this reserve is to cover costs incurred as a result of VAT related changes.
29.	Business Board Reserve	- this reserve is to fund projects approved by the HF Business Board.
30.	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).
31.	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.
32.	3SIF Grant Reserve	- this reserve is to support the Third Sector Investment Fund medium term allocation plan.
33.	ASC Portfolio Management	- The reserve is to fund additional resources required to delivery the Shared Service 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 funding that has already been earned, 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 funding and impact NDR deficits.
38.	HFD Budget Reserve	- this reserve is to support H&F Direct in future budget pressures.
39.	Customer Services Reserve	- this reserve is to fund improvements in customer service.
40.	Stock Options Appraisal	- this is a reserve to address the potential outcomes of the Stock Options Appraisal .
41.	Redundancy Reserves	- these reserves were set up to cover any redundancy costs.
42.	Other Funds	- this reserve is to fund various smaller projects.
43.	HRA IT Recharges Reserve	- this reserve is to fund any budgetary pressures with IT charges.
44.	HRA Efficiency Reserve	- this reserve is to provide funding for the one off costs associated with implementing MTFS savings.
45.	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.
46.	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.
47.	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.
48.	HRA Commercial Property	- this reserve is to fund the S106 costs for the termination of commercial property leases.
49.	HRA Legal Costs	- this reserve is for the likely legal costs arising from a procurement judgement.
50.	Improved Voids Specification	- this reserve is to fund a pilot to improve a limited number of void properties.
51.	Sheltered Housing	- this reserve is to fund the costs of additional resourcing for the sheltered housing accommodation service.
52.	Deed Pack Review Reserve	- this reserve is to fund a review of the HRA Fixed Asset Register in 2015/16 which will potentially involve a review of deed packs for over 18,000 properties.
53.	HRA Stock Options Appraisal Reserve	- this reserve is the HRA contribution to address the potential outcomes of the Stock Options Appraisal.
54.	Welfare Reform Reserve	- this is a reserve to provide for the further and continuing impact of Welfare Reform.
55.	Parking Charges Review Reserve	- this reserve is to cover the potential need to refund parking charges on HRA properties.
56.	Community Pot	- this reserve is the contribution made by the contractor providing housing and caretaking services to a Community Pot to be spent on projects agreed between the Council and the contractor.
57.	Customer Service Improvement Programme	- this reserve has been created to support the delivery of the Customer Service Improvement Programme.
58.	Council Tax Voids	- this reserve is to cover disputed costs of voids in case the HRA has to pay the costs.
59.	Office Reorganisations	- this reserve is to fund ongoing unbudgeted office reorganisation costs.
60.	Managed Services	- this reserve is to fund the impact of delayed implementation of Managed Services, which is affecting the Council's ability to collect rental income from tenants. The resultant increase in rent arrears may not be collectible or may require additional resource for collection. This reserve is to provide for loss of income and required resources.
61.	Commercial Properties Debt	- this reserve is to provide for the potential bad debt charge resulting from debt on commercial properties.
62-66	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 2015/16

Council Dwellings have again been revalued in-year showing a significant gain of £74.07m (see note 13 for more detail). This gain is divided between the Comprehensive Income and Expenditure Statement (CIES) (£26.63m) and the Revaluation Reserve (£47.44m).

Transactions in 2014/15

Council Dwellings have been revalued in-year and have shown a significant revaluation gain. The net gain posted to the CIES is £56.62m.

The revaluation gain on Dwellings in both 2014/15 and 2015/16 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 these adjustments have been recorded against expenditure.

10. Other Operating Expenditure

	2015/16 £000	2014/15 £000
Levies	2,855	2,888
Payments to the Government Housing Capital Receipts Pool	201	4,902
Gains/losses on the disposal of non-current assets	1,865	(35,524)
Trading Operations [See Below]	(1,179)	(2,025)
Other Operating Income and Expenditure	(817)	21
	2,925	(29,738)

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.

	2015/16			2014/15		
	Turnover £000	Expenditure £000	(Surplus)/ Deficit £000	Turnover £000	Expenditure £000	(Surplus)/ Deficit £000
Highways Division	(782)	759	(23)	(811)	790	(21)
Industrial Estates and Misc Properties	(1,848)	161	(1,687)	(2,514)	107	(2,407)
Other	(141)	672	531	(316)	719	403
Net surplus on trading operations	(2,771)	1,592	(1,179)	(3,641)	1,616	(2,025)

11. Financing and Investment Income and Expenditure

	2015/16 £000	2014/15 £000
Interest payable and similar charges	13,958	14,916
Net interest on the net defined benefit liability	16,856	18,370
Interest receivable and similar income	(1,943)	(1,794)
Income and expenditure in relation to investment properties and changes in their fair value	(2,226)	(4,397)
Schools converted to Academy Status	431	1,143
	27,076	28,238

12. Taxation and non-specific grant income and expenditure

	2015/16 £000	2014/15 £000
Council Tax Income	(53,435)	(52,512)
Non-domestic rates income and expenditure	(60,131)	(50,286)
Non-ringfenced government grants	(62,276)	(78,513)
Capital grants and contributions	(19,362)	(28,937)
	(195,204)	(210,248)

13. Property, Plant and Equipment

(i) Movements on Balances

Movements in 2015/16

	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 2015	1,213,135	315,720	197,239	12,089	23,938	14,722	2,250	1,779,093	14,679
Additions	65,077	4,862	5,477	468	857	16	484	77,241	-
Donations	-	-	-	-	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	38,009	27,515	-	-	-	17,891	-	83,415	2,790
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	15,956	8,388	-	-	-	1,679	-	26,023	180
Derecognition – disposals	(6,718)	(20,781)	-	-	-	-	-	(27,499)	-
Derecognition – other	-	(100)	(1,106)	(245)	-	-	(4)	(1,455)	-
Assets reclassified (to)/from Held for Sale	-	(404)	-	-	-	(3,500)	-	(3,904)	-
Assets reclassified (to)/from Investment Properties	-	-	-	-	-	-	-	-	-
Other reclassifications	-	(3,227)	-	-	-	3,227	-	-	-
Other movements in cost or valuation	-	(75)	-	-	-	-	-	(75)	-
At 31 March 2016	1,325,459	331,898	201,610	12,312	24,795	34,035	2,730	1,932,839	17,649
Accumulated Depreciation and Impairment									
At 1 April 2015	(269)	(1,113)	(94,867)	(9,192)	(6,831)	-	-	(112,272)	-
Depreciation charge	(19,916)	(5,671)	(12,579)	(962)	(1,831)	-	-	(40,959)	(282)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	9,426	3,335	-	-	-	-	-	12,761	221
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	10,677	2,278	-	-	-	-	-	12,955	61
Derecognition – disposals	82	404	-	-	-	-	-	486	-
Derecognition – other	-	-	1,106	245	-	-	-	1,351	-
Other movements in depreciation and impairment	-	90	-	-	-	-	-	90	-
At 31 March 2016	-	(677)	(106,340)	(9,909)	(8,662)	-	-	(125,588)	-
Net Book Value at 31 March 2016	1,325,459	331,221	95,270	2,403	16,133	34,035	2,730	1,807,251	17,649

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

Movements in 2014/15

	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 2014	1,096,092	323,038	188,511	30,338	23,828	15,448	10,247	1,687,502	19,985
Additions	55,054	13,076	7,614	521	1,224	27	7,212	84,728	-
Donations	-	-	-	-	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	17,309	5,754	-	-	-	538	-	23,601	(5,066)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	45,973	(11,135)	-	-	-	-	-	34,838	(240)
Derecognition – disposals	(7,298)	(23,757)	-	-	-	-	(142)	(31,197)	-
Derecognition – other	-	(704)	-	(18,770)	-	(184)	-	(19,658)	-
Assets reclassified (to)/from Held for Sale	693	-	-	-	-	537	-	1,230	-
Assets reclassified (to)/from Investment Properties	-	-	-	-	-	(1,951)	-	(1,951)	-
Other reclassifications	5,312	9,448	1,114	-	(1,114)	307	(15,067)	-	-
Other movements in cost or valuation	-	-	-	-	-	-	-	-	-
At 31 March 2015	1,213,135	315,720	197,239	12,089	23,938	14,722	2,250	1,779,093	14,679
Accumulated Depreciation and Impairment									
At 1 April 2014	(128)	(7,959)	(82,995)	(25,993)	(5,645)	-	-	(122,720)	(632)
Depreciation charge	(17,923)	(6,186)	(11,225)	(1,812)	(1,833)	-	-	(38,979)	(316)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	7,039	7,447	-	-	-	-	-	14,486	948
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	10,649	2,465	-	-	-	-	-	13,114	-
Derecognition – disposals	94	3,108	-	-	-	-	-	3,202	-
Derecognition – other	-	12	-	18,613	-	-	-	18,625	-
Other movements in depreciation and impairment	-	-	(647)	-	647	-	-	-	-
At 31 March 2015	(269)	(1,113)	(94,867)	(9,192)	(6,831)	-	-	(112,272)	-
Net Book Value at 31 March 2015	1,212,866	314,607	102,372	2,897	17,107	14,722	2,250	1,666,821	14,679

(ii) Depreciation and Useful life

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

Council Dwellings	5 - 60 years
Other Land and Buildings	15 - 50 years
Infrastructure Assets	3 - 40 years
Vehicles, Plant, Furniture & Equipment	4 - 25 years
Community Assets	5 - 73 years

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

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

The amount charged to services in 2015/16 was:

	31 March 2016 £000	31 March 2015 £000
Central Services to the Public	164	286
Cultural & Related Services	2,482	3,110
Environmental & Regulatory Services	314	754
Planning Services	1,335	1,437
Education and Children's Services	3,909	4,349
Highways and Transport Services	11,488	9,566
HRA	20,177	18,226
Other Housing Services	64	118
Adult Social Care	920	1,040
Non-Distributed Costs	-	-
Corporate & Democratic Core	-	-
Trading Operations	106	93
	40,959	38,979

(iii) Effect of Changes in Estimates

In 2015/16 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 current value is revalued through full inspection at least every four 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 programme values are reviewed internally to ensure they are not materially misstated at 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 2016.

The significant assumptions applied in estimating the current 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.
- All properties except Housing Dwellings have been valued on an individual basis, thus envisaging that they will be marketed individually or in groups over an appropriate period of time.
- Except where specific information is available, properties have been properly maintained and are in good repair and condition.

	Council Dwellings £000	Other Land and Buildings £000	Infrastructure Assets £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
Carrying value under Cost Model	1,408,060	278,511	95,270	2,403	16,133	15,982	2,730	1,819,089
Carried at Historical Cost	-	-	95,270	2,403	16,133	-	2,730	116,536
Valued at current value as at:								
31 March 2016	1,325,459	302,054	-	-	-	34,035	-	1,661,548
31 March 2015	-	16,406	-	-	-	-	-	16,406
31 March 2014	-	11,234	-	-	-	-	-	11,234
31 March 2013	-	1,527	-	-	-	-	-	1,527
	1,325,459	331,221	95,270	2,403	16,133	34,035	2,730	1,807,251

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 in 2015/16 in line with the proper practice set out in the Government guidance "Stock Valuation for Resource Accounting: Guidance for Valuers - 2010." Revaluation based on full inspection of dwellings as at 31 March 2016 was commissioned by the Council, and completed by the external valuer Wilks, Head and Eve.

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 property, plant and equipment was carried out for 2015/16 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

The total of capital commitments exceeding £2m at the balance sheet date were as follows:

	31 March 2016 £000	31 March 2015 £000
Service Department		
Housing Revenue Account	14,855	13,380
	14,855	13,380

14. Investment Properties

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

	2015/16 £000	2014/15 £000
Rental income from investment property	(4,816)	(6,011)
Direct operating expenses (including repairs and maintenance) arising from investment properties	86	81
Net (gain)/loss	(4,730)	(5,930)

(i) Revaluation

In 2015/16 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 2016. 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.

14. Investment Properties (cont'd)

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

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

	31 March 2016 £000	31 March 2015 £000
Balance at start of the year	79,310	76,200
Additions:		
• Subsequent expenditure	-	9
Disposals	(596)	(3,247)
Net gains/(losses) from fair value adjustments	2,226	4,397
Transfers:		
• (to)/from Property, Plant and Equipment	-	1,951
Balance at end of the year	80,940	79,310

Fair Value Hierarchy

All the Council's investment properties have been assessed as Level 2 on fair value hierarchy for valuation purposes (see Note 1 Accounting Policies for an explanation of the fair value levels) with an exception of one asset which has been assessed at Level 3 (Wormwood Scrubs Pony Centre valued at £45.7k).

15. Heritage Assets

(i) Movements on Balances

	Art Collections	Books & Printed Materials	Ceramics & Glass	Other Heritage Assets	Total Assets
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2015	7,688	131	118	86	8,023
Movement on balance	-	-	-	-	-
At 31 March 2016	7,688	131	118	86	8,023

There have been no movements on Heritage Assets in 2015/16. Further information concerning heritage assets and their valuation can be found in previous Statement of Accounts as published on the Council's website:

https://www.lbhf.gov.uk/sites/default/files/section_attachments/statement_of_accounts_2011-12.pdf

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 CFR is analysed in the second part of this note.

	2015/16 £000	2014/15 £000
Opening Capital Financing Requirement	267,460	297,332
Capital Investment		
Property, Plant and Equipment	77,241	84,729
Investment Properties	-	9
Intangible Assets	100	106
Revenue Expenditure Funded from Capital under Statute	18,438	13,437
Sources of Finance		
Capital receipts - used to fund Capital Expenditure	(49,013)	(41,538)
Government grants and other contributions	(39,429)	(53,391)
Sums set aside from revenue:		
Direct revenue contributions	(6,221)	(3,041)
MRP/loans fund principal	(602)	(2,293)
Voluntary Application of Capital Receipts	(902)	(28,500)
Deferred costs of capital disposals	505	610
Closing Capital Financing Requirement	267,577	267,460
Explanation of movements in year		
Increase/(Decrease) in underlying need to borrow (supported by government financial assistance)	577	(2,231)
Increase/(Decrease) in underlying need to borrow (unsupported by government financial assistance)	(63)	(63)
Voluntary application of Capital Receipts to repay debt	(902)	(28,500)
Deferred costs of capital disposals	505	610
Assets acquired under finance leases	-	311
Increase/(decrease) in Capital Financing Requirement	117	(29,873)

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 2016 £000	31 March 2015 £000
Not later than one year	1,073	1,171
Later than one year and not later than five years	3,563	3,652
Later than five years	8,823	9,676
	13,459	14,499

The Council has sub-let some of the accommodation and equipment held under these leases. At 31st March 2016 the minimum income expected to be received under non-cancellable sub-leases was £87k (£162k at 31st March 2015).

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

	31 March 2016 £000	31 March 2015 £000
Minimum lease payments	1,124	895
Contingent rents	23	558
Sublease payments receivable	(118)	(115)
	1,029	1,338

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

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

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

	31 March 2016 £000	31 March 2015 £000
Not later than one year	1,327	1,380
Later than one year and not later than five years	4,087	4,513
Later than five years	8,610	9,511
	14,024	15,404

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 2015/16 £75k contingent rents were receivable by the Council (2014/15 £75k).

18. Private Finance Initiative

2015/16 was the eleventh 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. A Memorandum of Understanding was agreed in 2015-16 to rebase the Unitary Charge and to clarify that payments are adjusted annually for CPI. The Memorandum does not change any other significant aspect of the contract.

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 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 2016 (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 2016/17	5,075	211	1,205	6,491
Payable within two to five years	21,287	1,171	4,493	26,951
Payable within six to ten years	28,947	2,641	4,439	36,027
Payable within eleven to fifteen years	27,458	4,359	1,931	33,748
	82,767	8,382	12,068	103,217

18. Private Finance Initiative (cont'd)

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:

	2015/16	2014/15
	£000	£000
Balance outstanding at start of year	8,570	8,735
Payments during the year	(186)	(165)
Capital expenditure incurred in the year	-	-
Balance outstanding at year-end	8,384	8,570

19. Debtors

	31 March	31 March
	2016	2015
	£000	£000
Central government bodies	19,668	12,970
Other local authorities	21,525	9,874
NHS bodies	2,645	6,583
Public corporations and trading funds	1	1
Other entities and individuals	30,286	26,130
Total	74,125	55,558

20. Cash and Cash Equivalents

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

	31 March	31 March
	2016	2015
	£000	£000
Cash held by the Council	182	59
Bank current accounts	28,026	457
School bank accounts	37,949	22,351
Short-term deposits	34,619	39,150
Total	100,776	62,017
Bank overdraft*	(111)	(3,194)
	(111)	(3,194)
Net Cash and Cash Equivalents	100,665	58,823

*The year-end bank overdraft reflects the bank position including all outstanding and unrepresented items.

LBHF does not operate a physical bank overdraft as part of its cash management policy. This presentation is a technical requirement under IFRS.

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 2016 £000	31 March 2015 £000
Balance outstanding at start of year	2,401	9,224
Additions:		
Assets newly classified as held for sale:		
• Property, Plant and Equipment	3,889	-
Assets declassified as held for sale:		
• Property, Plant and Equipment	-	(1,230)
Assets sold	(2,401)	(5,593)
Balance outstanding at year-end	3,889	2,401

22. Creditors

	31 March 2016 £000	31 March 2015 £000
Central government bodies	(36,733)	(42,052)
Other local authorities	(33,142)	(20,366)
NHS bodies	(11,700)	(9,131)
Public corporations and trading funds	-	-
Other entities and individuals	(93,327)	(67,014)
Total	(174,902)	(138,563)

23. Other Long Term Liabilities

	31 March 2016 £000	31 March 2015 £000
Net Pensions Liability	(490,931)	(522,349)
Long Term Lease Liability	(8,414)	(8,829)
TOTAL	(499,345)	(531,178)

24. Provisions

	Insurance £000	NDR - Losses on Appeals £000	Other Provisions £000	Total £000
Balance at 1 April 2014	(3,347)	(11,725)	(2,662)	(17,734)
Additional provisions	-	(8,990)	(672)	(9,662)
Amounts used	851	3,235	1,234	5,320
Unused amounts reversed	-	-	948	948
Unwinding of discounting	-	-	-	-
Balance at 31 March 2015	(2,496)	(17,480)	(1,152)	(21,128)
Additional provisions	(36)	-	-	(36)
Amounts used	-	3,073	86	3,159
Unused amounts reversed	-	4,263	763	5,026
Unwinding of discounting	-	-	-	-
Balance at 31 March 2016	(2,532)	(10,144)	(303)	(12,979)
<i>Of which:</i>				
Next twelve months	(2,532)	(10,144)	-	(12,676)
Over twelve months	-	-	(303)	(303)
Balance at 31 March 2016	(2,532)	(10,144)	(303)	(12,979)

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 included in the table above.

The Council's insurance provision (held for known future insurance claims resulting from the Council'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 that 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 and the Council was required to pay a levy of £426K in 2013/14, for which a provision was made in 2012/13 accounts; representing 15% of claims payments made to date. MMI in setting this 15% levy chose a mid-point based upon an actuarial analysis of potential future losses with the aim of ensuring a solvent run off of current losses and those yet to emerge. A further 10% levy is due to be paid in 2016/17 and this can be met from the existing provision. This means the Council will be required to fund 25% 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 include:

- £0.303m to cover HRA legal fees and 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 2016 £000	31 March 2015 £000	31 March 2016 £000	31 March 2015 £000
Financial Assets:				
Investments - Loans and Receivables	100	100	60,128	108,675
Investments - Available for sale financial assets	-	-	204,702	211,921
Cash & cash equivalents	-	-	100,665	58,822
Long Term Debtors	1,637	1,648	-	-
Trade Debtors	-	-	70,335	54,549
Total	1,737	1,748	435,830	433,967
Financial Liabilities : Measured at amortised cost				
Borrowings	(225,073)	(232,144)	(9,869)	(18,856)
Bank overdraft	-	-	-	-
Long Term Creditors	(100)	(100)	-	-
Trade Creditors	-	-	(7,924)	(2,374)
Total	(225,173)	(232,244)	(17,793)	(21,230)
Other Liabilities:				
PFI & Finance Lease liabilities	(8,625)	(8,829)	(386)	(502)

Note 1 - Under accounting requirements the carrying value of the financial instrument 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 2015/16 or previous years.

(iii) Income, Expense, Gains and Losses

	2015/16				2014/15			
	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	13,958	-	-	13,958	14,916	-	-	14,916
Losses on derecognition	-	-	-	-	-	-	-	-
Reductions in fair value	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-
Fee expense	-	-	-	-	-	-	-	-
Total expense in Surplus or Deficit on the Provision of Services	13,958	-	-	13,958	14,916	-	-	14,916
Interest income	-	(792)	(1,151)	(1,943)	-	(589)	(1,205)	(1,794)
Increases in fair value	-	-	-	-	-	-	-	-
Gains on derecognition	-	-	-	-	-	-	-	-
Fee income	-	-	-	-	-	-	-	-
Total income in Surplus or Deficit on the Provision of Services	-	(792)	(1,151)	(1,943)	-	(589)	(1,205)	(1,794)
Net gain/(loss) for the year	13,958	(792)	(1,151)	12,015	14,916	(589)	(1,205)	13,122

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 2016.
- 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 March 2016 includes outstanding mortgages of £57k (£68k 31 March 2015). 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 March 2016 (£100k at 31 March 2015) shown in section (i) 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 2016		31 March 2015	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities				
<u>Borrowings</u>				
PWLB Debt	(231,896)	(293,646)	(247,599)	(309,634)
Total	(231,896)	(293,646)	(247,599)	(309,634)
Financial Assets				
<u>Loans and receivables</u>				
Money market loans less than one year	60,128	60,128	108,675	108,675
Money market loans greater than one year	-	-	-	-
Available for Sale less than one year	204,702	204,702	211,921	211,921
Available for Sale greater than one year	-	-	-	-
Total	264,830	264,830	320,596	320,596

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 £335,755k as at 31 March 2016 (£352,254k at 31 March 2015.)

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 2016, 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:
 - overall borrowing;
 - maximum and minimum exposures to fixed and variable rates;
 - maximum and minimum exposures for the maturity structure of its debt;
 - 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 2016 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 allowance for their impairment amounting to £45.61 million at 31 March 2016 (£42.98 million at 31 March 2015). 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 2016 £000	31 March 2015 £000
Less than three months	41,900	39,072
Three to six months	4,629	1,688
Six months to one year	3,171	3,143
More than one year	20,635	10,647
	70,335	54,550

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 2016 £000	31 March 2015 £000
Less than one year	(9,869)	(18,856)
Between one and two years	(7,417)	(7,074)
Between two and five years	(25,673)	(21,680)
Between five and ten years	(19,968)	(31,379)
More than ten years	(171,763)	(171,763)
Total	<u>(234,690)</u>	<u>(250,752)</u>

The maturity analysis of financial assets is as follows:

	31 March 2016 £000	31 March 2015 £000
Less than one year	264,830	320,596
Between one and two years	-	-
Between two and three years	-	-
More than three years	1,737	1,748
Total	<u>266,567</u>	<u>322,344</u>

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.

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

	2015/16 £000	2014/15 £000
Adjustment for items included elsewhere in the Cash Flow Capital Grants	(25,793)	(15,693)
Adjustment for 'non-cash' items included in the Income and Expenditure Statement:		
Depreciation and Amortisation of non-current assets	41,136	39,167
Impairments and revaluations	(41,203)	(52,349)
Value of non-current assets derecognised on disposal	27,713	32,275
Value of 'Assets Held for Sale' derecognised on disposal	2,401	5,594
Assets transferred to/(from) Assets Held for Sale	3,889	(1,230)
Net adjustment made in respect of IAS 19 (Pensions)	19,034	17,590
Revaluations of Available for Sale Financial Assets	(585)	(525)
Amortisation of Premia and Discounts	4	4
Impairment of Financial Instruments	-	-
Movement in non-cash assets and liabilities:		
(Increase)/decrease in short-term Debtors*	(18,748)	2,787
add/less: (Increase)/decrease in Capital Debtors	(845)	434
(Increase)/decrease in Long-term Debtors	11	25
Increase/(decrease) in short-term Creditors*	35,080	(26,188)
add/less: Increase/(decrease) in Capital Creditors	(100)	(3,105)
Assets transferred to 'Assets Held for Sale'	(3,889)	1,229
(Increase)/decrease in Inventories	19	22
Increase/(decrease) in Provisions	(8,149)	3,394
Increase/(decrease) in Grants and Contributions Receipts in Advance	(2,648)	97
Adjustments to net surplus or deficit on the provision of services for non-cash movements	27,327	3,528

*Excluding movements in the Collection Fund Debtors/Creditors with precepting authorities and the short-term element of Finance Leases and PFI's which are included on the face of the cashflow statement.

27b. Cash Flow Statement - Operating Activities

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

	2015/16 £000	2014/15 £000
Interest Received	2,014	1,846
Interest Paid	(13,011)	(13,558)

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. In some cases the council makes a small surplus or deficit on these agreements through commission or reimbursement of costs. These surpluses or deficits are included within the relative service lines in the CIES. Bodies with whom we have these agency agreements include Thames Water, Transport for London, London Councils and various Academies in the borough.

29. Members' Allowances

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

	2015/16 £000	2014/15 £000
Members' Allowances	816	777

30. Officers' Remuneration

This note shows the remuneration as paid through the Council's payroll to the Council's Chief Executive, Statutory Chief Officers, members of the Senior Management Team (H&F Business Board) and employees earning over £150,000. It includes employees with responsibilities for Shared Services with Royal Borough of Kensington (RBKC) and Westminster City Council (WCC)

	Notes		Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Compensation for Loss of Office £	Pension Contribution £	Total £
Nigel Pallace - Chief Executive H & F.	3,21	2015/16	185,000	9,250	832	-	27,270	222,352
		2014/15	169,966	16,997	-	-	23,179	210,142
Jane West - Executive Director of Finance & Corporate Governance	4	2015/16	93,410	-	-	-	14,752	108,162
		2014/15	158,620	15,862	-	-	23,466	197,948
Lyn Carpenter - Shared Services Executive Director Environment, Leisure & Residents Services for LBHF and RBKC	5	2015/16	72,094	-	-	-	11,665	83,759
		2014/15	157,215	14,316	-	-	23,379	194,910
Melbourne Barrett - Executive Director of Housing & Regeneration	11,21	2015/16	2,293	-	-	-	310	2,603
		2014/15	137,592	10,664	-	-	18,881	167,137
Elizabeth Bruce - Shared Services Executive Director of Adult Social Care for LBHF, RBKC and WCC	6	2015/16	158,132	10,850	352	-	22,665	191,999
		2014/15	139,341	9,754	482	-	21,233	170,810
Tasnim Shawkat - Shared Services Director of Law for LBHF and RBKC	7	2015/16	114,803	8,036	-	-	17,203	140,042
		2014/15	114,803	12,628	18	-	17,444	144,893
Hitesh Jolapara - Strategic Finance Director	8	2015/16	124,803	13,728	-	-	17,973	156,504
		2014/15	118,970	8,328	-	-	16,832	144,130
Philip Cross - Executive Headteacher, Hurlingham and Chelsea School	9	2015/16	59,000	-	-	-	-	59,000
		2014/15	85,355	-	27,145	-	15,863	128,363
Michael England - Director of Housing Strategy and Options and Joint Lead Director for Housing	11	2015/16	104,190	5,197	-	-	14,885	124,272
		2014/15	94,627	7,570	-	-	13,921	116,118
Kathleen Corbett - Director of Finance and Resources and Joint Lead Director for Housing	11	2015/16	109,526	10,484	-	-	15,518	135,528
		2014/15	98,828	6,918	-	-	14,295	120,041
Michael Hainge - Commercial Director	12	2015/16	34,934	2,446	-	-	4,716	42,096
		2014/15	-	-	-	-	-	-
Kim Dero - Director of Delivery and Value	13	2015/16	117,601	11,981	-	-	17,440	147,022
		2014/15	-	-	-	-	-	-
Ed Garcez - Chief Information officer	14	2015/16	105,085	7,336	-	-	15,177	127,598
		2014/15	104,803	7,336	-	-	15,960	128,099
Juliemma McLoughlin - Director of Planning and Growth	15	2015/16	120,000	8,400	-	-	5,940	134,340
		2014/15	89,308	7,145	249	-	13,060	109,762
Maureen McDonald-Khan - Director of Buildings and Property Management	15	2015/16	102,310	3,069	-	-	14,613	119,992
		2014/15	98,857	6,920	-	-	14,407	120,184
Nick Austin - Director of Environmental Health	16	2015/16	100,847	8,068	-	-	14,822	123,737
		2014/15	99,364	8,942	-	-	14,768	123,074
Sue Harris - Director of Cleaner, Greener and Cultural Services	17	2015/16	106,319	7,442	-	-	8,881	122,642
		2014/15	99,364	6,955	-	-	14,357	120,676
David Page - Director of Safer Neighbourhoods	18	2015/16	101,115	7,059	-	-	14,777	122,951
		2014/15	96,816	6,796	-	-	14,736	118,348
Debbie Morris - Director of Human Resources	19	2015/16	114,506	9,012	-	-	16,800	140,318
		2014/15	101,268	9,936	147	-	15,129	126,480
Alan Streeter - Executive Headteacher Phoenix High School	20	2015/16	130,000	-	-	-	20,135	150,135
		2014/15	130,000	-	-	-	18,330	148,330

30. Officers' Remuneration (cont'd)

Note 1 - The following Senior Officers are employed by RBKC, on a Shared Services basis. Information regarding their remuneration can be found on RBKC's website www.rbkc.gov.uk .
- The Chief Executive role was a Shared Services role with RBKC until the 25th October 2014. As Nicholas Holgate retained s151 responsibilities for RBKC his salary was shared on the following basis: 42% (LBHF): 58% RBKC. - The Shared Services Executive Director of Children's Services (Andrew Christie) is shared equally between LBHF, RBKC and WCC. - The Director of Transport and Highways (Mahmood Siddiqi) is employed by RBKC and is split on the following basis 50% (RBKC):50%(LBHF).
Note 2 - The Director of Public Health is shared on a Shared Services basis. Meradin Peachey was the post holder until 4th January 2015. From the 5th January 2015, Stuart Lines (Deputy Director of Public Health for LBHF, was acting up, until the 15th November 2015. The current Director of Public Health, Dr Mike Robinson, began in this post on the 16th November 2015. This role is shared on the following basis: 29% (LBHF): 31% (RBKC): 40% (WCC). All of these officers are WCC employees and Information regarding their remuneration can be found on WCC's website www.westminster.gov.uk .
Note 3 -Nigel Pallace was Shared Services Executive Director Transportation & Technical Services with RBKC. Up until the 26th October 2014 this role was shared on the following basis: 75% (LBHF): 25% (RBKC). From taking up the role of Interim Chief Executive from 27th October 2014 this changed to 100% LBHF. This appointment was made permanent 20th May 2015.
Note 4 - Seconded to WCC 1st March 15 as Interim Shared Services Executive Director for Corporate Services for WCC/RBKC. Left 2nd November 2015.
Note 5 - This is a Shared Services role and is split on the following basis: 50% (LBHF): 50% (RBKC). Left 13/09/15.
Note 6 - This is a Shared Services role and is split on the following basis 46% (LBHF): 33% (WCC): 21% (RBKC).
Note 7 - This is a Shared Services role and is split on the following basis: 33.3% (LBHF): 33.3% (RBKC): 33.3% (WCC). Included as the Monitoring Officer for LBHF. In 2014-15 this post was shared 50% (LBHF): 50% RBKC.
Note 8 - This was a Shared Services role with RBKC. Assumed Section 151 responsibilities for LBHF from 1st March 2015 and until 1st of November 2015 the role was split 80% (LBHF): 20% (RBKC). From 2nd November 2015 this post is 100% LBHF.
Note 9 - Pay decisions for the head teachers disclosed above rest with the School Governing Body and not the Council. Philip Cross left 31st December 2014 and the school is now an Academy, so no staff costs will appear in the Council's accounts. The amounts included for 2015-16 are back pay and a settlement payment.
Note 10 - The above remuneration disclosure does not include payments for returning officer duties.
Note 11 - Melbourne Barrett left on the 6th April 2015 . This post has been covered in the interim by Kathleen Corbett and Mike England on a joint basis.
Note 12 - Started as Commercial Director on the 1st December 2015 . This is a newly created post.
Note 13 - Started as Director of Delivery and Value in 1st July 2015. This is a newly created post.
Note 14 - This is a Shared Services role and is split on the following basis: 33.3% (LBHF): 33.3% (RBKC): 33.3% (WCC). This post reports directly to the Chief Executive. In 2014/15 this post reported to the Executive Director of Finance and Corporate
Note 15 - These posts report directly to the Chief Executive. In 2014/15 they reported to the Shared Services Executive Director Transportation & Technical Services, so were not disclosed.
Note 16 - This is a Shared Services role and is split on the following basis: 50% (LBHF): 50% (RBKC). This post reports directly to the Chief Executive. In 2014/15 they reported to the Shared Services Executive Director Transportation & Technical Services, so were not disclosed.
Note 17 - This is a Shared Services role and is split on the following basis: 35% (LBHF): 65% (RBKC). This post reports directly to the Chief Executive. In 2014/15 they reported to the Shared Services Executive Director Environment, Leisure & Residents Services, so were not disclosed.
Note 18 - This is a Shared Services role and is split on the following basis: 80% (LBHF): 20% (RBKC). This post reports directly to the Chief Executive. In 2014/15 they reported to the Shared Services Executive Director Environment, Leisure & Residents Services, so were not disclosed.
Note 19 - This is a Shared Services role and is split on the following basis: 50% (LBHF): 50% (RBKC). This post reports directly to the Chief Executive. In 2014/15 this post reported to the Executive Director of Finance and Corporate Governance, so was not disclosed.
Note 20 - Included in 2015-16 as total remuneration now over £150,000. Pay decisions for the head teachers disclosed above rest with the School Governing Body and not the Council.
Note 21 - Bonuses - In the 2014/15 Statement of Accounts, the bonus payments for Nigel Pallace and Melbourne Barrett were estimates as they had not been agreed in time for the publication of the accounts. These payments were agreed during 2015/16, and the 2014/15 figures have been restated to reflect this. The bonus figure for Nigel Pallace for 2015/16 has not been finalised, and is currently estimated at 5%.

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 in the previous table)

Remuneration Band	Including Redundancies		Excluding Redundancies	
	2015/16 Number of Employees	2014/15 Number of Employees	2015/16 Number of Employees	2014/15 Number of Employees
£145,000 - £149,999	-	-	-	-
£140,000 - £144,999	-	-	-	-
£135,000 - £139,999	-	-	-	-
£130,000 - £134,999	-	1	-	1
£125,000 - £129,999	-	-	-	-
£120,000 - £124,999	-	-	-	-
£115,000 - £119,999	2	-	2	-
£110,000 - £114,999	2	7	2	6
£105,000 - £109,999	5	9	4	9
£100,000 - £104,999	-	3	-	3
£95,000 - £99,999	2	3	2	3
£90,000 - £94,999	4	5	4	5
£85,000 - £89,999	11	4	10	4
£80,000 - £84,999	14	14	14	13
£75,000 - £79,999	22	16	20	16
£70,000 - £74,999	12	20	12	19
£65,000 - £69,999	18	18	16	18
£60,000 - £64,999	31	20	29	20
£55,000 - £59,999	51	52	51	52
£50,000 - £54,999	106	102	106	101
Total	280	274	272	270

Of the 280 employees listed above in 2015/16, 114 (41%) were employees where pay decisions rest with the School Governing Body and not the Council. The corresponding figure for 2014/15 was 126 (46%).

Of the 272 employees listed above in 2015/16, 114 (42%) were employees where pay decisions rest with the School Governing Body and not the Council. The corresponding figure for 2014/15 was 125 (46%).

This note discloses officers in the council's payroll who may be shared via the Shared Services 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	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
£0 - £20,000	17	35	9	23	26	58	268,171	455,988
£20,001 - £40,000	3	18	2	4	5	22	121,906	600,779
£40,001 - £60,000	3	2	1	3	4	5	180,704	269,569
£60,001 - £80,000	-	-	2	1	2	1	129,303	74,523
£80,001 - £100,000	-	-	1	1	1	1	87,765	86,135
Over £100,001	-	-	-	1	-	1	-	115,531
Total	23	55	15	33	38	88	787,849	1,602,526

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.

2014/15 figures have been amended to reflect the correct timing of when Exit Packages are recognised in the accounts

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 2015/16, the Council paid £4.21 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 15.5% of pensionable pay. The figures for 2014/15 were £4.13 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 2015/16 the costs arising from additional benefits amounted to £338.6k (2014/15: £342.6k).

32. Defined Benefit Schemes

Participation in Pension Schemes

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

The Council participates in the following post employment schemes:

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

The 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 took 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 investments 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 Funds, 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 benefit the Council e.g. higher than expected investment returns.

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 plan assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments when they eventually fall due.

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.

32. Defined Benefit Schemes (cont'd)

	LBHF Local Government		LPFA Local Government	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Comprehensive Income and Expenditure Statement				
<i>Cost of Services:</i>				
• current service costs	23,561	18,952	209	216
• past service costs including curtailments	754	819	20	-
• (gain)/ loss from settlements	(2,654)	(774)	-	-
• administration expenses	625	562	64	62
<i>Financing and Investment Income and Expenditure:</i>				
• net interest expense	16,654	18,258	202	112
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	38,940	37,817	495	390
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>				
<i>Remeasurement of the net defined benefit liability</i>				
• Return on plan assets (excluding the amount included in the net interest expense)	35,236	(63,921)	1,559	(1,025)
• Actuarial gains and losses arising on changes in demographic assumptions	-	-	-	-
• Actuarial gains and losses arising on changes in financial assumptions	(84,542)	138,759	(3,162)	4,966
• Experience loss/ (gain) on defined benefit obligation	482	(680)	(25)	21
• Other actuarial gains/ (losses)	-	-	-	-
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(9,884)	111,975	(1,133)	4,352
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	17,767	(17,602)	162	12
<i>Actual amount charged against the General Fund Balance for pensions in the year:</i>				
• employers' contributions payable to scheme	17,767	17,729	162	370
• retirement benefits payable to pensioners (unfunded pension payments)	2,436	2,486	33	35

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	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Opening balance 1 April	1,267,928	1,090,430	49,165	44,343
Current service cost	23,561	18,952	209	216
Interest cost	41,304	47,595	1,441	1,817
Remeasurement (gains) and losses:				
- Change in financial assumptions	(84,542)	138,759	(3,162)	4,966
- Change in demographic assumptions	-	-	-	-
- Experience loss/(gain) on defined benefit obligation	482	(680)	(25)	21
Liabilities assumed/ (extinguished) on settlements	(3,413)	1,615	-	-
Estimated benefits paid net of transfers in	(33,329)	(32,213)	(2,338)	(2,211)
Past service costs, including curtailments	754	819	20	-
Contributions by Scheme participants	5,282	5,137	40	48
Unfunded pension payments	(2,436)	(2,486)	(33)	(35)
Closing balance at 31 March	1,215,591	1,267,928	45,317	49,165

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

	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Opening balance 1 April	752,382	666,643	42,364	41,489
Interest on assets	24,650	29,337	1,239	1,705
Remeasurement gain/ (loss):				
- Return on assets less interest	(35,236)	63,921	(1,559)	1,025
- Other actual gains/ (losses)	-	-	-	-
Administration expenses	(625)	(562)	(64)	(62)
Contributions by employer including unfunded	20,203	20,215	195	405
Contributions by scheme participants	5,282	5,137	40	48
Estimated benefits paid plus unfunded net of transfers in	(35,764)	(34,699)	(2,371)	(2,246)
Settlement prices received/ (paid)	(759)	2,390	-	-
Closing balance at 31 March	730,133	752,382	39,844	42,364

32. Defined Benefit Schemes (cont'd)

Pension Assets and Liabilities Recognised in the Balance Sheet

	31 March 2016 £000	31 March 2015 £000
<i>Present Value of Liabilities</i>		
LBHF Local Government Pension Scheme (Funded)	1,181,539	1,231,756
LBHF Local Government Pension Scheme (Unfunded)	34,052	36,171
LPFA Local Government Pension Scheme (Funded)	45,060	48,851
LPFA Local Government Pension Scheme (Unfunded)	257	314
<i>Fair Value of Assets</i>		
LBHF Local Government Pension Scheme	(730,133)	(752,382)
LPFA Local Government Pension Scheme	(39,844)	(42,364)
<i>Net liability arising from defined benefit obligation</i>		
LBHF Local Government Pension Scheme	485,458	515,545
LPFA Local Government Pension Scheme	5,473	6,801
Total	490,931	522,346

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 £490.931m 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.

32. Defined Benefit Schemes (cont'd)

Local Government Pension Scheme assets

The return on the Funds (on a bid value to bid value basis) for the year 31 March 2016 is estimated to be -1% for LBHF Local Government Pension Scheme and -1% 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 Pension Scheme			
		31 March 2016		31 March 2015	
		£000	%	£000	%
Equities	UK	186,654	26%	178,500	24%
	Overseas	207,476	28%	244,343	33%
Gilts	UK	13,705	2%	14,534	2%
	Overseas	15,148	2%	14,797	2%
Absolute Return Portfolio		61,948	8%	60,762	8%
LDI		-	0%	113,711	15%
Commodities		2,669	1%	2,503	0%
Cash		53,630	7%	123,232	17%
Property		38,765	5%	-	0%
Secure Income Funds		83,854	12%	-	0%
Inflation Opportunity Funds		66,284	9%	-	0%
Total		730,133	100%	752,382	100%

		LPFA Local Government Pensions Scheme			
		31 March 2016		31 March 2015	
		£000	%	£000	%
Equities		18,509	47.0%	18,380	43.0%
LDI/Cashflow matching		4,039	10.0%	3,180	8.0%
Target Return Portfolio		8,475	21.0%	12,247	29.0%
Infrastructure		2,183	5.0%	2,099	5.0%
Commodities		178	0.0%	394	1.0%
Property		1,422	4.0%	1,200	3.0%
Cash		5,038	13.0%	4,864	11.0%
Total		39,844	100.0%	42,364	100.0%

Asset and Liability Matching Strategy

During 2014/15 the LBHF Pension Fund invested approximately 15% of the Fund's assets in a Liability Driven Investment (LDI) bespoke pooled in order to match approximately 25% of the Fund's liabilities to manage the risks of inflation and interest rates. In 2015/16 the Fund decided to replace this investment with a range of investments in secure income and inflation opportunity pooled funds to achieve the same protection against inflation and interest risks, whilst seeking to achieve a higher investment return.

These investments sit alongside an absolute return bond fund which also assists in the management of inflation and interest rate risks. The remainder of the Fund is invested in growth assets which aim to maximise the return to the Fund.

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	
	2015/16	2014/15	2015/16	2014/15
Mortality Assumptions				
Life expectancy from age 65 - retiring today				
Men	22.9	22.8	21	21.3
Women	25.3	25.2	24.7	24.6
Life expectancy from age 65 - retiring in 20 years				
Men	25.2	25.1	23.8	23.7
Women	27.7	27.6	27.0	26.9
Financial Assumptions				
Rate of Inflation - RPI	3.2%	3.2%	2.9%	3.0%
Rate of Inflation - CPI	2.3%	2.4%	2.0%	2.2%
Rate of Increase in Salaries	4.1%	4.2%	3.8%	4.0%
Rate of Increase in Pensions	2.3%	2.4%	2.0%	2.2%
Discount Rate	3.6%	3.3%	3.3%	3.0%

These assumptions are set with reference to market conditions at 31 March 2016.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has 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. The projected service costs for 2016/17 are £21,158k (LBHF) and £189k (LPFA).

	Impact on the Defined Benefit Obligation in the Scheme			
	LBHF Local Government Pension		LPFA Local Government Pension	
	Increase in Assumption	Decrease in Assumption	Increase in Assumption	Decrease in Assumption
	£000	£000	£000	£000
Adjustment to:				
Discount Rate (+/- 0.1%)	20,699	21,628	186	192
Long term salary increase (+/- 0.1%)	21,168	21,148	189	189
Pension increases and deferred revaluation* (+/- 0.	21,623	20,703	192	186
Mortality age rating assumption (+/- 1 year)	21,698	20,631	194	184

*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 actuarial valuation of the fund was 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 a 22 year period.

The total contributions expected to be made by the council in the year to 31 March 2017 are £18.916m to the LBHF Local Government Pension Scheme and £0.132m 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:

	2015/16 £000	2014/15 £000
Fees payable to the External Auditor with regard to external audit services carried out by the appointed auditor for the year	164	216
Fees payable to External Audit for the certification of grant claims and returns for the year	31	38
Audit Commission Rebates (relates to 2013/14 Fee)	-	(43)
Non-Audit Services	-	-
Total	195	211

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 by the Department to fund academy schools in the council's area. DSG is ring-fenced 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, which is divided into a budget share for each maintained school.

Details of the Schools Budget funded by DSG receivable for 2015/16 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total 2015/16 £000	Total 2014/15 £000
Final DSG for 2015/16 before Academy Recoupment			132,057	119,087
Academy figure recouped for 2015/16			(48,415)	(28,695)
Total DSG after Academy recoupment for 2015/16			83,642	90,392
Plus: Brought forward from 2014/15			5,281	6,185
Less: Planned carry-forward to 2016/17			(3,797)	-
Agreed initial budgeted distribution in 2015/16	9,913	75,213	85,126	96,577
In year adjustments	(1,099)	1,099	-	-
Final budgeted distribution for 2015/16	8,814	76,312	85,126	96,577
Less: Actual central expenditure	(11,022)		(11,022)	(15,360)
Less: Actual ISB deployed to schools		(76,891)	(76,891)	(75,936)
Plus Local authority contribution for 2015/16	-	-	-	-
Carry Forward to 2016/17	(2,208)	(579)	(2,787)	-
Total DSG Carried Forward			1,010	5,281

35. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015/16:

	2015/16 £000	2014/15 £000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	(47,791)	(66,054)
New Homes Bonus	(4,105)	(4,638)
Section 106 Non-ringfenced	(2,246)	(170)
Housing Benefit Admin Subsidy	(1,750)	(1,989)
Education Services	(1,371)	(1,769)
Independent Living Grant	(671)	-
Care Act Implementation and Early Assessments Grants	(627)	-
Council Tax Freeze	(621)	(631)
S31 Grant - Business Rates Retention Scheme Relief	(1,697)	(1,262)
Special Education Needs	(109)	(488)
Welfare Reform Change	-	(821)
Other Non-ringfenced government grants	(1,288)	(861)
Capital grants and contributions	(19,362)	(28,767)
Total	(81,638)	(107,450)
Credited to Services		
Housing & Council Tax Benefit Subsidy	(144,868)	(150,668)
Dedicated Schools Grant	(87,823)	(91,296)
Public Health Grant	(21,414)	(19,149)
Pupil Premium Grant	(5,539)	(6,862)
Section 106	(2,825)	(1,837)
DfE Capital Grants	(4,108)	(3,300)
Adult Learning	(2,839)	(1,693)
PFI Grants	(1,429)	(1,474)
Transport for London / Surface Transport	(1,394)	(1,291)
Further Education	-	(1,271)
Infant Free School Meals	(1,248)	(655)
Troubled Families	(904)	(249)
London Crime Prevention Fund	(676)	-
NDR and BRS Cost of Collection Allowance	(586)	(586)
Social Work Grants	(26)	(1,010)
Sixth Form Grant	(5,985)	(5,773)
Adoption Reform Grant	-	(221)
Other grants and contributions	(6,345)	(4,301)
Total	(288,009)	(291,636)

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:

	2015/16 £000	2014/15 £000
Grants and Contributions Receipts in Advance (Current)		
Public Health Grant	(4,295)	(4,242)
New Homes Bonus Grant	(1,564)	-
Dedicated Schools Grant	(1,010)	(5,281)
Learning & Skills Council - revenue	(856)	(890)
Social Work Grants	(172)	(535)
Pupil Premium Grant	-	(92)
Focus on Practice grant	-	(974)
Other grants - revenue	(470)	(581)
Total	(8,367)	(12,595)

35. Grant Income (cont'd)

	2015/16 £000	2014/15 £000
Grants and Contributions Receipts in Advance (Non-Current)		
Developer contributions (inc. section 106)	(13,298)	(12,350)
TfL	(2,192)	(2,050)
Social Care Grant	(511)	-
Winterbourne Grant	(300)	(300)
Other capital grants	(211)	(232)
Total	(16,512)	(14,932)

36. Related Parties

The Council is required to disclose material transactions with related parties. These are 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 2016 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 2015/16 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 2015/16, the Council engaged in various transactions with related parties - per information provided by Councillors and Chief Officers - to the value of £759k. The most significant transactions are to charitable organisations.

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 the Western Riverside Waste Authority and schools.

Pension Fund

The Council is the administering authority of the Pension Fund. The Council owed the Pension Fund a net amount of £174k at the year end. The Council incurred costs of £413k expenses in relation to administering the fund. A detailed summary of the Pension Fund Accounts is included within this Statement of Accounts in the Supplementary Financial Statements section.

Other Public Bodies

The Council has a pooled budget arrangement with Central London Clinical Commissioning Group for the provision of community equipment. This is now included in Note 37.

Shared Services

The Council has entered into joint working arrangements with the City of Westminster and the Royal Borough of Kensington and Chelsea. The nature of these arrangements does mean that each borough influences the others however, each borough remains sovereign.

37. Better Care Fund Pooled Budget

The Authority has entered into a pooled budget arrangement with The Hammersmith and Fulham Clinical Commissioning Group for the provision of Adult Social Care services to older people, people with physical or learning disabilities, people with mental health problems and services to safeguard adults.

The aim is to meet the needs of people living in the area of the London Borough of Hammersmith & Fulham. Expenditure funded from this budget includes the provision of care in residential settings, community services enabling people to remain in their own homes and a community independence service which supports the reablement of residents.

The arrangement is made in accordance with Section 75 of the National Health Service Act 2006 and any surplus or deficit generated will be the responsibility of the respective partner to whom it is attributed.

The pooled budget includes all income and expenditure relating to the Better Care Fund, whether funded by the local authority or the health service.

It is hosted by the London Borough of Hammersmith and Fulham, however, not all transactions pass through the Borough's accounting system.

The pooled budget for Joint Equipment has now been absorbed within the Better Care Fund.

The following table summarises the position for 2015/16:

	2015/16 £000
Contributions to the Pooled Budget:	
London Borough of Hammersmith & Fulham	(8,900)
Hammersmith and Fulham Clinical Commissioning Group	(30,813)
Total Contributions	(39,713)
Expenditure Met by the Pooled Budget:	
Costs relating to the reablement of residents	7,248
Costs relating to supporting residents to remain in their own homes	-
Costs relating to care provided in residential settings or in community settings	30,401
Support Services and programme management relating to the BCF	1,473
Total Expenditure	39,122
Net (surplus)/deficit arising on the pooled budget in the year	(591)
Net (surplus)/deficit split by:	
Share of the net (surplus)/deficit due to the London Borough of Hammersmith & Fulham (Includes capital resources of £248k)	(25)
Share of the net (surplus)/deficit due to the Hammersmith & Fulham Clinical Commissioning Group	(566)

38. 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 2015/16. The latest audited accounts available, those relating to 2014/15, show net assets of £9,816k (£7,953k in 2013/14) and a profit on its activities in that year of £1,857k (£2,831k in 2013/14). 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 £12k in 2015/16. The charity's latest audited accounts available, those relating to 2014/15 show net assets worth £61k, (£64k in 2013/14). A net deficit of £3k has been reported for 2014/15 (net deficit £4k in 2013/14). Copies of the accounts may be obtained from the Company Secretary, Hammersmith and Fulham Urban Studies Centre, The Lilla Huset, 191 Talgarth Road, London, W6 8BJ.

(iii) Hammersmith & Fulham Bridge Partnership (HFBP)

HFBP is a joint venture between Agilisys (80.1%) and the council (19.9%). Although HFBP has been included in the Group Accounts of the Council as an Associate of the Council in previous years, the issue of materiality was considered and the conclusion was that inclusion would not make a material difference to the usefulness of the Statement of Accounts for readers. The contract between HFBP and the Council is for ten years and commenced on 1st November 2006. HFBP provides IT services to the Council and provides significant capital investment in a range of projects.

The management accounts for the year 2015/16 showed total net assets of £659k (£481k net assets in 2014/15 audited accounts) with a profit before tax of £176k (loss before tax £209k in 2014/15 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%) which was incorporated on 27 March 2014.

39. Contingent Assets and Contingent Liabilities

Contingent Assets

Discounted Market Sale Units

The Council has historically negotiated various Section 106 agreements which 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 396 units with an estimated valuation of £201m. This represents a potential asset to the Council of £102m 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.

Contingent Liabilities

Litigations and claims

The council is involved in a number of litigations and claims that were ongoing as at the 31st March 2016 but their outcome is not yet determined.

Total Litigations and claims

2015/16
£000 (Est)
4,973
4,973

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.

40. 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:

	2015/16	2014/15
	£000	£000
Balance at 1st April	(5,313)	(5,320)
Income	(679)	(718)
Sub total	(5,992)	(6,038)
Less:		
Expenditure and Transfers	738	725
Balance at 31 March	(5,254)	(5,313)

SUPPLEMENTARY FINANCIAL STATEMENTS

Collection Fund Account
Housing Revenue Account
Pension Fund Account

Collection Fund Account

The Collection Fund 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.

	2015/16			2014/15			
	Business Rates £000	Council Tax £000	Total £000	Business Rates £000	Council Tax £000	Total £000	Notes
Income							
Council Tax Collectable	-	(77,040)	(77,040)	-	(75,560)	(75,560)	1
Business Rates Collectable	(189,724)	-	(189,724)	(192,085)	-	(192,085)	2
Business Rate Supplement Collectable	(5,822)	-	(5,822)	(6,051)	-	(6,051)	
Transitional Protection Payment	261	-	261	1,301	-	1,301	
Total Income	(195,285)	(77,040)	(272,325)	(196,835)	(75,560)	(272,395)	
Expenditure							
<i>Precepts and Demands:</i>							
Central Government (CLG)	94,029	-	94,029	88,508	-	88,508	
LB Hammersmith & Fulham	56,417	52,390	108,807	53,105	51,369	104,474	
Greater London Authority	37,611	21,235	58,846	35,403	20,893	56,296	
<i>Business Rate Supplement</i>							
Payment to the Greater London Authority	5,805	-	5,805	6,030	-	6,030	2
Cost of collection	17	-	17	21	-	21	
<i>Charges to Collection Fund</i>							
Write-offs of uncollectable amounts	1,323	1,607	2,930	3,079	9	3,088	
Increase/ (Decrease) in Allowance for Doubtful Debt	1,680	380	2,060	(4,315)	1,689	(2,626)	
Increase/ (Decrease) in Provision for Appeals Distribution/(Recovery) of previous year's est surplus/(deficit)	(24,449)	-	(24,449)	19,182	-	19,182	
Cost of collection	260	2,562	2,822	(17,546)	1,094	(16,452)	
	569	-	569	565	-	565	
Total Expenditure	173,262	78,174	251,436	184,032	75,054	259,086	
Movement on Fund balance	(22,023)	1,134	(20,889)	(12,803)	(506)	(13,309)	
(Surplus)/Deficit as at 1 April	7,266	(4,162)	3,104	20,069	(3,656)	16,413	
(Surplus)/Deficit as at 31 March	(14,757)	(3,028)	(17,785)	7,266	(4,162)	3,104	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 2015/16 it was calculated as follows:

Band	Number of Dwellings 2015/16	Total after Exemptions, Disregards and Disabled Relief	Ratio to Band D	Band D Equivalent Properties	Adjustments for New Properties, other exemptions etc.	Adjustments for Council Tax Support	Total Band D equivalents 2015/16	Band D equivalents 2014/15
A	3,537	2,902	6/9	1,935	16	(619)	1,332	1,197
B	5,674	4,792	7/9	3,727	(5)	(1,295)	2,427	2,207
C	14,199	11,910	8/9	10,587	(61)	(2,978)	7,548	7,095
D	24,242	21,407	1	21,407	(71)	(3,928)	17,408	16,522
E	14,959	13,625	11/9	16,652	(111)	(2,374)	14,167	13,467
F	8,943	8,223	13/9	11,878	27	(1,121)	10,784	10,259
G	10,669	10,046	15/9	16,743	(54)	(575)	16,114	15,660
H	2,117	2,034	18/9	4,069	(7)	(13)	4,049	3,875
Total	84,340	74,939		86,998	(266)	(12,903)	73,829	70,282

The 2015/16 Council Tax Base after allowing for adjustments for non collection was 71,983.

The Council set a 2015/16 Band D charge of £727.81 (a reduction of 1% from 2014/15), the GLA's Band D charge for 2015/16 was £295.00 making a total Band D Council Tax charge for 2015/16 of £1,022.81.

2. National Non-Domestic Rates

NNDR 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 National Non Domestic Rateable Value at 31 March 2016 was £434.637m (£442.22m as at 31 March 2015). The standard NNDR multiplier for 2015/16 was 49.3 pence (48.2 pence in 2014/15). The Small Business Rate Relief multiplier for 2015/16 was 48.0 pence (47.1 pence in 2014/15).

The Council is responsible for collecting rates due from ratepayers in its area but until 31 March 2013 it paid the proceeds into an NNDR 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.

	2015/16			2014/15		
	Business Rates £000	Council Tax £000	Total £000	Business Rates £000	Council Tax £000	Total £000
London Borough of Hammersmith and Fulham	(4,427)	(2,174)	(6,601)	2,181	(2,960)	(779)
Greater London Authority	(2,951)	(854)	(3,805)	1,453	(1,202)	251
Central Government (CLG)	(7,379)	-	(7,379)	3,632	-	3,632
	(14,757)	(3,028)	(17,785)	7,266	(4,162)	3,104

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	2015/16 £000	2014/15 £000
Income			
Dwelling Rents		(69,706)	(67,257)
Non-dwelling rents		(1,570)	(3,017)
Charges for services and facilities		(10,324)	(10,030)
Contributions towards expenditure		(546)	(415)
Reimbursement of Costs		(19)	(24)
		(82,165)	(80,743)
Expenditure			
Repairs and maintenance and management			
Repairs and maintenance		14,056	13,784
Supervision and management		19,202	20,380
Special Services		6,506	7,228
Rents, rates, taxes and other charges		121	289
Depreciation and impairment of non-current assets	7	20,211	18,261
Depreciation and impairment of non-current assets - dwelling revaluation	7	(26,633)	(56,622)
Debt management costs		95	98
Movement in the allowance for bad debts		757	2,250
Revenue Expenditure Funded from Capital Under Statute		-	82
		34,315	5,750
		(47,850)	(74,993)
Net Cost of HRA Services as included in the whole authority Comprehensive Income and Expenditure			
HRA services' share of Corporate and Democratic Core		297	297
HRA services' share of Non Distributed Costs		(395)	(216)
		(47,948)	(74,912)
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		(13,379)	(21,266)
Income and expenditure in relation to investment properties and changes in their fair value		(779)	(289)
Interest payable and similar charges		10,490	11,222
Interest and investment income		(484)	(452)
Net interest on the net defined benefit liability (asset)		1,771	1,840
Capital grants and contributions		(972)	(5,417)
Other Operating Income		-	-
		(51,301)	(89,274)
Movement on the HRA Statement			
Balance on the HRA at the end of the previous year		(13,166)	(7,494)
(Surplus)/deficit for the year on the HRA Income and Expenditure Statement		(51,301)	(89,274)
Adjustments between accounting basis and funding basis under statute	1	37,942	79,790
Net (increase)/decrease before transfers to/(from) reserves		(13,359)	(9,484)
Transfers to/(from) reserves			
Major Repairs Reserve		-	-
Earmarked Reserves*		8,005	3,812
		(5,354)	(5,672)
(Increase)/decrease in year on the HRA		(5,354)	(5,672)
Balance on the HRA at the end of the current year		(18,520)	(13,166)

* 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

	2015/16 £000	2014/15 £000
Charges for depreciation of non-dwellings	(294)	(337)
Charges for depreciation of dwellings	19,917	17,923
Reversal of Major Repairs Allowance credited to the HRA	(22,743)	(19,259)
Impairment/Revaluation gains, losses (charged to the I&E)	26,633	56,622
Revenue expenditure funded from capital under statute (REFCUS)	(163)	(82)
Movements in the market value of investment properties	-	-
Capital Funding	3,272	5,530
Gain or loss on sale of HRA non-current assets	13,379	21,266
HRA Self-Financing Resettlement	-	-
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)	(86)
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	-	(34)
HRA share of contributions (to)/from the Pensions Reserve	(1,973)	(1,753)
	37,942	79,790

2. Housing Stock

The Council has overall responsibility for managing the housing stock. The average number of dwellings during 2015/16 was 12,376. 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 2015	12,407	90	13	12,510
Adjustment to opening balance	-	-	-	-
Additions	17	-	-	17
Sales	(80)	-	-	(80)
Number at 31 March 2016	12,344	90	13	12,447

3. Stock Valuation

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

	31 March 2016 £000	31 March 2015 £000
Operational Assets		
Housing Dwellings	1,325,459	1,212,866
Other Land and Buildings	10,143	9,596
Vehicles, Plant, Equipment	25	78
Intangible Assets	99	133
Non Operational Assets		
Surplus Assets	871	3,807
Investment Properties	50,474	50,270
	1,387,071	1,276,750

The open market, vacant possession fair value of houses and flats within the HRA as at 31 March 2016 was £5.2 billion. This compares to the balance sheet value of £1.33 billion for the Council's dwelling stock and hostels as at 31 March 2016. This is an indication of the economic and social cost of providing Council housing at less than full market rents.

Notes to the Housing Revenue Account (cont'd)

4. Major Repairs Reserve

This reserve is credited with the depreciation charged to the HRA each year plus an adjustment to ensure the net credit in the year equals the Major Repairs Allowance (which from 2012/13 is a notional calculation). This then functions as an earmarked fund which is used to support capital spending on Council dwellings.

	2015/16 £000	2014/15 £000
Balance as at 1 April	-	(6,669)
Depreciation Charges to HRA	(19,917)	(17,923)
Adjusting transfer from HRA:	-	-
Depreciation on Non-Dwellings	(294)	(338)
Excess/(Shortfall) of Depreciation on Dwellings over MRA	3,120	1,674
Funding of Capital Expenditure	16,685	23,256
Balance as at 31 March	(406)	-

5. Capital Expenditure Financing

	2015/16 £000	2014/15 £000
Borrowing	-	-
Major Repairs Reserve	16,685	23,256
Other Grants and Contributions	3,370	5,841
Capital Receipts	45,561	27,650
Total	65,616	56,747

6. Capital Receipts

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

	2015/16 £000	2014/15 £000
Dwelling & Hostels	(15,748)	(29,704)
Non-Dwellings	(6,171)	(4,723)
Total	(21,919)	(34,427)

7. Depreciation and Impairment

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

	2015/16 £000	2014/15 £000
Operational Assets		
Depreciation		
Dwellings	19,917	17,923
Other Land and Buildings	206	208
Vehicles, Plant, Equipment and Intangible Assets	88	130
Revaluation (Gain) / Loss	(26,633)	(56,622)
Impairment	-	-
Total	(6,422)	(38,361)

8. Rent Arrears and Allowance for Doubtful Debts

Gross rent arrears were as follows:

	2015/16 £000	2014/15 £000
Main Council Stock	6,676	6,471
Hostels	539	501
Total	7,215	6,972

Allowances for Doubtful Debts at 31 March were:

	2015/16 £000	2014/15 £000
Main Council Stock	(4,954)	(5,068)
Hostels	(519)	(480)
Total	(5,473)	(5,548)

PENSION FUND ACCOUNTS

Fund Account

Net Assets Statement

Notes to the Pension Fund

Fund Account

	Note	2015/16		2014/15	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the scheme					
Contributions					
From Employers	6	22,412		21,944	
From Members	6	6,795	29,207	6,658	28,602
Individual Transfers In from other Pension Funds			1,375		1,445
Other Income			35		35
Benefits					
Pensions	7	(29,076)		(28,155)	
Commutation & Lump Sum Retirement Benefits	7	(5,536)	(34,612)	(4,955)	(33,110)
Payments to and on account of leavers					
Individual Transfers Out to other Pension Funds			(3,230)		(856)
Refunds to members leaving service			(16)		(16)
Net Additions (Withdrawals) from dealings with members			(7,241)		(3,900)
Management expenses		8	(7,762)		(7,216)
Returns on Investments					
Investment Income	9		12,771		11,422
Taxes on Income (Irrecoverable Withholding Tax)			(140)		(255)
Profit and losses on disposal of investments and changes in value of investments					
Realised	11		129,570		65,392
Unrealised	11		(139,354)		40,203
Net Returns on Investments			2,847		116,762
Net Increase (Decrease) in the net assets available for benefits during the year			(12,156)		105,646
Opening Net Assets of the Scheme			868,475		762,829
Closing Net Assets of the Scheme			856,319		868,475

Net Assets Statement

	Note	31 March 2016 £000	31 March 2015 £000
Investment Assets			
Index Linked Securities	14	36,771	31,923
Equities	14	136,937	371,885
Pooled Investment Vehicles	14	671,300	443,015
Commodities	14	1,976	2,540
Derivative contracts - forward foreign exchange	14	104	16
Cash Deposits	14	7,544	15,410
Other Investment Balances			
Amounts Outstanding on Sale of Investments	14	278	585
Investment Income Due	14	1,242	1,018
Investment Liabilities			
Derivative contracts - forward foreign exchange	14	(472)	(725)
Amounts Outstanding on Purchase of Investments	14	(16)	(886)
Net Investment Assets	14	855,664	864,781
Current Assets	20	677	354
Current Liabilities	21	(1,187)	(1,146)
Cash Balances (held directly by Fund)		1,165	4,486
Net assets of the Fund available to fund benefits at the period end		856,319	868,475

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 19.

Notes to the Pension Fund Accounts

NOTE 1. DESCRIPTION OF HAMMERSMITH AND FULHAM PENSION FUND

a) General

The Pension Fund (the "Fund") is part of the Local Government Pension Scheme and is administered by Hammersmith and Fulham Council. It is a contributory defined benefit 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 from 1st April 2014 are based on career average re-valued earnings and the number of years of eligible service. The benefits payable in respect of service prior to 1st April 2014 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 Public Service Pensions Act 2013, the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from returns on the Fund's investments. Contributions from employees are made in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employer contributions are set based on the triennial actuarial funding valuation, as detailed in Note 18.

b) Pensions Sub Committee

The Council has delegated the investment arrangements of the scheme to the Audit, Pensions and Standards Committee, who in December 2014 formed a Pensions Sub-committee and delegated all pensions responsibilities to it. The sub-committee decide on the investment strategy most suitable to meet the liabilities of the Fund and have responsibility for the investment strategy. The sub-committee is made up of five elected representatives of the Council, including two opposition party representatives, each having voting rights. Members of the admitted bodies and representatives of the Trade Unions may attend the sub-committee meetings but have no voting rights.

The sub-committee reports annually to the Audit, Pensions and Standards Committee and has full delegated authority to make investment decisions. The sub-committee obtains and considers advice from the Strategic Finance Director, and as necessary from the Fund's appointed actuary, investment managers and adviser.

c) Pension Board

In line with the provisions of the Public Service Pensions Act 2013, the Council has set up a Pension Board to oversee the governance arrangements of the Pension Fund. The Board meets twice a year and has its own Terms of Reference. Board members are independent of the Pensions sub-committee.

d) 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 strategy of their Pension Fund. The Statement of Investment Principles was last approved on 17th March 2015 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.

https://www.lbhf.gov.uk/sites/default/files/section_attachments/statement_of_investment_principles_2015_0.pdf

The sub-committee has delegated the management of the Fund's investments to regulated investment managers (see note 10), appointed in accordance with the regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

e) 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. This category is mainly made up of academies.

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 and private contractors undertaking a local authority function following outsourcing to the private sector.

The following table is a membership summary of the scheme:

Contributing employees
Pensioners receiving benefit
Deferred Pensioners

31 March 2016	31 March 2015
4,071	4,024
4,518	4,288
5,915	5,957

Details of the scheduled and admitted bodies are in the Fund's Annual Report.

NOTE 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Statement of Accounts summarises the Fund's transactions for 2015/16 and its position at year-end as at 31st March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (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, 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. The Code 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 a note to the accounts (Note 19).

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account - Revenue Recognition

a) Contribution Income

All contributions, both from the members and from the employers, 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 section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. 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) Management Expenses

The Code does not require a breakdown of management expenses, however disclosure of expenses in accordance with the CIPFA guidance "Accounting for Local Government Pension Scheme Management costs" is provided in the interests of greater transparency.

All expenses are accounted for on an accruals basis to ensure expenses for the full accounting period are accounted for in the fund account. Staff costs associated with the running of the Fund are charged to the Fund along with an element of overhead charges.

The sub-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.

Net Assets Statement

(g) 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. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. 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, the investments in the Partners Multi Asset Credit fund and the Partners Infrastructure fund which, by their nature, will be realised over a long period of time.

h) Derivatives

The only derivatives held by the Fund are forward foreign exchange contracts for the purpose of managing currency risk. The value of forward foreign exchange contracts is based on market forward exchange rates at the year end and determined as the gain or loss that would arise if the contract were matched at the year end with an equal and opposite contract.

i) Foreign Currency Transactions

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

j) Cash and Cash Equivalents

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

k) Financial Liabilities

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

l) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19).

m) 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 Regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. 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.

n) Recharges from the General Fund

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs has been charged to the Fund on the basis of actual time spent on Pension Fund business. Costs incurred in the administration and the oversight and governance of the fund are set out separately in Note 8.

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.

The items for which there is a significant risk of material adjustment are:

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 the accompanying actuarial report. The estimates of the net liability to pay pensions depends on a number of judgements and assumptions. In particular are those relating to the discount rate, the rate at which salaries are projected to increase, change in retirement ages, mortality rates and expected returns on the Fund's assets.

The effect of changes in individual assumptions can be measured. A 0.5% increase in the discount rate would result in a decrease in the pension liability of £116.7m. A 0.2% increase in the pay inflation assumption would increase the value of liabilities by £5.4m, and a one-year increase in assumed life expectancy would increase liabilities by £41.0m.

b) Unquoted 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. The value of private equity investments at the balance sheet date was £8.83m.

The fair value of the Partners multi credit asset fund and the Partners infrastructure is also to some extent subjective. A number of the underlying assets are traded in private markets only and therefore judgements need to be made about value, using factors such as the enterprise value and net debt. The value in the net assets statement is £53.6m.

NOTE 5. EVENTS AFTER THE BALANCE SHEET

The result of the referendum on EU membership held on 23rd June 2016 was in favour of the UK to leave the EU. The long term financial impacts of "Brexit" cannot, as yet, be easily ascertained, however given that this condition did not exist at the balance sheet date, any such impacts insofar as they could be ascertained, constitute a non-adjusting event. In the shorter term, at 31st July 2016, the market value of the investments of the Fund had increased to approximately £917.3 million due to the rise in global stock markets since the date of the balance sheet.

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 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.

	Employers' Contributions				Employees' Contributions	
	Normal		Deficit Recovery		2015/16 £000	2014/15 £000
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000		
Administering Authority	9,676	9,525	8,101	8,101	5,249	5,120
Scheduled Bodies	1,310	1,114	742	590	643	539
Admitted Bodies*	2,478	2,561	105	53	903	999
Total	13,464	13,200	8,948	8,744	6,795	6,658

* Deficit Recovery Contributions includes augmentation contributions of £51k

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	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
	Administering Authority	(27,850)	(27,344)	(4,565)	(3,885)	(641)
Scheduled Bodies	(142)	(81)	(14)	(100)	-	-
Admitted Bodies	(1,084)	(730)	(124)	(480)	(192)	(195)
Total	(29,076)	(28,155)	(4,703)	(4,465)	(833)	(490)

NOTE 8. MANAGEMENT EXPENSES

The table below shows a breakdown of the management expenses incurred during the year.

	2015/16 £000	2014/15 £000
Administrative costs	(606)	(471)
Investment management expenses	(6,888)	(6,434)
Oversight and governance costs	(268)	(311)
Total	(7,762)	(7,216)

The table below provides a breakdown of the Investment Management Expenses.

	2015/16 £000	2014/15 £000
Management fees	(4,774)	(4,216)
Performance fees	(1,646)	(1,687)
Transaction costs*	(395)	(432)
Custody fees	(73)	(99)
Total	(6,888)	(6,434)

*Transaction costs incurred on segregated assets only

NOTE 9. INVESTMENT INCOME

The table below shows a breakdown of investment income.

	2015/16	2014/15
	£000	£000
Dividends from Equities	10,079	11,001
Income from Index-Linked Securities	1,327	248
Interest on Cash Deposits	55	63
Private Equity/Other	1,310	110
Total	<u>12,771</u>	<u>11,422</u>

NOTE 10. INVESTMENT STRATEGY

In March 2015 the Pensions sub-committee agreed a revised investment strategy and Statement of Investment Principles. The changes from the previous strategy were implemented during 2015-16. The portfolios with Majedie (UK equities) and Ruffer (absolute return) have not changed.

The liability matching portfolio previously held with Legal & General Investment Management (LGIM) was replaced by two multi asset credit portfolios with Partners Group and Oak Hill, an inflation opportunities investment with M&G and a long lease property fund with Standard Life in the early part of the year.

The management of the Fund's absolute return bonds portfolio was changed from Goldman Sachs to Insight in October 2015. The MFS active overseas equity portfolio was replaced with a passive equity portfolio managed by LGIM in November 2015.

In August 2015 a commitment was made to the Partners Group Direct Infrastructure fund and this is being funded over time from the cash held in the Legal and General sterling liquidity fund.

The private equity commitments were made some years ago and the funds are now in the distributing phase.

As shareholders of London LGPS CIV Ltd. (the organisation set up to run pooled LGPS investments in London), the Fund has purchased £150,000 of regulatory capital. This is in the form of unlisted UK equity shares. It is anticipated that some of the Fund's existing investment portfolios will be transferred into the London Collective Investment Vehicle during 2016/17.

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

	31 March 2016		31 March 2015	
	Market	Total	Market	Total
	£000	%	£000	%
Majedie Asset Management	215,374	25.17	226,483	26.2
MFS International (UK) Ltd	319	0.04	222,849	25.8
LGIM Passive equities	207,706	24.27	-	0.0
Ruffer LLP	89,898	10.51	91,159	10.5
Goldman Sachs Asset Management	-	0.00	64,126	7.4
Insight	64,848	7.58	-	0.0
LGIM LDI bespoke	-	0.00	132,187	15.3
LGIM Liquidity fund	41,451	4.84	80,036	9.3
Partners Group MAC fund	52,178	6.10	37,600	4.3
Partners Group Infrastructure fund	1,439	0.17	-	0.0
Oak Hill Advisers	47,555	5.56	-	0.0
M & G	81,552	9.53	-	0.0
Standard Life	43,925	5.13	-	0.0
Invesco Private Equity	5,728	0.67	6,251	0.7
Unigestion Private Equity	3,541	0.41	4,090	0.5
London LGPS CIV Ltd	150	0.02	-	0.0
	<u>855,664</u>	<u>100.0</u>	<u>864,781</u>	<u>100.0</u>

The sub-committee has appointed Northern Trust as global custodian for the Fund. They are responsible for safe custody and settlement of all investment transactions, collection of income and the administration of corporate actions. Northern Trust has a long term credit rating of AA with the Fitch ratings agency, AA- with S&P and Aa2 with Moody's. The bank account for the Pension Fund is held with Nat West.

NOTE 11. 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 2015/16:

Fund Manager	Value at 1 April 2015	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 2016
	£000	£000	£000	£000	£000
Majedie Asset Management	223,849	43,581	(37,883)	(17,497)	212,050
MFS International (UK) Ltd	220,739	60,220	(271,808)	(9,151)	-
Ruffer LLP	80,345	254,864	(248,027)	(2,137)	85,045
Goldman Sachs Asset Mngt	64,126	-	(64,781)	655	-
Insight Investment	-	64,617	-	231	64,848
Legal & General Inv Mngt	132,185	197,095	(131,042)	9,367	207,605
Legal & General Inv Mngt Liquidity Fund	80,036	58,255	(97,000)	160	41,451
Partners Group Multi Asset Credit	37,500	12,143	(27)	2,555	52,171
Partners Group Infrastructure	-	1,533	(214)	120	1,439
Oak Hill Advisers	-	50,000	(286)	(2,159)	47,555
M & G Investments	-	79,341	-	2,211	81,552
Standard Life	-	39,777	-	4,148	43,925
Invesco Private Equity	5,798	17	(1,425)	911	5,301
Unigestion Private Equity	4,076	85	(1,544)	907	3,524
London CIV	-	150	-	-	150
Sub-total	848,654	861,678	(854,037)	(9,679)	846,616
Cash Deposits	15,410			(108)	7,544
<u>Other Investment Balances</u>					
Investment Income due	1,018				1,242
Pending trade purchases	(886)			1	(16)
Pending trade sales	585			2	278
Totals	864,781	861,678	(854,037)	(9,784)	855,664

The equivalent analysis for 2014/15 is provided below:

Fund Manager	Value at 1 April 2014	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 2015
	£000	£000	£000	£000	£000
Majedie Asset Management	202,701	61,217	(53,425)	13,356	223,849
MFS International (UK) Ltd	180,084	68,197	(65,378)	37,836	220,739
Baring Asset Management	125,250	62	(129,091)	3,779	-
Ruffer LLP	71,965	234,850	(235,285)	8,815	80,345
Goldman Sachs Asset Mngt	65,230	-	(16)	(1,088)	64,126
Legal & General Inv Mngt LDI	92,584	-	-	39,601	132,185
Legal & General Inv Mngt Liquidity Fund	-	120,675	(40,940)	301	80,036
Partners Group	-	37,500	(379)	379	37,500
Invesco Private Equity	6,024	-	(2,496)	2,270	5,798
Unigestion Private Equity	5,160	240	(1,672)	348	4,076
Sub-total	748,998	522,741	(528,682)	105,597	848,654
Cash Deposits	17,027			5	15,410
<u>Other Investment Balances</u>					
Investment Income due	752				1,018
Pending trade purchases	(2,425)			(8)	(886)
Pending trade sales	542			1	585
TOTAL	764,894	522,741	(528,682)	105,595	864,781

NOTE 12. 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%.

	2015/16 £000	2015/16 %	2014/15 £000	2014/15 %
Legal & General World ex UK Dev equity index fund	192,377	22.5	-	-
M & G Inflation Opportunities Fund V	81,552	9.5	-	-
Majedie UK Focus Fund	75,196	8.8	78,309	9.0
Insight Investment Bonds Plus Fund	64,848	7.6	-	-
Partners Group Multi Asset Credit 2014 Fund	52,071	6.1	-	-
Oak Hill Advisers Diversified Credit Strategies Fund	47,555	5.6	-	-
Standard Life Long Lease Property Fund	43,925	5.1	-	-
Legal & General Sterling Liquidity Fund	41,451	4.8	80,036	9.2
Goldman Sachs Libor plus 1 Fund	-	0.0	64,126	7.4
Legal & General LDI Bespoke Fund	-	0.0	132,185	15.2

NOTE 13. 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 2016 or 31 March 2015.

Open forward foreign exchange contracts at 31 March 2016

Settlement	Currency bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000
Up to one month	GBP	7,532	JPY	(1,292,600)		(472)
One to three months	GBP	24,878	USD	(35,611)	104	
					<u>104</u>	<u>(472)</u>

Net forward foreign exchange contracts at 31 March 2016

(368)

Open forward foreign exchange contracts at 31 March 2015

16 (725)

Net forward foreign exchange contracts at 31 March 2015

(709)

NOTE 14a. 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.

	31st March 2016			31st March 2015		
	Designated at fair value through profit & loss £000	Loans and receivables £000	Financial Liabilities at amortised cost £000	Designated at fair value through profit & loss £000	Loans and receivables £000	Financial Liabilities at amortised cost £000
FINANCIAL ASSETS						
Index Linked Securities						
UK Public Sector	17,115			16,685		
Overseas Public Sector	19,656			15,238		
Equities						
UK	95,736			101,250		
UK unquoted	150					
Overseas	41,051			270,635		
Pooled Investment Vehicles						
Global Passive Funds	207,604			-		
UK Equity Funds	102,685			105,563		
LDI Bespoke Funds	-			132,185		
Absolute Return Bond Funds	64,848			64,126		
Multi Asset Credit Funds	47,555			-		
Multi Asset Credit Funds (unquoted)	52,170			37,500		
Sterling Liquidity Funds	41,451			80,036		
Inflation Opportunity Funds	81,552			-		
Property Funds	43,925			-		
Private Equity (unquoted)	8,826			9,874		
Infrastructure Funds (unquoted)	1,439			-		
Other Managed Funds	19,245			13,731		
Commodities	1,976			2,540		
Derivative contracts - forward foreign exchange	104			16		
Investment Income due	1,242			1,603		
Pending Trade Sales	278					
Cash deposits with managers		7,544			15,410	
Debtors		677			354	
Cash Balances		1,165			4,486	
	848,608	9,386	-	850,982	20,250	-
FINANCIAL LIABILITIES						
Derivative contracts - forward foreign exchange	(472)			(725)		
Pending Trade Purchases	(16)			(886)		
Creditors			(1,187)			(1,146)
	(488)	-	(1,187)	(1,611)	-	(1,146)
GRAND TOTALS	848,120	9,386	(1,187)	849,371	20,250	(1,146)
			856,319			868,475

The carrying value is the same as the fair value for all financial instruments held by the Fund.

NOTE 14b. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

This table summarises the net gains and losses on financial instruments classified by type of instrument.

	2015/16 £000	2014/15 £000
Financial Assets		
Designated at fair value through profit and loss	(6,146)	107,050
Loans and receivables	(108)	5
Financial Liabilities		
Designated at fair value through profit and loss	(3,530)	(1,460)
Financial Liabilities at amortised cost		-
	(9,784)	105,595

NOTE 14c. VALUATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. The definitions of the levels are detailed below and the table showing the analysis is below.

Level 1 – Quoted market price

Fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Examples are quoted equities, quoted index linked securities and unit trusts. All level 1 investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2 – Using observable inputs

Quoted prices are not available for financial instruments at this level. The valuation techniques used to determine fair value use inputs that are based significantly on observable market data.

Level 3 – With significant unobservable inputs

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data e.g. private equity investments.

The values of the private equity investments are based on valuations provided by the General Partners to the private equity funds. The Partners Group multi credit asset and the infrastructure funds are closed ended and therefore not tradeable. The valuation is based on market prices where available for some underlying assets and on estimates of prices in secondary markets for others.

	31st March 2016			31st March 2015		
	Quoted Market Price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservab le inputs Level 3 £000	Quoted Market Price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservab le inputs Level 3 £000
Financial Assets						
Designated at fair value through profit and loss	603,084	174,823	70,701	667,694	132,202	51,085
Loans and receivables	9,386	-	-	20,251	-	-
Total Financial Assets	612,470	174,823	70,701	687,945	132,202	51,085
Financial Liabilities						
Designated at fair value through profit and loss	(16)	(472)	-	(886)	(725)	-
Financial Liabilities at amortised cost	(1,187)	-	-	(1,146)	-	-
Total Financial Liabilities	(1,203)	(472)	-	(2,032)	(725)	-
Net Financial Assets	611,267	174,351	70,701	685,913	131,477	51,085
		856,319			868,475	

NOTE 15. 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.

The sub-committee maintains a Pension Fund risk register and reviews the risks and appropriate mitigating actions at every meeting.

a) Market Risk

In order to meet the Fund's objective of being fully funded within 22 years of the 2013 actuarial valuation, the fund managers have been set differing targets appropriate to the types of assets they manage. 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 their benchmarks 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 maximise the opportunity for gains across the whole Fund portfolio within a tolerable level of risk of an overall reduction in the value of the Fund. Responsibility for the Fund's investment strategy rests with the Pensions sub-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.

All assets with the exception of cash, forward foreign exchange contracts, other investment balances, debtors and creditors are exposed to price risk. The table below shows the value of these assets at the balance sheet date (and the prior year) and what the value would have been if prices had been 10% higher or 10% lower.

Assets exposed to price risk

	Value £000	+ 10% £000	- 10% £000
At 31st March 2016	846,835	931,518	762,151
At 31st March 2015	849,361	934,298	764,425

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.

Index linked gilts, cash and some elements of the pooled investment vehicles are exposed to interest rate risk. The table below shows the value of these assets at the balance sheet date (and the prior year) and what the value would have been if interest rates had been 1% higher or 1% lower.

Assets exposed to interest rate risk

	Value £000	+ 1% £000	- 1% £000
At 31st March 2016	300,436	303,440	297,432
At 31st March 2015	365,666	369,323	362,010

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. In addition several of the pooled investment vehicles partially or fully hedge the currency back into sterling. These actions reduce the overall currency risk the Fund is exposed to.

Overseas equities, overseas index linked securities, cash in foreign currencies, the value of the forward foreign exchange contracts and some elements of the pooled investment vehicles are exposed to currency risk. The table below shows the value of these assets at the balance sheet date (and the prior year) and what the value would have been if currencies had been 10% higher or 10% lower.

Assets exposed to currency risk

	Value £000	+ 10% £000	- 10% £000
At 31st March 2016	252,627	277,890	227,365
At 31st March 2015	353,251	388,577	317,926

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 only assets in the Fund which cannot be liquidated within a month are detailed in the table below. These amounted to 12.4% of the Fund's Net Assets at 31st March 2016 (5.5% at 31st March 2015). The remaining investments can be liquidated within a matter of days.

Manager	Portfolio	Value at 31 March 2016 £000	Value at 31 March 2015 £000
Partners Group	Multi Asset Credit	52,171	37,500
Partners Group	Infrastructure	1,439	-
Standard Life	Property	43,925	-
Invesco	Private Equity	5,302	5,798
Unigestion	Private Equity	3,525	4,076
		<u>106,362</u>	<u>47,374</u>

NOTE 16. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund had the following commitments at the balance sheet date:

	31st March 2016	31st March 2015
	£000	£000
Invesco Partnership Fund V L.P.	1,212	1,173
Unicapital Investments V	46	42
Partners Group Multi Asset Credit Fund 2014	-	12,500
Partners Group Direct Infrastructure Fund 2015	41,844	-
Standard Life Long Lease Property Fund	-	40,000
	43,102	53,715

The outstanding commitments for Invesco and Unicapital are expected to be paid over the next two years. The Partners infrastructure commitment is expected to be paid by December 2020.

NOTE 17. STOCK LENDING AGREEMENTS

The Fund did not participate in stock lending or underwriting.

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 28th March 2014 and this is available on the Council's website at the link below. This valuation set the employer contribution rates from 1st April 2014.

https://www.lbhf.gov.uk/sites/default/files/section_attachments/actuarial_valuation_report_2013.pdf

The 2013 valuation certified a common contribution rate of 21.9% of pensionable pay to be paid by each employing body participating in the Fund, based on a funding level of 83%. In addition, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

The actuary's smoothed market value of the scheme's assets at 31 March 2013 was £716m and the actuary assessed the present value of the funded obligation at £863m indicating a net liability of £147m.

The actuarial valuation, carried out using the projected unit method, is based on economic and statistical assumptions, the main ones being:

- i. The rate of accumulation of income and capital on new investments over the long-term and the increase from time to time of income from existing investments.
- ii. Future rises in pensionable pay due to inflation and pension increases.
- iii. Withdrawals from membership due to mortality, ill health and ordinary retirement.
- iv. Progression of pensionable pay due to promotion.

The contribution rate is set on the basis of the cost of future benefit accrual, increased to bring the funding level back to 100% over a period of 22 years, as set out in the Funding Strategy Statement. It is set to be sufficient to meet the additional annual accrual of benefits allowing for future pay increases and increases to pension payments when these fall due, plus an amount to reflect each participating employer's notional share of value of the Fund's assets compared with 100% of their liabilities in the Fund in respect of service to the valuation date.

The next actuarial valuation of the Fund will be as at 31st March 2016 and will be published in 2017.

NOTE 19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The table below shows the total net liability of the Fund as at 31st March 2016. 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 2016 £000	31st March 2015 £000
Present Value of Promised Retirement Benefits*	1,357,358	1,409,558
Fair Value of Scheme Assets (bid value)	(856,319)	(868,475)
Net Liability	501.039	541.083

*Present Value of Promised Retirement Benefits comprises of £1,311,744k (£1,271,900k at 31 March 2015) and £45,614k (£137,658k at 31 March 2015) in respect of vested benefits and non-vested benefits respectively as at 31 March 2016.

The assumptions applied by the actuary are set out below:

Financial Assumptions

	31st March 2016	31st March 2015
RPI Increases	3.3%	3.2%
CPI Increases	2.4%	2.4%
Salary increases	4.2%	4.2%
Pension increases	2.4%	2.4%
Discount Rate	3.7%	3.3%

Demographic Assumptions

The post mortality tables adopted are the S1PA tables. The base tables are projected using the CMI 2012 Model, allowing for a long term rate of improvement of 1.5% p.a. The assumed life expectancies from age 65 are:

Life Expectancy from age 65

		31st March 2016	31st March 2015
Retiring today	Males	22.9	22.8
	Females	25.3	25.2
Retiring in 20 years	Males	25.2	25.1
	Females	27.7	27.6

Other Assumptions:

Members will exchange half of their commutable pension for cash at retirement

Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age

5% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

NOTE 20. CURRENT ASSETS

	31st March 2016 £000	31st March 2015 £000
Debtors		
Contributions due - employers	337	195
Contributions due - employees	105	71
London Borough of Hammersmith and Fulham	174	88
Sundry debtors	61	-
	677	354

Analysis of debtors

	31st March 2016 £000	31st March 2015 £000
Local authorities	211	88
Other entities and individuals	466	266
	677	354

NOTE 21. CURRENT LIABILITIES

	31st March 2016 £000	31st March 2015 £000
Creditors		
Unpaid Benefits	(80)	(8)
Management Expenses	(598)	(796)
HM Revenue and Customs	(476)	(342)
Sundry creditors	(33)	-
	(1,187)	(1,146)

Analysis of creditors

	31st March 2016 £000	31st March 2015 £000
Local authorities	(162)	-
Central government bodies	(476)	(342)
Other entities and individuals	(549)	(804)
	(1,187)	(1,146)

NOTE 22. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

The Fund's AVC providers are Zurich Assurance and the Equitable Life Assurance Society. The table below shows information about these separately invested AVCs.

	2015/16	2014/15
Zurich Assurance		
Market Value at 31st March	£1,134,250	£1,117,844
Contributions during the year	£33,101	£36,590
Number of members at 31st March	48	50
Equitable Life Assurance		
Market Value at 31st March	£192,259	£187,842
Contributions during the year	£0	£66
Number of members at 31st March	32	32

In accordance with Regulation 4(2) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid and the 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

London Borough of Hammersmith and Fulham

The Pension Fund is administered by the London Borough of Hammersmith and Fulham. The Council incurred costs of £412,812 in 2015/16 (£428,198 in 2014/15) in relation to the administration of the Fund and was reimbursed by the Fund for the expenses.

In the year the Council contributed £17,777k in employer contributions to the Fund (2014/15 £17,626k).

As a result of the day to day administration, at 31st March 2016 the Council owed the Pension Fund a net amount of £174,042 (£88,399 at 31st March 2015). In addition £36,669 was owed by a Council maintained school in respect of March 2016 contributions.

Governance Arrangements

One member of the Pensions sub-committee is a deferred member of the Hammersmith and Fulham Pension Fund. Members of the sub-committee are required to make a declaration of interests at the beginning of each meeting.

Key management personnel

The Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit Regulations 2015) satisfy the key management personnel disclosure requirements of IAS24. This applies in equal measure to the accounts of the Hammersmith and Fulham Pension Fund.

The disclosures required by the legislation can be found in the main accounts of the London Borough of Hammersmith and Fulham.

NOTE 24. AGENCY SERVICES

The Hammersmith and Fulham Pension Fund pays discretionary awards to the former employees of London Borough of Hammersmith and Fulham council. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the council. The gross sum paid out is disclosed below. At the balance sheet date the March 2016 reimbursement was outstanding. This amounted to £200k and is included in Note 23 Related Parties.

	2015/16 £000	2014/15 £000
Payments on behalf of London Borough of Hammersmith and Fulham	2,433	-
	<u>2,433</u>	<u>-</u>

ANNUAL GOVERNANCE STATEMENT

ANNUAL GOVERNANCE STATEMENT 2015 – 2016

Scope of responsibility

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

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the authority's code can be obtained from governance services. This statement explains how the Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2015, regulation 10(b), which requires all relevant bodies to prepare an annual governance statement.

The purpose of the governance framework

The governance framework comprises the systems, processes and structures by which the Council is directed and controlled. These include those required to enable the Council to engage with, account to and lead the communities it serves. The framework enables the Council to set the right objectives and manage the achievement of the objectives whilst ensuring delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and, amongst other things, is designed to manage risk to a reasonable level. The system of internal control cannot eliminate all risk of failure to comply with policies or the achievement of aims and objectives and can only provide reasonable rather than absolute assurance of effectiveness. The system includes processes to identify:

- the risks to the achievement of the Council's aims and objectives
- the likelihood of the risks crystallising
- how to manage the risks appropriately, given the agreed objectives.

The Council has structures, systems, processes and supporting arrangements in place to ensure that the key governance framework elements are complied with. Whilst the Shared Service programme and contract arrangements have resulted in the Council's control environment being, to a degree, dependent on those organisations' systems, procedures and controls, the Council's formal arrangement for the management of performance, finance, programmes and contracts contributes to the upholding of key elements of governance arrangements within these delivery vehicles.

The governance framework has been in place at the Council for the year ended 31 March 2016 and up to the date of approval of statement of accounts.

Review of effectiveness

The London Borough of Hammersmith and Fulham has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the chief officers within the authority who have responsibility for the development and maintenance of the governance environment, the head of internal audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

How we ensure our arrangements are working

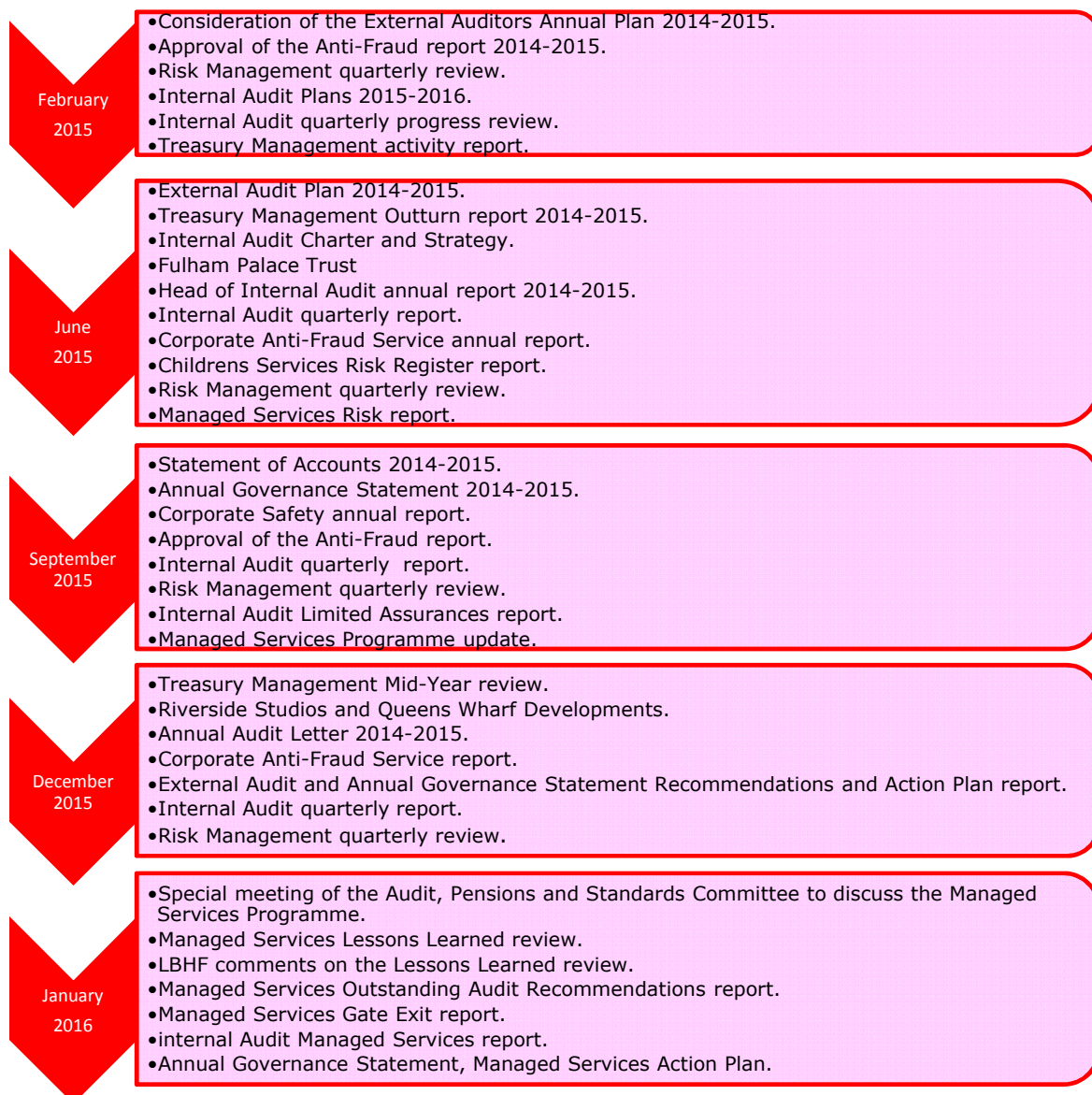
To monitor the effectiveness of the Council's corporate governance systems, a review is undertaken each year of the governance framework, the basis of which is shown in the diagram below.

Sources of Assurances Required

Corporate Governance	Management Team	Services are delivered economically, efficiently & effectively
<ul style="list-style-type: none"> • Constitution (incl. statutory officers, scheme of delegation, financial management and procurement standing orders) • Audit Pensions and Standards Committee • Internal and external audit • Independent external sources • Scrutiny function • Council, Cabinet and Policy and Accountability Committees • Medium Term Financial Strategy and Smarter Budgeting • Complaints system • HR policies and procedures • Whistleblowing and other countering fraud arrangements • Risk management framework • Performance management system • Codes of conduct 	<ul style="list-style-type: none"> • The role of Chief Officers • Delivery of Council's aims and objectives • Corporate Planning • Delivery, Financial, Service Improvement 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 and responsibilities of Members and Officers • Timely production of a Statement of accounts • External and Internal audit reports recommendations • Review of Corporate Governance 	<ul style="list-style-type: none"> • Management of risk • Effectiveness of internal controls • Democratic engagement and public accountability • Budget and financial management arrangements • Standards of conduct and behaviour • Compliance with laws and regulations, internal policies and procedures • Action plans dealing with significant issues are approved, actioned and reported on • Local Government Ombudsman reports • Electoral Commission report • Policy and Accountability reviews • Effectiveness reviews of Audit Pensions and Standards Committee and Scrutiny Committees, Internal Audit • Employee performance • Compliance with Procurement Regulations • Stakeholder engagement • Evaluation of benefits gained from investments and projects

Audit Pensions and Standards Committee Key Audit Business

The following diagram provides a summary of information on the areas that the Committee has considered:



The systems and processes that comprise the Council's governance arrangements have been evaluated for effectiveness for 2015/2016 and include:

Stakeholder Engagement and Business Planning; the Council and its partners have comprehensive arrangements for identifying and prioritising stakeholders' needs. The Council's Strategy, Annual Budget and Medium Term Financial Strategy were robustly developed through a series of challenge events and public budget consultation exercises, including review by the Policy and Accountability Committees. A Delivery Plan for 2015/16 was developed and this is the culmination of the Council's strategic delivery targets and actions. The plan is monitored monthly at the chief officers' Business Board chaired by the Chief Executive and this plan forms the basis for the production of Directorate / Service Plans, following similar reviews of their performance and identification and prioritisation of their statutory duties and stakeholder needs. The above arrangements are subject to ongoing, monthly and annual review and refinement by, amongst others, the Business Board whilst the Director of Delivery and Value monitors progress against strategic priorities.

Performance, Finance and Risk Management; the Council has established arrangements for the management of its objectives and for ensuring that they represent the best use of resources and value for money. The arrangements see the Business Board and Cabinet Members at the Cabinet Members Briefing Board receiving a regular quarterly report. This report, together with associated management arrangements, enables management to review data on Delivery Plan progress against the agreed performance objectives of the Council, as well as data on the corporate improvement programme, establishment management arrangements and corporate risks.

Resident Led Commissions; Over the course of the past year the Council has set up five resident-led commissions to help to inform policy and practice. The Heathrow Commission informed the Council's response to the Davies Commission's consultation on airport expansion. The Commission on the Future of Council Housing in the borough has informed the Council's development of alternative management models for possible stock transfers. The Air Quality Commission is looking into the problem of air pollution across the borough and will report to the Council later in 2016. The Poverty and Worklessness Commission is examining ways to tackle unemployment and deprivation and a new Business Commission is now being set up that will inform economic development policies for the borough.

Smarter Budgeting; the council has agreed an outcomes transformation programme which builds on zero-based budgeting methodology. Smarter Budgeting seeks to replace the percentage cuts approach to budgeting with an innovation-led approach to the design and delivery of potentially new activities and services which best deliver strategic outcomes.

The outcomes are Economic Growth; Children; Residents; Decent Homes; Reducing Homelessness; Supporting Vulnerable Adults; Safer and Healthier Place; Sustainable Borough and purposefully do not follow departmental boundaries. In this way substantial savings across the council can be achieved by rooting out duplication, and ceasing activities that are no longer resident/customer-responsive or present good value for money. Each outcome has a cross-functional team, supported by a corporate Smarter Budgeting programme team, Finance and Innovation & Change Management. The Smarter Budgeting programme is led by the Director of Delivery & Value and the Chief Executive and Strategic Finance Director are active on the governing Programme Board. The Cabinet Member for Finance meets fortnightly to scrutinise progress.

It is anticipated that Smarter Budgeting will significantly shape spend and activities from 2017/18 in order to directly deliver on the eight outcomes.

Risk Management; Performance reporting and risk management arrangements, consistent with those established by the Management Board, are also required in Directorates and Services. Annual reviews of risk management arrangements are undertaken at the Council. An internal audit review was undertaken in May 2016 to provide assurance to the Council's Section 151 Officer on the appropriateness and adequacy of the Council's risk management arrangements and to conclude on their effectiveness on identifying and managing the risks facing the organisation. The review concluded that reasonable assurance can be placed on the appropriateness and adequacy of these arrangements. A minor number of recommendations were made to improve the process which were all fully implemented by the Council's Risk Manager.

The Council acknowledges that risk management is a central part of strategic management. The Council's highest strategic risks (medium and long term) as identified by Services are reported to the Audit Pensions and Standards Committee on a quarterly basis, including the status of any action taken to manage identified risks.

Staff Improvement Framework; a culture of continuous improvement is being embedded to drive down costs especially those associated with managing failure and repeat enquiries and consider more cost effective preventative activities. The staff improvement framework seeks to establish a series of initiatives and development programmes aimed at staff.

Control Systems and Environment; the Council's Internal Audit Service carries out a comprehensive programme of review activity consistent with the Audit Strategy and the Public Sector Internal Audit Standards. The work is based around the core risks faced by the Council and includes significant work on the main financial and information management systems, corporate programmes, partnerships and Shared Services assurance. Based upon the programme of work for 2015/16, the Director of Audit's opinion on the Council's control environment, governance arrangements and risk management arrangements is that they are reasonable but with a need for further improvement.

Information Management; the Council has continued to maintain its information governance arrangements and capabilities. Information governance policies and standards are in place, which, if complied with by officers and Members, provide the Corporate Leadership Team and Information Governance Board with the necessary assurance about the security of the Council's information assets and data handling procedures. The Senior Information Risk Owner (SIRO) is ultimately accountable for the assurance of information security at the Council. A Caldicott Guardian is responsible for ensuring that health and social care information is managed appropriately, and that our annual Information Governance Toolkit submission meets the required levels of compliance. The Information team, as part of its day to day role, continues to monitor risks to information assets and manage the Council's overall approach to information governance in order to ensure that information management and security standards within the Council are maintained to a high standard.

Director and Functional Assurance; Directors have completed statements detailing their confidence in arrangements for managing their recognised core risk areas, which have been subject to independent review. This reflects the Directors' responsibilities for both the management of risk and the effectiveness of controls.

Directors with functional responsibility for core risk areas were also required to review and report independently on the effectiveness of the core management systems in each Service. The statements received in this regard indicated that overall the management systems were viewed as effective or very effective, albeit Procurement and Contract Management and their supporting Information Systems identified as an area requiring improvement.

Partnership Governance Arrangements; an important part of the Council's arrangements for delivering services, programmes and projects is through working in partnership but at all times maintaining sovereignty of all decisions. In some cases working in partnership means collaborating with other Councils under Shared Services arrangements. Responsibility for monitoring the effectiveness of such partnerships in which the Council is involved now rests with the relevant Directorate through Section 113 agreements permissible under the Local Government Act. Section 113 allows a local authority to enter into an agreement with another authority to place its officers at the disposal of the other authority. A review of these arrangements began in 2015/16 to ensure that partnership objectives are aligned to the Council's business objectives and are managed in line with agreed corporate arrangements.

Anti-Fraud and Corruption; the Council has established arrangements for managing the risk of fraud and corruption and conducting investigations into specific concerns. The Audit and Transparency Committee receives regular updates on the Council's anti-fraud and corruption arrangements, including how it is responding to emerging fraud risks.

External Audit and Inspection; learning outcomes of these reviews are actively shared across the organisation to ensure that common areas for improvement are identified and best practice shared. External Auditors carry out a programme of reviews based upon statutory requirements. Published in 2015/16 were the Annual Audit Letter, the Value for Money Opinion, both of which were unqualified, and the certification of grant claims and returns. A review of the Council's arrangements for securing financial resilience (September 2015) concluded that good arrangements were in place in respect of financial strategic planning, governance and financial control.

Local Code of Corporate Governance; the Council has in place a Local Code of Corporate Governance. The Code identifies the principles of good governance and transparency to which the Council subscribes and identifies the structures, systems and processes that the Council has established to ensure that it achieves good governance in practice. Key documents forming the governance framework are also documented.

Role of the Cabinet (Executive); there was an informed restructuring of the Council's governance arrangements during 2014, aimed at enhancing accountability and transparency as sought by the Administration. The arrangements saw the retention of the Leader and Cabinet model but with a scrutiny function operating through five Policy and Accountability Committees. These Committees are committees of the Council rather than the Cabinet but they are aligned to the Cabinet Portfolios and permit a large number of non-executive Members to participate in scrutinising Cabinet business, external organisations such as the NHS and engaging in Policy Development.

As part of the Council's commitment to public engagement and working with residents in the developing policy development and strengthening the council's decision-making process, in June 2014, five Policy and Accountability Committee (PAC) were established. The PACs work hand-in-hand with residents to shape the future of the borough.

Role of the Policy and Accountability Committees (Scrutiny); At Hammersmith & Fulham, there were five main scrutiny committees during 2015/16:

- Children and Education Policy and Accountability Committee
- Community Safety, Environment and Residents Services Policy and Accountability Committee
- Economic Regeneration, Housing and the Arts Policy and Accountability Committee
- Finance & Delivery Policy & Accountability Committee
- Health, Adult Social Care and Social Inclusion Policy and Accountability Committee

The Committees had cross cutting remits designed to reflect the Council's key priorities and objectives. They each comprised five elected non-executive Members. Committees were also able to co-opt members who had a particular expertise or direct knowledge of the service user perspective to assist with their work. Co-optees were usually non-voting although the parent governor and diocesan representatives on the Education and Children's Services PAC are entitled to vote on education matters.

Each Committee received the list of Key Decisions (a rolling list of key decisions which the Cabinet planned 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.

Policy and Accountability Committees also had 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

Role of the Chief Financial Officer; CIPFA guidance indicates that the Council's Chief Financial Officer (currently the Strategic Finance Director) should contribute to the effective leadership and corporate management of the authority, supporting effective governance through the development of corporate governance arrangements and corporate decision-making, leading and promoting change programmes and leading the development of the medium term financial strategy and annual budgeting processes.

A review of the role of the Council's Chief Financial Officer by Internal Audit (May 2015) concluded that the objectives identified by CIPFA were being achieved and that there were no issues in relation to the role. This is also consistent with the experience of his line management of working with the Chief Executive on major issues and initiatives across the year and often in difficult circumstances.

Role of the Audit Committee; the Council's Audit Pensions and Standards Committee has a standing brief to review the effectiveness of the Authority's risk management arrangements, internal control environment and associated anti-fraud and corruption arrangements. The Committee does this through, amongst other things, overseeing the work of Internal Audit and External Audit.

A review of the effectiveness of the system of internal audit (Audit Committee June 2015) identified that the Audit Committee was meeting the standards expected of it, albeit some minor areas for improvement were identified.

Conclusion on the review

We have been advised of the results and implications of the review of the effectiveness of the governance framework by the Audit Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

Significant governance issues

Funding reductions

Money received by Hammersmith and Fulham Council from central government is reducing significantly every year. Funding reduced by £18m in 2015/16 (to £57.6m) and is forecast to further reduce by £33.6m from 2015/16 to 2019/20. Based on the Local Government Finance Settlement the 2016/17 grant reduction is £8.2m. In addition, Government has imposed £3.4m of new responsibilities on LBHF without providing any funding. As part of the Local Government Finance Settlement the government announced that authorities can charge a 2% social care precept. This would raise £1.1m for Hammersmith and Fulham and is included in Government projections of LBHF's spending power. The Government also included an assumed further 1.75% increase in council tax in LBHF's spending power projection, meaning a total council tax increase of 3.75% is assumed in the spending power projection. The Council's administration does not wish to apply any tax increase to residents, so it does not form part of the 2016/17 budget proposals.

In the context of this, the Council will continue to prioritise and endeavour to maintain strong governance arrangements, focusing on the purpose of the Council and on outcomes for the community, engaging with stakeholders, and promoting values for the authority whilst demonstrating the values of good governance through upholding high standards of conduct and behaviour. Further to this, proactive risk management arrangements will be enhanced to support the delivery of the Council's key objectives.

Contract Management and Procurement

Contract management arrangements had been developing into a "tri-borough" service with significant procurements undertaken such as the SEN childrens' transport contract and the Managed Services Programme (both procured prior to 2015/16).

In order to strengthen both procurement and contract management, the Council appointed a new Commercial Director in December of 2015, with extensive experience in both the public and private sectors. Following an initial review, Council Standing Orders have been changed to improve visibility and oversight of procurement projects by requiring Cabinet sign off of procurement strategies for any project with a value greater than £100,000. A further review of procurement is underway, to better define the boundaries and interfaces between the corporate procurement function and related activities devolved to service departments.

In terms of contract management, a maturity assessment of existing contract management capability has been initiated. The results will allow the Council to compare itself against prevailing best practice across all sectors on an international basis. A cohort of approximately 30 staff are undergoing formal commercial and contract management training that will lead to a recognised qualification from the International Association of Commercial and Contract Management.

BT Managed Services Contract Delivery

The Managed Services Programme was procured by Westminster City Council in 2013 to provide transactional Human Resources, including payroll, finance services and a Shared Service help desk for the London Borough of Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea and the City of Westminster Councils. The programme overran its original delivery date of 1 April 2014 and went live on 16 March 2015 with a further programme of staged implementation originally extending to 30 April 2015 that has continued to be extended since. Overall, the programme work plans were reviewed by the Programme post go-live and this established key deliverables with revised due dates. These plans and the target date for to achieve a steady state, have slipped and a more recent review of plans has re-set due dates which now stretch through to June 2016.

The Council has recognised through its Audit Committee and Contract management arrangements that the contract with BT has had significant issues. During the year, the Council discontinued the use of Westminster City Council's Chief Executive as the SRO for the contract with BT and appointed the Council's Chief Executive as its SRO for the contract with BT. Officers and members from the Council held regular meetings with BT to review plans to improve performance, including making sure measures were taken to ensure internal controls operated.

Work is on-going with BT to address the issues raised in this statement and additional resources are being applied by them and the Council to resolve the issues as soon as possible, although over the period improvements have been made we are unable to say with confidence when the system and service will be fully operational.

In order to undertake an effective internal audit whereby reliance can be placed on the testing undertaken, there needs to be confidence that the system being reviewed is operating in a stable environment with changes properly controlled and tested prior to being implemented. Apart from the high level controls review of the Managed Service, which indicated that there were a number of areas where assurance on controls could not be given, Internal Audit have not been able to independently review the system controls and have therefore not undertaken any substantive testing during 2015/16 in the key areas of HR, Payroll and Finance. Due to problems with the system, additional internal finance and HR resources were engaged during the year by the Council to support HR and finance work, including to assist the production of the final accounts. The additional support mitigated the issues that have been experienced.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of

Signed:



Leader of the Council, Councillor Stephen Cowan

Signed:



Chief Executive, Nigel Pallace

On behalf of the London Borough of Hammersmith and Fulham.

5th September 2016

GLOSSARY OF TERMS

ACCOUNTING PERIOD

The timescale during which accounts are prepared. Local authority accounts have an overall accounting period of one year from 1st April to 31st March.

ACCOUNTING POLICIES

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements. Accounting policies define the process whereby transactions and other events are reflected in financial statements.

ACCOUNTING STANDARDS

A set of rules explaining how accounts are to be kept. By law, local authorities must follow 'proper accounting practices', which are set out in Act of Parliament and in professional codes and statements of recommended practice.

ACCRUALS

An accounting principle where income and expenditure are taken into account in the year in which they are earned or incurred, rather than when monies are received and/or invoices are actually paid.

ACQUISITIONS

The Council spends funds from the capital programme to buy assets such as land and buildings.

ACTUARIAL VALUATION

The Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the fund's financial position and recommended employers' contribution rates every three years.

AGENCY SERVICES

Services provided by or for another local authority or public body where the cost of carrying out the service is reimbursed.

AMORTISATION

The equivalent of depreciation for intangible assets.

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.

AVAILABLE FOR SALE FINANCIAL INSTRUMENTS RESERVE

The Available for Sale Financial Instruments Reserve contains the gains and losses 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 are comprised of the General Fund balance, the Collection Fund balance, the Housing Revenue Account balance and the Schools' balances.

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 property, plant and equipment 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 property, plant and equipment 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. Such events 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.

FAIR VALUE

The fair value of any property, plant or equipment 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 the property, plant or equipment 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.

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. 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 any property, plant or equipment below its carrying amount on the Balance Sheet.

INFRASTRUCTURE ASSETS

Property, Plant and Equipment 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

Property, plant or equipment 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 have been 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 property, plant and equipment 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

Property, plant and equipment 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. 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).

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.

PROPERTY, PLANT AND EQUIPMENT

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 (formerly referred to as Fixed Assets)

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 NNDR 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 any property, plant and equipment.

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 but have not yet been used to finance capital expenditure
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

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 and losses 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.



External Audit Report 2015/16

**London Borough of Hammersmith
and Fulham**

—
2 September 2016



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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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.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.

We are committed to providing you with a high quality service. 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 engagement lead to the Authority and the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, who will try to resolve your complaint. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.



Section one: Introduction



This document summarises:

- The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for both the Authority and its Pension Fund; and
- Our assessment of the Authority's arrangements to secure value for money.

Scope of this report

This report summarises the key findings arising from:

- Our audit work at LBHF ('the Authority') in relation to the Authority's 2015/16 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in June 2016, 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 this took place during March and July 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also included in this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 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; and
- carrying out additional risk-based work where required.

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 2015/16 financial statements of the Authority and the Pension 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.

Acknowledgements

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



Section two: Headlines



<p>We are aiming to issue our opinion on the Authority's financial statements by 30 September 2016.</p> <p>However, there are two potentially significant queries to resolve in relation to the Pension Fund. If these are not resolved by the 30 September 2016 we would not be in a position to sign the Authority's financial statements, which incorporate the Pension Fund financial statements.</p> <p>In relation to the Authority's financial statement themselves we anticipate issuing an unqualified audit opinion. The position as regards the Pension Fund is dependent upon resolving the issues outlined on this page.</p>	<p>Proposed audit opinion</p>	<p>We anticipate issuing an unqualified audit opinion on the Authority's financial statements themselves. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.</p>
<p>Pension Fund audit</p>	<p>Work on the audit of the Pension Fund is ongoing. There are two areas, noted below, where issues have arisen requiring further work:</p> <ul style="list-style-type: none"> — Resolution of a significant number of queries and potential errors in the completeness and accuracy of the data and information supporting the contributions and pensions values in the Fund's financial statements — Obtaining appropriate support for the valuations of level 2 and 3 assets from fund managers with an overall value of £245 million <p>These matters will need to be resolved in order for us to finalise our work. Whilst we anticipate this should be completed by 30 September 2016 there is a risk this may not be achieved. As the Pension Fund financial statements form part of the overall Authority financial statements, any delay in the the finalisation of the Pension Fund audit would delay our overall opinion on the Authority's financial statements.</p> <p>We will provide an oral update to the Audit, Pension and Standards Committee at the meeting on 13 September 2016.</p>	
<p>Audit adjustments</p>	<p>There have been a number of narrative adjustments throughout the accounts and accompanying notes. Our audit has identified a total of three audit adjustments greater than £600K which require reporting.</p> <ol style="list-style-type: none"> 1. Trade Waste invoices of £2.1m for 2016/17 were issued in March 2016 creating a debtor balance on the AR system; in order to account for the income in the correct year a creditor (receipt in advance) was created. This should have instead been a credit adjustment to Debtors. 2. The Capital Ambition accounts were finalised at the end of 2014/15 and a nil balance carried forward but due to incorrect coding and mapping of this net nil position a debtor and creditor for £1.8m were created. 3. A third immaterial amount of (£0.4m) was also identified in our testing and corrected by management. 4. An additional adjustment of (£1.3m) to debtors and creditors as a result of the remapping exercise. <p>The impact of these adjustments is to decrease the gross balance of Debtors and Creditors on the balance sheet by £2.2 million (less than 0.2% of net assets), but do not impact the balance on the general fund and HRA account as at 31 March 2016</p> <p>We have included a full list of significant audit adjustments at Appendix two. All of these were agreed with officers and adjusted by the Authority. We have raised a recommendation in relation to the matters highlighted above, which is summarised in Appendix one.</p>	



<p>We have noted the continued high quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries. Difficulties related to managed services implementation have been mitigated to ensure financial reporting processes were adequate.</p>	<p>Key financial statements audit risks</p>	<p>We review risks to the financial statements on an ongoing basis and tailor our audit procedures accordingly. In addition to the rebuttable presumption of the fraud risk from revenue recognition, we identified the following key financial statement audit risks in our 15/16 External audit plan issued in June 2016.</p> <ul style="list-style-type: none"> — Management override of controls; — Valuation of Property, Plant and Equipment; and — Managed Services implementation (affecting Cash, Debtors, Creditors, Journals and Payroll). <p>We have worked with officers throughout the year to discuss these audit risks. Our detailed findings are reported in section 3 of this report. There were several matters arising related to managed services implementation, specifically around the processing of journal transactions and the matching of debtors/creditors, which are summarised in Appendix one. We have agreed one high priority recommendation over the visibility and assurance of controls operating at the service organisation.</p>
	<p>Accounts production and audit process</p>	<p>We received complete draft accounts by 30 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code.</p> <p>We have noted the continued high quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries.</p> <p>The Authority has implemented the majority of the recommendations in our <i>ISA 260 Report 2014/15</i> relating to the financial statements. Due to prioritisation of the managed services implementation, our recommendation to implement an asset management system has not been implemented. Our recommendation to increase scrutiny over politically sensitive disclosures has been actioned; however, we found additional disclosure errors in the current year's accounts.</p> <p>Managed services implementation has presented a number of well documented challenges during the year. With regards to the accounts production process, the Authority has implemented additional year end measures to provide officers and members with assurance that the processes in place for the production of the accounts were adequate and supported by good quality working papers. This included retaining additional finance staff, performing additional assurance procedures over the year end accounts, and having an external review of the accounts undertaken prior to publication.</p> <p>As in previous years, we will debrief with the Finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particular we would like to thank Authority Officers who were available throughout the audit visit to answer our queries.</p>



<p>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.</p> <p>At the date of this report our audit of the financial statements is substantially complete for the Authority, but we have potentially significant queries in relation to the Pension Fund.</p> <p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud.</p> <p>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.</p>	<table border="1"> <tr> <td data-bbox="520 292 721 649"> <p>VFM conclusion and risk areas</p> </td> <td data-bbox="721 292 1968 649"> <p>We did not identify any specific VFM risks in our External audit plan 2015/16 issued in June 2016. However, we identified three VFM areas of audit focus for our year end procedures, including:</p> <ul style="list-style-type: none"> — Managed Services implementation; — Procurement and contract management; and — Sustainable resource deployment. <p>Our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as a result of our audit work on these VFM focus areas.</p> <p>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 2016.</p> </td> </tr> <tr> <td data-bbox="520 649 721 1263"> <p>Completion</p> </td> <td data-bbox="721 649 1968 1263"> <p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> — Pension fund audit (see above) — Subsidiary audits – Wormwood Scrubs and HF Development Ltd. — Whole of Government Accounts (WGA) <p>The last two items would typically be outstanding at this stage, although we note that the WGA will need to be completed to enable us to issue our certificate closing the audit.</p> <p>In addition we will need to complete our normal completion procedures including agreement of the final set of financial statements, receipt of the representation letter and completion of the post balance sheet event review.</p> <p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer on 30 August 2016. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking management to provide specific representations on the following:</p> <p>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.</p> </td> </tr> </table>	<p>VFM conclusion and risk areas</p>	<p>We did not identify any specific VFM risks in our External audit plan 2015/16 issued in June 2016. However, we identified three VFM areas of audit focus for our year end procedures, including:</p> <ul style="list-style-type: none"> — Managed Services implementation; — Procurement and contract management; and — Sustainable resource deployment. <p>Our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as a result of our audit work on these VFM focus areas.</p> <p>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 2016.</p>	<p>Completion</p>	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> — Pension fund audit (see above) — Subsidiary audits – Wormwood Scrubs and HF Development Ltd. — Whole of Government Accounts (WGA) <p>The last two items would typically be outstanding at this stage, although we note that the WGA will need to be completed to enable us to issue our certificate closing the audit.</p> <p>In addition we will need to complete our normal completion procedures including agreement of the final set of financial statements, receipt of the representation letter and completion of the post balance sheet event review.</p> <p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. 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<p>VFM conclusion and risk areas</p>	<p>We did not identify any specific VFM risks in our External audit plan 2015/16 issued in June 2016. However, we identified three VFM areas of audit focus for our year end procedures, including:</p> <ul style="list-style-type: none"> — Managed Services implementation; — Procurement and contract management; and — Sustainable resource deployment. <p>Our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as a result of our audit work on these VFM focus areas.</p> <p>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 2016.</p>				
<p>Completion</p>	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> — Pension fund audit (see above) — Subsidiary audits – Wormwood Scrubs and HF Development Ltd. — Whole of Government Accounts (WGA) <p>The last two items would typically be outstanding at this stage, although we note that the WGA will need to be completed to enable us to issue our certificate closing the audit.</p> <p>In addition we will need to complete our normal completion procedures including agreement of the final set of financial statements, receipt of the representation letter and completion of the post balance sheet event review.</p> <p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer on 30 August 2016. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking management to provide specific representations on the following:</p> <p>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.</p>				



Section three: Financial Statements

Proposed opinion and audit differences



Our audit has identified a total of two audit adjustments which require reporting with a net value of £2.2 million.

The impact of these adjustments is to decrease the gross balance of Debtors and Creditors on the balance sheet by £2.2 million, but will have £nil effect on the balance on the general fund and HRA account as at 31 March 2016.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, 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 Committee on 13 September 2016.

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 materiality (see Appendix two for more information on materiality) level for this year's audit was set at £12 million. Audit differences below £600,000 are not considered significant.

Our audit identified a total of two significant audit differences, which we set out in Appendix Two. It is our understanding that these will be adjusted in the final version of the financial statements. An additional immaterial audit difference will also be corrected. As a result of these identified misstatements, we have also projected a possible additional misstatement onto the population, which does not require adjustment by management. This is detailed further in Appendix Two.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund and HRA for the year and balance sheet as at 31 March 2016.

There is no net impact on the General Fund and HRA as a result of audit adjustments; however, the Current Assets and Current Liabilities balance at 31 March 2016 will decrease by £2.2 million. This is the result of the following amendments:

- Overstatement of Receipts in Advance/Debtors - £2.1 million
- Non-Matching of Debtor/Creditor - £1.8 million
- Incorrect Mapping of Agency creditor – (£0.4 million)
- Additional adjustment from remapping exercise – (£1.3 million)

Balance sheet as at 31 March 2016			
£m	Pre-audit	Post-audit	Ref (App.2)
Property, plant and equipment	1,807	1,807	-
Other long term assets	92	92	-
Current assets	446	444	Dr/Cr
Current liabilities	(208)	(206)	Dr/Cr
Long term liabilities	(741)	(741)	-
Net worth	1,395	1,395	
General Fund	(19)	(19)	-
Other usable reserves	(239)	(239)	-
Unusable reserves	(1,137)	(1,137)	-
Total reserves	(1,395)	(1,395)	

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 in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

Proposed opinion and audit differences (cont.)



We have a number of potentially significant queries that need to be resolved in relation to the Pension Fund.

If they are all resolved to our satisfaction, we would anticipate issuing an unqualified audit opinion. However, at this stage it is not yet clear that this will be complete when the Statement of Accounts is due to be approved by the Audit, Pensions, and Standards Committee on 13 September 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

Pension fund audit

For the audit of the Fund we used a higher materiality level of £17 million. Audit differences below £850,000 are not considered significant.

Our audit of the Fund also has not yet identified any significant misstatements.

However, as highlighted previously we have a number of potentially significant queries that need to be resolved. If they were all to be resolved to our satisfaction, we would anticipate issuing an unqualified audit opinion. However, at this stage it is not yet clear that this will be complete when the Statement of Accounts is due to be approved by the Audit, Pensions, and Standards Committee on 13 September 2016. We will update the Committee orally at the meeting.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code. We understand that the Fund will be addressing these where significant.

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.

We have made a number of comments in respect of its format and content which the Authority has agreed to amend where significant.

Narrative report

We have reviewed the Authority's narrative report and can confirm it is not inconsistent with the financial information contained in the audited financial statements.

Pension fund annual report

The Pension Fund Annual Report has been prepared and we are in the process of confirming that the financial and non-financial information it contains is consistent with the financial information contained in the audited financial statements.

We anticipate issuing an opinion on the Pension Fund Annual Report at the same time as our opinion on the Statement of Accounts.

The statutory deadline for publishing the document is 1 December 2016. The Pension Fund Annual Report is currently due to be approved by the Audit, Pensions and Standards Committee on 13 September 2016.

Significant audit risks



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

Valuation of Property, Plant and Equipment - No issues were noted as a result of the testwork performed.

Managed Services Implementation - We have noted issues in the processing of transactions by BT and in the way debtor and creditor balances are matched at year end. See Appendix one for further detail.

In our *External Audit Plan 2015/16*, presented to you in June 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Valuation of Property, Plant and Equipment

- Risk: As at 31 March 2016 the value of the Council's PPE was £1.8 billion. Local authorities exercise judgement in determining the fair value of different classes of assets held and the methods used to ensure the carrying values recorded each year reflect those fair values. The Council is responsible for ensuring that the valuation of PPE is appropriate at each financial year end and for conducting impairment reviews that confirm the condition of these assets. We assessed that the inherent uncertainty in valuation and high value of assets held by the Council creates a significant risk to the financial statements for 2015/16.
- Findings: As part of our 2015/16 audit, we have reviewed management's assessment of property valuations and impairment calculations; confirmed the information provided to the valuer from the Authority; compared the assumptions made by your valuer to benchmarks and to the assumptions used for 2014/15 for consistency; completed testing over new capital additions in year to confirm appropriately capitalised and that Council ownership is evidenced; and reviewed disposals made in year and confirmed appropriate removal from the PPE balance in 2015/16. No issues were noted as a result of the testwork performed.

Managed Services Implementation

- Risk: The Tri-borough councils implemented a new financial system on 1 April 2015 through a managed service partnership with BT. There have been a number of difficulties with the implementation which gives rise to a significant risk over the completeness and accuracy of the balances in the financial statements.
- Findings: As part of our 2015/16 audit, we have performed testing over the opening balances imported into the Agresso system, reviewed the testing carried out by the finance team to gain assurance over the accuracy of transactions being made by BT; reviewed the Internal Audit work completed related to the implementation; and carried out substantive testing over material balances in the financial statements. As a result of the implementation of managed services we have modified our audit approach from a controls based to a substantive risk based audit. We have performed additional tests of detail over significant balances, specifically in Debtors, Creditors, Income and Expenditure. During our testing, we have noted issues in the processing of journal transactions by BT and in the way debtor and creditor balances are matched at year end. See Appendix one for further detail.

Significant audit risks



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

Fraud risk of revenue recognition - We do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

Management override of controls - There are no matters arising from this work that we need to bring to your attention.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2015/16* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Other areas of focus



In our External Audit Plan 2015/16, presented to you in June 2016, we identified nine areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for each of the areas of audit focus.

No issues were noted as a result of these procedures.

Housing Benefits Expenditure - £148m in 15/16 (£187m in 14/15)

Audit Focus: Housing benefits is area of audit focus due to the size of the figures and the degree of complexity inherent in the calculation of benefit payable.

Findings: We have gained an understanding over controls related to housing benefits expenditure; completed substantive analytical review of rent rebates and rent allowances; and reconciled expenditure to the subsidy claim form. We note that we will be performing a full audit of the subsidy grants claim form prior to the relevant deadline at the end of November 2016.

No issues were noted as a result of these procedures.

Business rates income (NDR) - £60m in 15/16 (£50m in 14/15)

Audit Focus: NDR is material, has complexity in the translation from Collection Fund into Council prime statements and a degree of judgment underlying the NDR appeals provision.

Findings: We have gained an understanding over controls related to business rates income; tested the operating effectiveness of five Valuation Office Agency (VOA) to Academy reconciliations; completed substantive analytical review of income; and agreed precepts to underlying documentation. We have also considered the basis of the appeals provision and noted that it appears reasonable.

No issues were noted as a result of these procedures.

Council tax income - £53m in 15/16 (£53m in 14/15)

Audit Focus: Council tax is a material income stream for the Authority and there is complexity surrounding the translation from Collection Fund into Council primary statements.

Findings: We have gained an understanding over controls related to Council tax income; tested the operating effectiveness of five VOA to Academy reconciliations; completed substantive analytical review of income; and agreed precepts to underlying documentation.

No issues were noted as a result of these procedures.



HRA Rental Income - £70m in 15/16 (£67m in 14/15)

Audit Focus: HRA dwelling rental income is an area of audit focus due to the material size.

Findings: We have gained an understanding over controls related to HRA rental income; tested the operating effectiveness of controls over the annual approval of rents by the Cabinet; completed substantive analytical review of dwelling rent income and reconciled the HRA amounts to the Authority's CIES.

No issues were noted as a result of these procedures.

HRA Repairs and Maintenance and Management Expenditure - £33m in 15/16 (£43m in 14/15)

Audit Focus: HRA expenditure over repairs & maintenance and supervision & management is an area of audit focus due to the material size.

Findings: We have gained an understanding over controls related to HRA expenditures and completed substantive analytical review of HRA expenditures. We have tested the operating effectiveness of controls over 25 starters, 25 leavers, and the authorisation of 25 non-pay expenditures and performed substantive testwork over payroll and non-payroll expenditure, which included expenditure related to HRA.

No issues were noted as a result of these procedures.

Accounting for pension assets and liabilities - £491m in 15/16 (£522m in 14/15)

Audit Focus: 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.

Findings: We have confirmed the information provided to the actuary from the Authority; reviewed the actuarial valuation and considered the disclosure implications; and considered the assumptions made by your actuaries to benchmarks, which are collated by our KPMG actuaries and to the assumptions used for 2014/15 for consistency.

No issues were noted as a result of these procedures.



Payroll - £178m in 15/16 (£181m in 14/15)

Audit Focus: Payroll represents a significant proportion of the Authority's annual expenditure. Whilst not considered overly complex from a material error perspective, we consider that it is important from an audit perspective to understand the nature of the Authority's expenditure in this area. This is also an area impacted by Managed Services.

Findings: We have reviewed the effectiveness of controls over 25 starters and 25 leavers; completed substantive analytical review of payroll costs; and tested supporting system information used to compile the review. We have gained an understanding of control reconciliations performed by BT during the year under audit, but have not relied on these controls for the purposes of our audit.

No issues were noted as a result of these procedures.

Non-Payroll Expenditure - £533m in 15/16 (£548m in 14/15)

Audit Focus: Non-payroll expenditure, specifically the accounts payable component, is an area of audit focus due to its pervasive impact on the financial statements and size. This is also an area impacted by Managed Services.

Findings: We have tested the operating effectiveness of controls over the authorisation of 25 non-payroll expenditures. We have performed substantive tests of details to agree 93 expenditures to third party documentation and cut-off testing of 25 non-payroll expenditure to ensure costs are recorded in the correct period. No issues were noted as a result of these procedures.

No issues were noted as a result of these procedures.

Cash - £101m in 15/16 (£59m in 14/15)

Audit Focus: Cash has a pervasive impact on the financial statements and provides comfort for other areas of the financial statements. This is also an area impacted by Managed Services.

Findings: We have reviewed the year end bank reconciliation and confirmed balances with external third parties. No issues were noted as a result of these procedures. We have gained an understanding of control reconciliations performed by BT during the year under audit, but have not relied on these controls for the purposes of our audit.

No issues were noted as a result of these procedures.

Significant audit risks – pension fund



We have worked with the Authority and Pension Fund throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our External Audit Plan 2015/16, presented to you in March 2016, we did not identify any significant risks affecting the Authority's Pension Fund's 2015/16 financial statements. However, during the course of the audit we have identified the change in service provider as a significant risk.

The table below sets out our detailed findings for each of the risks that are specific to the Pension Fund.

Managed Services Implementation & Change in Service Provider

- Risk: The Tri-borough councils implemented a new financial system on 1 April 2015 through a managed service partnership with BT. There have been a number of difficulties with the implementation. This affects the Pension Fund through the administration of payroll data. In addition the pension administration services have transferred from Capita to Surrey County Council in September 2015.
- Findings: As part of our 2015/16 audit, we have performed testing over the listings of active members and pensioners as part of our testing to gain assurance over contributions and benefits. We have found inaccuracies in the data provided due to Surrey County Council not receiving information from BT and inheriting incorrect/incomplete data from the previous administrator (Capita). We are currently working with the relevant teams to obtain complete and accurate listings of members, which will then enable us to complete our work.

Significant audit risks – pension fund



We have worked with the Authority and Pension Fund throughout the year to discuss significant risks and key areas of audit focus.

Fraud risk of revenue recognition - We do not consider this to be a significant risk for Pension Funds as there is unlikely to be an incentive to fraudulently recognise revenue.

Management override of controls - There are no matters arising from this work that we need to bring to your attention.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas for the Fund.

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Pension Funds as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit of the Fund.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Other areas of focus – pension fund



In our External Audit Plan 2015/16, presented to you in June 2016, we identified one area of audit focus relating to the Pension Fund.

Work on this area is ongoing.

Pension Fund Investments - £856m in 15/16 (£866m in 14/15)

Audit Focus: The value of pension fund investment assets is a material item in your financial statements, which can involve an element of judgment and uncertainty.

Findings: We reviewed the valuation of the Pension Fund investments, including the unlisted investments, and consider the independent assurance that is available in respect of the valuation processes and valuations of funds. However we have not yet received all the required assurance to conclude on the valuation of level 2 and level 3 investments held by the Fund (total value in the financial statements is £174m for level 2 investments and £71m for level 3 investments). We have reviewed the disclosure notes in the light of relevant requirements.



We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:



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Assessment of subjective areas			
Asset/liability class	15/16	Balance (£m)	KPMG comment
Accruals	3	£47 million <i>(PY: £30 million)</i>	<p>We have agreed a sample of the accruals recorded in your financial statements to supporting documentation, including confirmation of post-year end payment. We have reviewed a sample of post-year end payments to check the cut-off of expenditure recorded in the period and ensured there are no unrecorded liabilities at the year end.</p> <p>Based on the above work, we believe the Council's assessment to represent a balanced view of future payables and well within the acceptable range of estimates</p>
Grants	3	£82 million <i>(PY: £107 million)</i>	<p>We noted that grants income is split into £62m of non-ring fenced government grants and £19m capital grants and contributions. For non-ring fenced grants, we selected items with high value or large fluctuations from prior year and agreed these back to supporting documentation, including grant receipts to bank statements. For capital grants, we agreed a sample of grants back to supporting documentation and confirmed that conditions have been met to release income. We have performed additional procedures over the Dedicated Schools Grant income, agreeing the budget and award to notification and sample of expenditure items to remittance advice.</p> <p>Based on the above work, we believe the Council's assessment to represent a balanced view of grant income recognised in the period.</p>
Business rate appeals	3	£60 million <i>(PY: £50 million)</i>	<p>We tested and agreed underlying data used to calculate the NDR provisions. The data used to calculate the appeals provision came from a Valuation Office Agency (VOA) report. All appeals go via the VOA. We assessed the reasonableness of the Council's approach and that the figures could be reconciled to VOA reports. We noted that in the Chancellor of the Exchequer's Autumn Statement 2014, the backdating of NDR appeals would no longer be allowed after 1/4/15. After this statement, the Council noted a large increase in the amount of appeals lodged as rating agents were trying to ensure that their interests were covered. Because of the speculative nature of these appeals, the Council has recognised a provision at 50% of the potential value of the appeal, instead of the full 100% before 1/1/15.</p> <p>The judgements used appeared reasonable throughout our testing and well within the acceptable range of estimates.</p>



Assessment of subjective areas			
Asset/liability class	15/16	Balance (£m)	KPMG comment
Property, Plant and Equipment (valuations / asset lives)	3	£1,807 million (PY: £1,667 million)	<p>We have reviewed management's assessment of property valuations and impairment calculations; confirmed the information provided to the valuer from the Authority; and compared the assumptions made by your valuer to benchmarks and to the assumptions used for 2014/15 for consistency.</p> <p>Overall we have concluded the Trust has made a balanced estimate and that the judgements represent a balanced assessment of asset usage.</p>
Pensions	3	£491 million (PY: £522 million)	<p>We have reviewed the actuarial valuation for pensions and considered the assumptions made by your actuaries in comparison to benchmarks, which are collated by our KPMG actuaries, and to the assumptions used for 2014/15 for consistency.</p> <p>Our view is that the Council and its actuaries are balanced in determining the net pension liability and well within the acceptable range of estimates.</p>
Other accounting policies	3	N/A	<p>We have reviewed the Authority's accounting policies as contained in the accounts to ensure consistency with the relevant accounting standards and the CIPFA Code. We have also analysed any changes in accounting policy from the previous period.</p> <p>We have determined that the Authority's accounting policies are consistent with those set out in the CIPFA code, prior year accounting policies, and our understanding of the Authority's application of them.</p>
Reserves	3	£113 million (PY: £104 million)	<p>We have reviewed the Earmarked Reserves disclosure for reasonableness and agreed all significant movements between reserves to confirm they are appropriate and have been authorised by the relevant individual. We believe the Council's judgement to be balanced.</p>

Accounts production and audit process



We have noted the continued high quality of the accounts and the supporting working papers.

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

Initial testing of the Pension Fund identified that member and pensioner listings were not complete or accurate due to difficulties with the inherited data from Capita and current data received from BT. Additional work is being undertaken.

The Authority has not implemented two of the recommendations in our *ISA 260 Report 2014/15*. We have re-raised these recommendations in the current year. Appendix one provides further details.

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 experienced challenges in its financial reporting process as a result of managed services implementation; however, these issues have been addressed throughout 2015/16 and mitigated through additional officer action where possible. There is scope to improve this further by improving the focus of communication between BT and local teams, particularly in the processing of transactions and mapping of accounts. Additional controls assurance should be sought from BT through the request of a third-party control assurance report (ISAE 3402) or specific internal audit work. This would provide insight into the strength of controls at the service organisation and therefore additional assurance to officers and members. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 24 June 2016. The Authority made a small number of amendments of a presentational nature after this date but prior to the start of the audit.

Element	Commentary
Quality of supporting working papers	Our <i>Accounts Audit Protocol</i> , which we issued on 6 June 2016 and discussed with the Head of Finance, set out our working paper requirements for the audit. The quality of working papers provided met the standards specified in our <i>Accounts Audit Protocol</i> .
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time. In some cases, however, we experienced delays, specifically where working papers needed to be requested from third parties. As part of our audit debrief, we will engage with all concerned to understand how best to communicate our audit requests in future.
Pension Fund Audit	The audit of the Fund was completed alongside the main audit. Initial testing identified that member and pensioner listings were not complete or accurate due to significant difficulties with the inherited data from Capita and current data received from BT. We are working with the Authority to resolve these issues but are likely to need to extend our testing or start again using revised information.

Findings in respect of the control environment for key financial systems

We have completed our testing of controls operated during the closedown process and noted some issues with journal entry transactions processed at BT. Appendix one provides further details.

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 not implemented two of the recommendations in our *ISA 260 Report 2014/15*. Appendix one provides further details.



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

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

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 LBHF Council and LBHF Pension Fund for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and LBHF Council and LBHF 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 Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix four 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 Strategic Finance Director 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.



Section four: Value for Money



Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

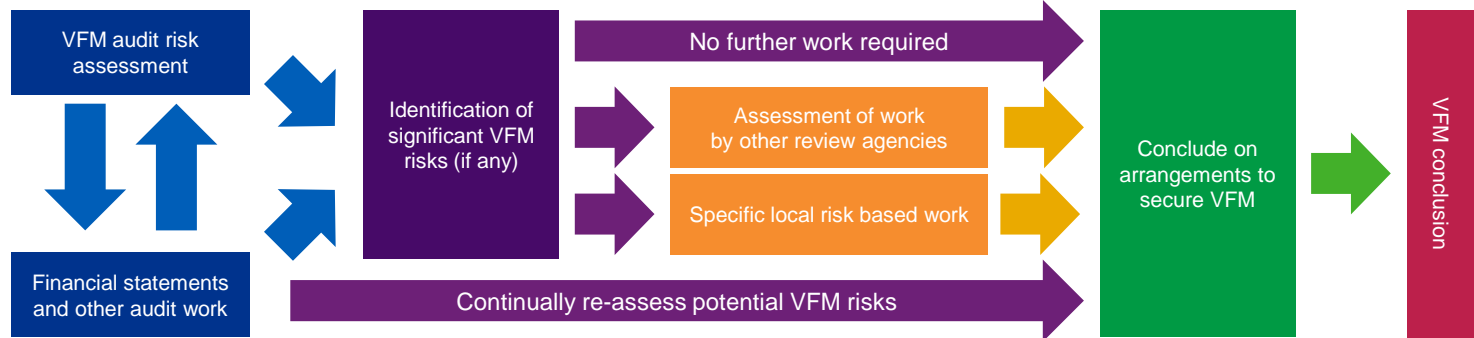
Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.







These sub-criteria provide a focus to our VFM work at the Authority.



Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall criterion
In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

 Informed decision making  Met	 Sustainable resource deployment  Met	 Working with partners and third parties  Met
---	--	--

Specific VFM Areas of Focus



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We have not identified any specific VFM risks. However, we have identified three areas of audit focus related to VFM.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these areas are adequate.

We concluded that we needed to carry out additional work for some of these areas. This work is now complete and no issues were identified.

Work completed


In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and
- Completed specific local risk based work on three areas of audit focus

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk or audit focus for our VFM conclusion.

We concluded that we needed to carry out additional work for some of these areas. This work is now complete and we also report on this below.

Key VFM area of focus	Risk description and link to VFM conclusion	Assessment
	<p>Procurement and Contract Management. We will consider the process for managing contracts entered into by the Trust to ensure that performance objectives are being achieved and any issues are being managed.</p> <p>This is relevant to the working with partners and third parties sub-criteria of the VFM conclusion.</p>	<p>A new Contract Management Framework which is designed to improve contract management and provide a consistent approach across the council is being rolled out across departments. The Council's internal audit have undergone a number of reviews related to contract management.</p> <p>Audit focus based work required: Yes</p> <p>Through our review of the internal audit reviews related to contract management, our testing of a sample of two contracts, and our discussions with the Head of Internal Audit and the Commercial Director, we have determined that there are proper arrangements in place to ensure that LBHF has achieved value for money in its workings with partners and third parties.</p>



Specific VFM Areas of Focus (cont.)



We have not identified any specific VFM risks. However, we have identified three areas of audit focus related to VFM.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these areas are adequate.

We concluded that we needed to carry out additional work for some of these areas. This work is now complete and no issues were identified.

Key VFM area of focus	Risk description and link to VFM conclusion	Assessment
	<p>The Tri-borough councils implemented a new managed service partnership with BT on 1 April 2015. There have been a number of difficulties with the implementation which gives rise to a risk over management's ability to make informed decision making and has an impact on forward planning and budget monitoring.</p> <p>This is relevant to the informed decision making, sustainable resource deployment, and working with partners and third parties sub-criteria of the VFM conclusion.</p>	<p>The Council have put action plans in place to ensure that there are appropriate mitigating controls for weaknesses in the Managed Services arrangement. There are regular meetings with the Managed Services Provider through Operational Framework Board (OFB) and Managed Services Sponsors meeting to track progress against targets. A comprehensive and regularly reviewed risks and issues register is being maintained.</p> <p>Audit focus based work required: Yes</p> <p>Through our review of the Managed Services contract and related documentation, analysis of the OFB minutes, and meetings with the Head of Finance and Head of Managed Services, we have determined that there are proper arrangements in place to ensure LBHF took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people in relation to managed services.</p>
	<p>Sustainable resource deployment – determining the financial resilience of LBHF over the longer term. We will consider how they are monitoring and delivering on their savings plans to ensure sustainability.</p> <p>This is relevant to the sustainable resource deployment sub-criteria of the VFM conclusion.</p>	<p>The council manages its financial risks through a range of controls including budget preparation, budget setting and a framework which sets out the roles and responsibilities for managing, monitoring and forecasting income and expenditure against approved budgets. Regular in-year monitoring, review of future financial plans and assessment of financial risks and reserves are undertaken to ensure the financial plans are delivered.</p> <p>Audit focus based work required: Yes</p> <p>Through our review of the budget monitoring controls and Medium Term Financial Strategy and our testing of ten cost improvement schemes, we have determined that there are proper arrangements in place to ensure that resources are deployed to achieve planned and sustainable outcomes for taxpayers and local people.</p>



Appendices

Appendix 1: Key issues and recommendations

Appendix 2: Audit differences

Appendix 3: Independence and objectivity

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.

Priority rating for recommendations		
1	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.	2
2	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.	3
3	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	1	<p>Transactions processed by service organisation</p> <p>During our testwork over journal transactions, we were unable to view supporting evidence or verify segregation of duties for transactions initiated at BT.</p> <p>During other areas of our testwork, including debtors and pensions, we noted several instances of transactions that were originally posted incorrectly by BT and detected/corrected by local finance staff.</p> <p>Typically, service organisations provide an assurance report on controls at the service organisation (ISAE 3402). The report would be issued by a third party and provide an assessment of the financial control environment. This was not provided (or commissioned) by BT.</p> <p>Recommendation</p> <p>The Council should consider how to obtain assurance over the control environment at BT. This can be achieved through the commissioning of an ISAE 3402 as noted above or specific internal audit work undertaken at BT. The resulting report should be reviewed by management and any areas for local consideration should be actioned accordingly.</p>	<p>We will investigate and consider options as to how we can obtain increased assurance over the control environment at BT. This may include an internal review of controls, an externally certified review, or a combination of both. Management will review any findings and ensure that any areas for local consideration are actioned accordingly.</p> <p>Strategic Finance Director March 2017</p>

Key issues and recommendations (cont.)

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	2	<p>Cross-Entity Journal Entries</p> <p>During our testwork over journals transactions, we identified four cross-entity journals which were inappropriately posted by local finance staff who should not have had the ability to do so. These journals resulted from the use of the pre-approved journal template, which was designed and brought into use as a work around due to technical issues with the Agresso system. BT and the Council have mitigating controls in place to detect out of balance entries, including the daily trial balance download. In all instances, the transactions above were detected and corrected. However, the Council is currently lacking a control to prevent these entries from occurring.</p> <p>Recommendation</p> <p>BT and LBHF should work to resolve technical issues with Agresso and reduce the number of spreadsheet journals processed in order to prevent the posting of cross-entity journals.</p>	<p>LBHF will work with BT to minimise the risk of posting cross-entity journals and enhance preventative controls. We will continue to operate robust detective controls in this area.</p> <p>Strategic Finance Director December 2016</p>
3	2	<p>Matching of debtors and creditors</p> <p>During our current Debtor and current Creditor testing, we noted several instances where debtors and creditors had not been netted off against each other properly. In two instances, these amounts were significant and required audit adjustment (See appendix two).</p> <p>Recommendation</p> <p>We recommend that the Council undergo a remapping exercise to ensure that the TB mapping to debtors and creditors is accurate (i.e. that debtor contra accounts are not mistakenly mapped to creditors and vice versa). In addition, the finance team should consider performing an analysis of debtors and creditors at year end to identify specific items or areas that would be appropriate to net against each other.</p>	<p>LBHF will review the mapping of debtors and creditors and will also review the use of the chart of accounts. Corporate Finance will undertake more detailed analysis of debtors and creditors at year end to identify specific items or areas that would be appropriate to net against each other.</p> <p>Strategic Finance Director December 2016</p>

Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in our *ISA 260 Report 2014/15*.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	2
Implemented in year or superseded	0
Remain outstanding (re-iterated below)	2

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at Aug 2016
1	2	<p>Non-Current Asset Management (<i>Carried over from 2012-13</i>)</p> <p>The Authority has over 14,000 assets with a value of approximately £1.8bn 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.</p> <p>The Authority should consider implementing an asset management system with the required functionality to improve efficiency of officers throughout the year and increase accuracy in the financial reporting process reducing the risk of error.</p>	<p>Persons Responsible: Director for Finance</p> <p>Date for Completion: To be kept under review, see next column</p>	<p>Open</p> <p>The council's new finance system Agresso does have a Fixed Asset module. However, given other priorities it has been decided not to implement this module at this stage.</p> <p>With the work done on the manual spreadsheets over the last few years, they have become more automated, with built in checks and controls, and they provide accurate and clear data to produce the accounts and demonstrate good practice for the audit. There were no material errors in the accounts in the Non-Current Assets area.</p> <p>The Council is keeping the position under review and once issues in other areas are fully resolved, and management are confident a new fixed asset system can be successfully implemented a new system will be implemented.</p>

Follow up of prior year recommendations (cont.)

The Authority has not implemented all of the recommendations in our *ISA 260 Report 2014/15*. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at Aug 2016
2	3	<p>Preparation of Politically Sensitive Disclosures</p> <p>During our 2014/15 work on Members Allowances, Senior Officer Remuneration, and Exit Packages, we noted several misstatements in this key disclosure.</p> <p>Recommendation</p> <p>We recommend that the Council implement a more stringent review over the preparation of politically sensitive disclosures and increase communication between the Finance and HR teams to ensure that information presented in these notes is accurate.</p>	<p>Persons Responsible: Director for Finance</p> <p>Date for Completion: March 2016</p>	<p>Open</p> <p>We noted that the Finance team implemented several actions in 2015/16 to improve the preparation of politically sensitive disclosures.</p> <p>We noted no errors in the Senior Officer Remuneration or Members Allowances disclosures during our testwork.</p> <p>However, whilst not the same error, during our testing of the Exit Packages disclosure, we identified two individuals who were duplicates in the 2014/15 and 2015/16 note, a settlement agreement included in the redundancies, and a number of redundancies which should actually have been classified as 2014/15. In total this caused the 2015/16 Exit Packages disclosure to be overstated by £194k. This error was agreed with officers and the disclosure was amended.</p> <p>We note that this a disclosure error and did not result in any incorrect payments.</p>

Audit differences

This appendix sets out the audit differences. The financial statements have been amended for all of the errors identified through the audit process. There is no net impact on the General Fund and HRA as a result of the amendments.

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 Committee). 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.

Uncorrected audit differences

We are pleased to report that there are no uncorrected factual audit differences.

Corrected audit differences

Material misstatements

Debtors/Creditors: During our Current Debtor and Current Creditor testing, we noted several instances where debtors and creditors had not been netted off against each other properly. In two instances, these amounts were significant and required audit adjustment. A third immaterial amount was also identified and adjusted.

- Current Creditors dr. £3,514,254.06
- Current Debtors cr. £3,514,254.06

As a result of the adjustments identified above, we requested that management perform additional analysis over debtor/creditor streams to determine if the mapping was accurate and reflected the nature of the balance. As a result of this analysis and our substantive review, additional adjustments were identified and adjusted..

- Current Debtors dr. £1,338,313.58
- Current Creditors cr. £1,338,313.58

Exit Packages: During our testing of the Exit Packages disclosure, we identified two individuals who were duplicates in the 2014/15 and 2015/16 note, a settlement agreement included in the redundancies, and a number of redundancies which should actually have been classified as 2014/15. In total this caused the 2015/16 Exit Packages disclosure to be overstated by £194,449. (Note: politically sensitive disclosures are audited to £1).

Presentational improvements

A number of minor amendments focused on presentational improvements have also been made to the draft financial statements. The Finance Department are committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Materiality and reporting of audit differences

For 2015/16 our materiality is £12 million for the Authority's accounts. For the Pension Fund it is £17 million.

We have reported all audit differences over £600,000 for the Authority's accounts and £850,000 for the Pension Fund, to the Audit, Pension, and Standards Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in June 2016.

Materiality for the Authority's accounts was set at £12 million which equates to around 1.7% percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit, Pension, and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Pension, and Standards Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £600,000 for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Pension, and Standards Committee to assist it in fulfilling its governance responsibilities.

Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £17 million which is approximately 2% percent of net investment assets.

We design our procedures to detect errors at a lower level of precision, set at £11.5 million for 2015/16.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

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 Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd 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. Public Sector Audit Appointments Ltd 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, Pension, 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.

Declaration of independence and objectivity (cont.)

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.

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.

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 Council and the London Borough of Hammersmith and Fulham Pension Fund for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and the London Borough of Hammersmith and Fulham Council and the London Borough of 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 Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Audit Fees

Our scale fee for the audit was £163,950 plus VAT (£216,000 in 2014/15) for the accounts audit and £21,000 plus VAT (£21,000 in 2014/15) for the Pension Fund. This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in June 2016. Our scale fee for certification for of grant claims for Housing Benefits, Teachers Pension and Pooling Capital Receipts was £23,756 plus VAT, (£31,720 in 2014/15).

Non-audit services

With the exception of the grant certification work noted above, we have not been engaged to provide any non-audit services in the year.



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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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King Street
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KPMG LLP
15 Canada Square
London E14 5GL

13 September 2016

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of London Borough of Hammersmith and Fulham ("the Authority"), for the year ended 31 March 2016, 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 2016 and of the Authority's expenditure and income for the year then ended;
- ii. whether the Pension Fund financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2016 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2016, 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 2015/16.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

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

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

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, 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 2016 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 2016 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2016, 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 2015/16.

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.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- 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 Authority and involves:
 - management;
 - employees who have significant roles in internal control;
 - or
 - others where the fraud could have a material effect on the financial statements; and
 - b) allegations of fraud, or suspected fraud, affecting the 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:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
- b) 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 Committee on 13th September 2016.

Yours faithfully,

Hitesh Jolapara
Strategic Finance Director

Councillor Iain Cassidy
Chair of the Audit, Pensions and Standards Committee

Appendix to the Authority Representation Letter of the London Borough of Hammersmith and Fulham: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. 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 Party and Related Party Transaction

Related party:

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).

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

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.

London Borough of Hammersmith & Fulham
***DRAFT* Pension Fund Annual Report**
2015-2016



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Chairman's report

The Pensions Sub-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 2015-16.

The introduction of the Pensions Sub-committee in December 2014 has improved the governance of the Pension Fund during 2015-16 giving sub-committee members more time to consider pension issues in detail. The addition of a Pensions Board in July 2015 to perform an oversight and scrutiny role further adds to the governance improvements.

A number of changes were made to the Pension Fund's investment strategy during 2015-16 with a view to enhancing the return made on investments within an acceptable level of risk. We believe the strategy now in place will deliver a reasonable return in the long term whilst ensuring the level of risk is appropriate. During the year the return on investments was 0.04% mainly as a result of a difficult year for equity markets which saw negative performance following six years of strong recovery in values. The longer term performance of the Fund remains positive with an average return of 7.6% per annum over the last ten years.

In addition to monitoring performance at a local level, the Fund has been engaging with the London CIV, which is the organisation set up to run pooled LGPS investments in London. It is anticipated that some of the Fund's investments will transfer to the London CIV during 2016-17 resulting in savings in investment management fees. This pooling will continue over the coming years to improve the efficiency of the Fund.

The administration of the Pension Fund membership and benefits transferred to Surrey County Council in September 2015 and whilst there have been a few transitional issues to deal with, we are confident this move will result in a better service for 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 Sub-committee during 2015-16.



Councillor Iain Cassidy

Chairman of Audit, Pensions & Standards Committee & Pensions Sub-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 governed by the Public Service Pensions Act 2013 and the Local Government Pension Scheme regulations. It 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 triennial actuarial valuation, undertaken most recently as at 31st March 2013.

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 been a Career Average Re-valued 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 re-valued 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 pension 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.

Pensions Sub-committee

The Committee have established a Pensions Sub-committee (the Sub-committee) and delegated responsibility for all pensions matters to it. The Sub-committee is made up of five members of the Audit, Pensions and Standards Committee and is chaired by the Chair of the Committee.

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

1. To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the Investment Consultant.
2. To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable.
3. To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Actuary, Custodians and Fund Advisers.
4. To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.
5. To approve the final statement of accounts of the Pension Fund and to approve the Annual Report.
6. To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund.
7. To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of the Council for the payment of pensions, and allowances to beneficiaries.
8. To make and review an admission policy relating to admission agreements generally with any admission body.

9. To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
10. To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
11. To receive and consider the Auditor's report on the governance of the Pension Fund.
12. To determine any other investment or Pension Fund policies that may be required from time to time so as to comply with Government regulations and to make any decisions in accordance with those policies.

The Sub-committee obtains and considers advice from the Strategic Finance Director, the Director of Treasury and Pensions and other officers, and as necessary from the Fund's appointed actuary, advisers and investment managers. The Sub-committee members are required to comply with Council policies such as the member code of conduct and conflicts of interest in relation to their membership of the Sub-committee.

The current membership of the Pensions Sub-committee is as follows:

Councillor Iain Cassidy (Chair)
Councillor Michael Adam (Vice Chair)
Councillor Nicholas Botterill
Councillor PJ Murphy
Councillor Guy Vincent

Pensions Board

The Council has also established a Pensions Board to assist the Pensions Sub-committee as required by the Public Services Pensions Act 2013. The role of the Pensions Board is set out in their terms of reference:

The role of the local Pension Board is defined by section 5 of the Public Service Pensions Act 2013 and regulation 106 of the Local Government Pension Scheme (LGPS) Governance Regulations 2013. It is to assist the administering authority (the Council) with:

- Securing compliance with the LGPS Governance regulations and any other legislation relating to the governance and administration of the LGPS;
- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the scheme and
- Ensuring effective and efficient governance and administration of the scheme-recommendations to the Pensions Sub-Committee.

The Board does not have a decision making role in relation to management of the Fund, but is able to make recommendations to the Pensions Sub-committee. It meets at least twice a year.

The membership of the Board is as follows:

- Three employer representatives comprising one from an admitted or scheduled body and two nominated by the Council;
- Three scheme members representatives from the Council or an admitted or scheduled body.

The current membership of the Pensions Board is as follows:

Employer representative – Council	Cllr Ali Hashem (Chair)
Employer representative – Council	Cllr Rory Vaughan
Employer representative – Admitted/Scheduled Bodies	Richard Gregg
Scheme member representative	Orin Miller (Vice Chair)
Scheme member representative	Eric Kersey
Scheme member representative	Neil Newton

Knowledge and Skills policy

At their meeting on 24th June 2015 the Sub-committee adopted a Knowledge and Skills policy for the Fund with the aim of ensuring all Pensions Sub-committee members, Board members and officers have the necessary knowledge and skills to run the Pension Fund. The Pensions Board adopted the policy at their first meeting on 30th July 2015.

During 2015-16 the following formal training sessions were arranged and attended by Sub-committee members, Board members and officers:

- Pension Fund Overview and Governance
- Actuarial Valuations

This was in addition to knowledge gained from various meetings with investment managers and individual attendance at conferences and seminars. Further training is being planned for 2016-17 based on self-assessments completed by Sub-committee and board members in accordance with the policy.

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 statement was updated in June 2015 and can be found at the link below:

https://www.lbhf.gov.uk/sites/default/files/section_attachments/governance_compliance_statement_2015.pdf

Scheme Management and Advisers

The City of Westminster, London Borough of Hammersmith & Fulham and the Royal Borough of Kensington & Chelsea councils have shared services to provide a more efficient service and greater resilience and this includes the Pensions teams.

The shared service 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 shared service working aims.

The officers responsible for running the Pension Fund and the external advisers who are contracted to assist are shown in the tables overleaf.

Officers

Strategic Finance Director (section 151 officer) Director of Treasury and Pensions	Hitesh Jolapara George Bruce
Shared Service Pensions Team	Nikki Parsons Alex Robertson Nicola Webb
Director of HR Pensions Manager	Debbie Morris Maria Bailey

External Advisers

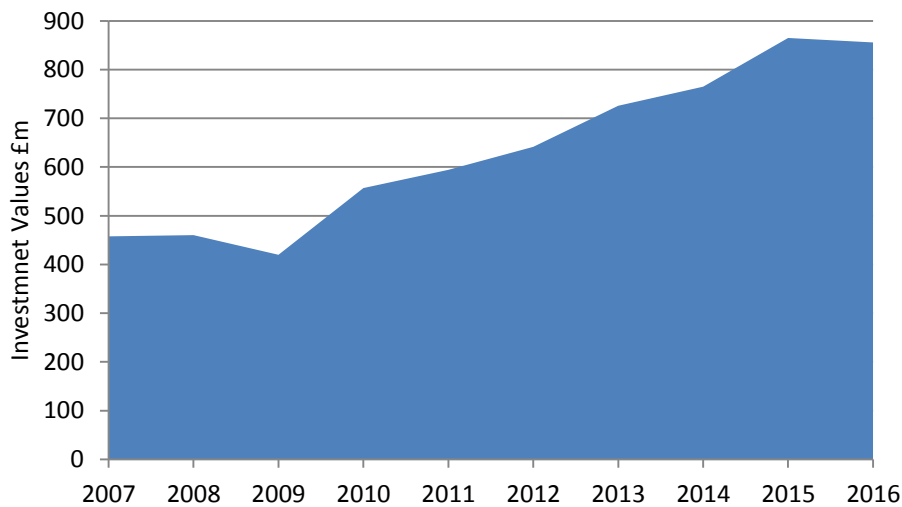
<u>Investment Managers</u>	
Active Equity manager	Majedie Asset Management
Passive Equity manager	Legal & General Investment Management
Dynamic Asset Allocation manager	Ruffer LLP
Multi Asset Credit managers	Oak Hill Advisers Partners Group
Absolute Return Bonds manager	Insight Investment Management
Inflation Opportunities manager	M & G Investments
Long Lease Property manager	Standard Life
Infrastructure manager	Partners Group
Private Equity managers	Invesco Unigestion
Investment Adviser	Deloitte
Custodian	Northern Trust
Actuary	Barnett Waddingham
Auditor	KPMG
Banker	Nat West
Legal Adviser	Eversheds
Scheme Administrators	Surrey County Council
AVC Providers	Zurich Assurance Equitable Life Assurance Society

Financial Summary and performance

The investment return in 2015-16 was 0.04% following a difficult year for the equity markets, which delivered negative absolute returns. The Investment Policy and Performance report in section 2 provides more detail on the Fund's investments and performance.

The graph below shows how the total value of the Fund has changed over time by showing the total value at 31st March every year for the last ten years:

Total 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 Sub-committee recognises that the Pension Fund is subject to a number of risks. It therefore maintains a Pension Fund risk register and reviews the risks and mitigating actions at each meeting. The register covers both strategic and operational risks and risks in relation to the investment, funding, governance and administration aspects of the Pension Fund.

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 light of this, the Fund has set a benchmark for the investments designed to out-perform the investment return assumed by the Fund Actuary in the actuarial valuation. In addition the Sub-committee monitor the value of liabilities and progress of the funding level on a quarterly basis.

In order to achieve a level of investment performance in excess of the Fund Actuary's assumption, 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 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 annually 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 segregated assets are held for safekeeping by the Fund's custodian, who is independent of all the investment managers. The custodian is also required to provide an audited internal controls report to the Fund on a regular basis. The pooled assets held by the Fund are also held by custodians independent of the investment managers responsible for investment decisions.

The Funding Strategy Statement sets out the key risks, including demographic, regulatory and 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.

Investment Benchmark

The benchmark the Fund is measured against is set out below. This has been in place since 1st April 2015.

Asset Class	Target Allocation	Benchmark
UK equities	22.5%	FTSE All Share
Overseas equities	22.5%	MSCI AC World ex UK Growth
Secure Income	20%	3 month LIBOR plus 4%
Dynamic Asset Allocation	10%	3 month LIBOR plus 4%
Absolute Return Bonds	10%	3 month LIBOR plus 2%
Inflation Opportunities	10%	UK RPI plus 2.5%
Long Lease Property	5%	FT All Gilt index plus 2%
Total	100%	

Investment Strategy

In March 2015 the Pensions sub-committee agreed a revised investment strategy and Statement of Investment Principles. The changes from the previous strategy were implemented during 2015-16. The portfolios with Majedie (UK equities) and Ruffer (dynamic asset allocation) have not changed.

The liability matching portfolio previously held with Legal & General Investment Management (LGIM) was replaced by two multi asset credit portfolios with Partners Group and Oak Hill, an inflation opportunities investment with M&G and a long lease property fund with Standard Life in the early part of the financial year. The aim of this change was to replace a relatively expensive arrangement with a set of investments which would target a higher rate of return whilst maintaining some protection against interest rate and inflation movements.

The management of the Fund's absolute return bonds portfolio was changed from Goldman Sachs to Insight in October 2015 following performance concerns. The MFS active overseas equity portfolio was replaced with a passive equity portfolio managed by LGIM in November 2015.

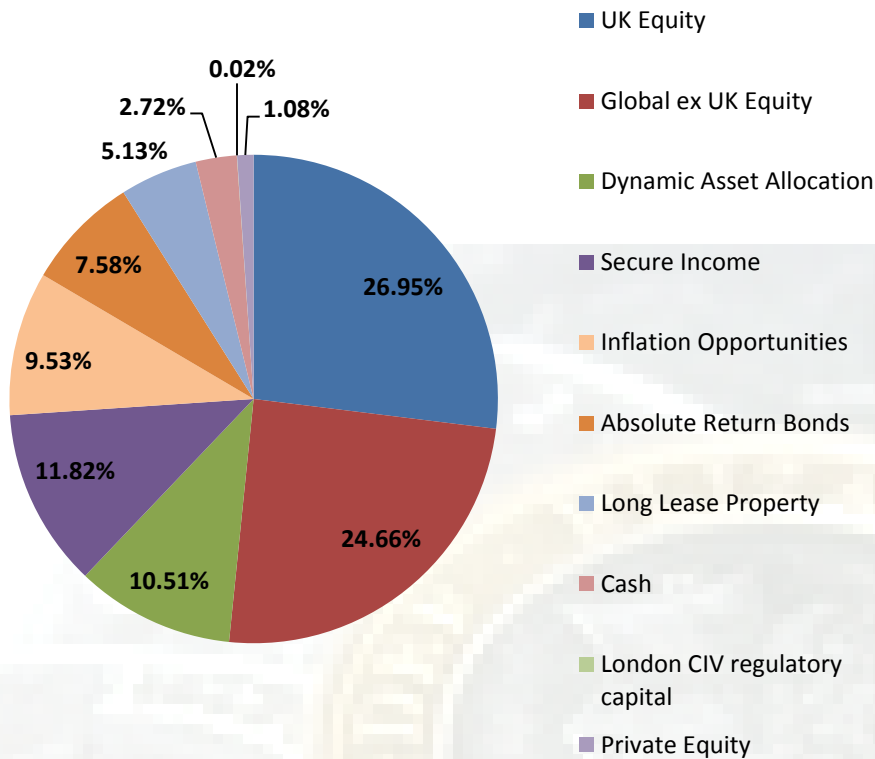
In August 2015 a commitment was made to the Partners Group Direct Infrastructure fund and this is being funded over time from the cash held in the Legal and General sterling liquidity fund. The private equity commitments were made some years ago and the funds are now in the distributing phase.

As shareholders of London LGPS CIV Ltd. (the organisation set up to run pooled LGPS investments in London), the Fund has purchased £150,000 of regulatory capital. This is in the form of unlisted UK equity shares. See the later section for more detail on the London CIV.

The table and graph below and overleaf show how the Fund was split between the portfolios at 31st March 2016. The split at 31st March 2015 is shown in the table for comparison.

Portfolio	Benchmark 2015/16	Market Value at 31/03/2016 £000s	% of Fund at 31/03/2016	Market Value at 31/03/2015 £000s	% of Fund at 31/03/2015
UK Equity	22.5%	230,601	26.95%	226,483	26.2%
Global ex UK Equity	22.5%	211,001	24.66%	222,849	25.8%
Dynamic Asset Allocation	10.0%	89,898	10.51%	91,159	10.5%
Secure Income	20.0%	101,172	11.82%	37,600	4.3%
Inflation Opportunities	10.0%	81,552	9.53%	0	0.0%
Absolute Return bonds	10.0%	64,848	7.58%	64,126	0.0%
Long Lease Property	5.0%	43,925	5.13%	0	0.0%
Cash	0.0%	23,248	2.72%	80,036	9.3%
Private Equity	0.0%	9,269	1.08%	10,341	1.2%
Matching Fund	0.0%	0	0.00%	132,187	22.7%
London CIV regulatory capital	0.0%	150	0.02%	0	0.0%
TOTAL	100%	855,664	100.00%	864,781	100.0%

Split of investments
at 31st March 2016



The table below shows how the investments were split at 31st March 2016 according to whether they are UK holdings, non-UK or global.

	UK £m	Non-UK £m	Global £m	Total £m
Equities	199.8	46.6	209.6	456.0
Bonds	17.1	19.7	64.8	101.6
Alternatives	43.9	8.9	182.7	235.5
Cash and cash equivalents	0	0	49.0	49.0
Other	0	0	13.6	13.6
TOTAL	260.8	75.2	519.7	855.7

The gross investment income earned during 2015/16 is shown overleaf also split according to whether it was earned from UK holdings, non-UK or global holdings. The income shown in the table is mainly earned from the segregated portfolios, as the majority of pooled fund income is re-invested in those funds and not paid out to the Pension Fund.

	UK £000s	Non-UK £000s	Global £000s	Total £000s
Equities	7,290	2,789	0	10,079
Bonds	1,101	226	0	1,327
Alternatives	0	1,310	0	1,310
Cash and cash equivalents	14	0	41	55
TOTAL	8,405	4,325	41	12,771

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 last reviewed the Statement of Investment Principles in March 2015. The Fund’s published statement can be found at the following link:

https://www.lbhf.gov.uk/sites/default/files/section_attachments/statement_of_investment_principles_2015_0.pdf

Investment Managers

The Fund has appointed external investment managers to manage the Fund’s assets. 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 overleaf shows how the Fund’s assets were allocated between the investment managers at 31st March 2016, and at 31st March 2015 for comparison. It also shows how the investment of the Fund’s assets at 31st March 2016 compared to the target.

Investment Manager	Market Value	% of Fund	Target	Variance from target	Market Value	% of Fund
	at 31 March 2016				at 31 March 2015	
UK Equity						
Majedie Asset Management	215,374	26.95%	22.5%	4.45%	226,483	26.2%
Legal & General	15,227				0	0.0%
Global ex UK Equity						
MFS International (UK) Ltd	0	24.66%	22.5%	2.16%	222,849	25.8%
Legal & General	211,001				0	0.0%
Dynamic Asset Allocation						
Ruffer LLP	89,898	10.51%	10.0%	0.51%	91,159	10.5%
Secure Income						
Partners Multi Asset Credit	52,178	6.10%	7.5%	(1.40%)	37,600	4.3%
Oak Hill Advisers	47,555	5.55%	7.5%	(1.95%)	0	0.0%
Partners Infrastructure	1,439	0.17%	5.0%	(4.83%)	0	0.0%
Inflation Opportunities						
M & G Investments	81,552	9.53%	10.0%	(0.47%)	0	0.0%
Absolute Return Bonds						
Insight Investments	64,848	7.58%	10.0%	(2.42%)	0	0.0%
Goldman Sachs Asset Mngt	0	0.0%			64,126	7.4%
Long Lease Property						
Standard Life	43,925	5.13%	5.0%	0.13%	0	0.0%
Matching Fund						
Legal and General LDI	0	0.0%	0.0%	0.0%	132,187	15.3%
Cash						
Legal and General Sterling Liquidity Fund	23,248	2.72%	0.0%	2.72%	80,036	9.3%
Private Equity						
Invesco	5,728	1.08%	0.0%	1.08%	6,251	0.7%
Unigestion	3,541				4,090	0.5%
London CIV						
Regulatory Capital	150	0.02%	0.0%	0.02%	0	0.0%
TOTAL	855,664	100.0%	100.0%	0.0%	864,781	100.0%

London CIV

Hammersmith and Fulham are shareholders of London LGPS CIV Ltd. (the organisation set up to run pooled LGPS investments in London), having supported to the establishment of the organisation since the beginning. The London LGPS CIV Limited has now been established as an Authorised Contractual Scheme (ACS) with approval from the Financial Conduct Authority. As shareholders, the Fund has purchased £150,000 of regulatory capital in the form of unlisted UK equity shares to enable the ACS to operate. It is anticipated that some of the Fund's existing investment portfolios will be transferred into the London Collective Investment Vehicle during 2016-17 resulting in savings in investment management expenses. Over the coming years it is expected that the majority of the Fund's assets will transfer to meet the Government's requirement for Pension Fund assets to be pooled.

Investment Performance

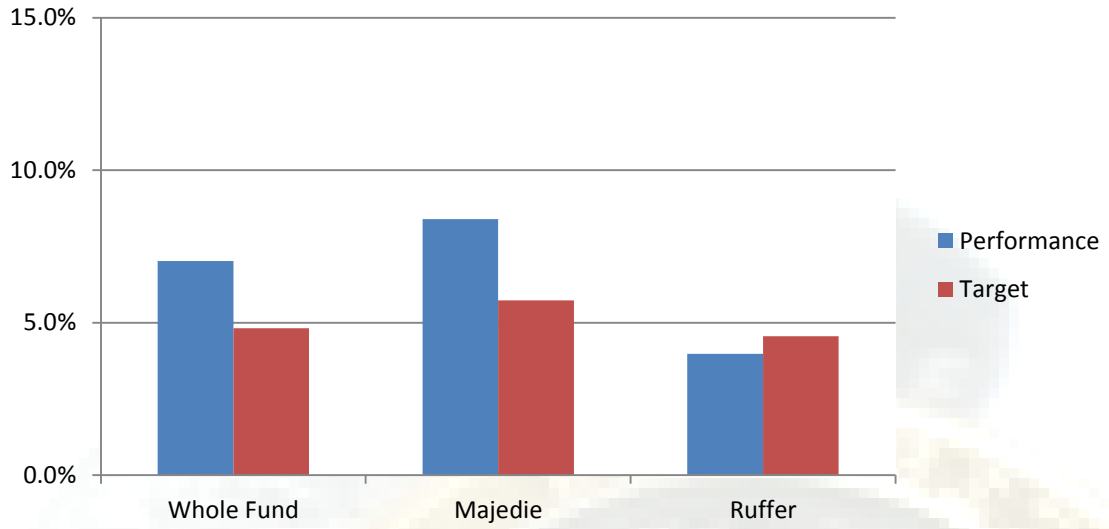
The table below shows the performance of the Fund against the target in 2015-16 and the annualised performance over three, five and ten years.

	2015/16	3 years	5 years	10 years
Performance	0.04%	7.02%	8.83%	7.57%
Target	2.09%	4.82%	9.36%	5.49%
Out / (under) performance against target	(2.05%)	2.20%	(0.53%)	2.08%

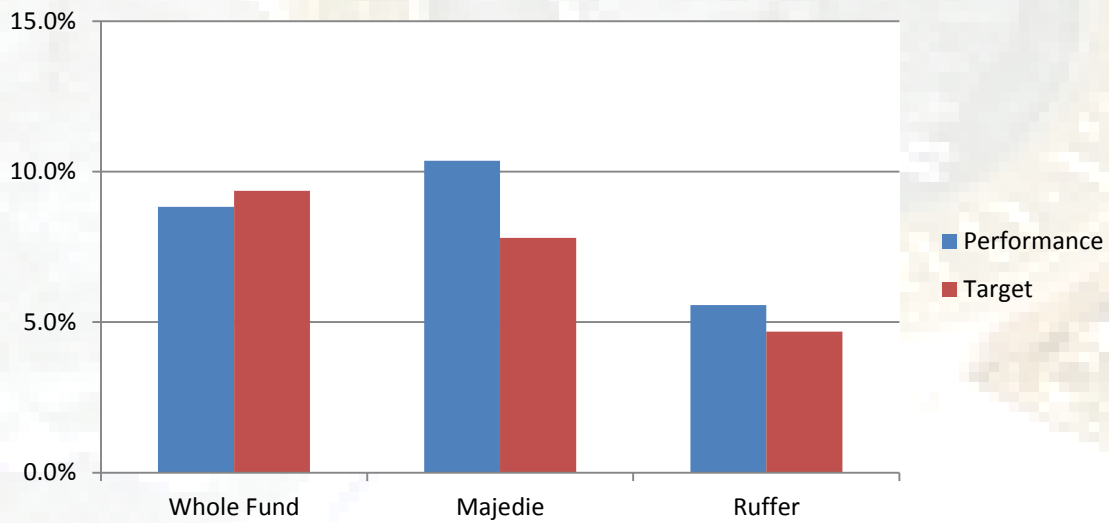
Each of the investment managers has a benchmark and target set within their Investment Management Agreements with the Fund. Performance is measured quarterly and reported to the Sub-committee. The graphs overleaf show the performance of the whole fund, Majedie and Ruffer (the investment manager portfolios in place throughout the year) against their targets annualised over three and five years.

The performance over the last twelve months was below target following underperformance from a number of investment managers during a volatile year in the markets. As described on pages 12-13 a number of changes have been made to the Fund's investment portfolios to address the underperformance issues the sub-committee consider to be unlikely to be reversed.

Three Years annualised performance against targets



Five Years annualised performance against targets



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 Sub-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. A summary of voting actions is reported to the Sub-committee on a quarterly basis.

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 segregated investments – this is Northern Trust. They are also responsible for the settlement of all investment transactions and the collection of income. Funds not immediately required to pay benefits are invested in Northern Trust's AAA rated money market fund. Northern Trust itself has a credit rating of AA- with both Fitch and S&P ratings agencies and A1 with Moody's. The pooled assets held by the Fund are also held by custodians independent of the investment managers' responsible for investment decisions. The bank account for the Pension Fund is held with Nat West.

3. Scheme Administration

The Local Government Pension Scheme (“LGPS”) is a statutory pension scheme governed by the Public Service Pensions Act 2013. 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. From 1st September 2015 the council entered into a not for profit section 101 agreement with Surrey County Council for them to undertake pensions administration on behalf of the council.

To facilitate the move of administration responsibilities to Surrey County Council from Capita in 2015/16 pension member’s electronic data needed to be mapped across, cleansed and migrated. During the latter part of the year a strategy of targeted data improvements was agreed with Surrey County Council along with the creation and testing of electronic payroll interface data files from BT (the payroll provider for Hammersmith and Fulham Council) synchronising with the pensions data base.

It is anticipated that longer term these actions will drive consistency of data and other efficiencies within the pensions service. This strategy will also support the aim of implementing a pension member self-serve facility.

Employers in 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 overleaf shows the number of employers with active contributing members in each of the last five years. The number of employers has been changing as the number of academies has increased in recent years. This has been offset by a number of employers exiting the Fund when all active members have left service.

	2011/12	2012/13	2013/14	2014/15	2015/16
Active Employers	30	35	31	36	39

The next table shows the split of these employers by type at 31st March 2016 and also shows the number of employers who have ceased active membership of the Fund when either their contract has ended or the last active member has left service.

	Active	Ceased	Total
Administering Authority	1	0	1
Scheduled Body	18	0	18
Admitted Body	20	19	39
Total	39	19	58

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

Administering Authority London Borough of Hammersmith & Fulham	
Scheduled Bodies	Admitted Bodies
Bentworth Academy	3BM
Bridge Academy	Amey Services Limited
Burlington Danes Academy	Carers Network
Conway Academy	Civica
Fulham Boys Free School	Disabilities Trust
Fulham College Academy Trust	Eden Food Services
Greenside Academy	ETDE Infrastructure
Hammersmith Academy	F M Conway Ltd
Hurlingham & Chelsea Academy	Family Mosaic
Lady Margaret Academy	Fulham Palace Trust
Langford Academy	Glencross Cleaning Ltd
Lena Gardens Academy	HATS
London Oratory School	H & F Bridge Partnership
Mortlake Crematorium Board	Hestia
Sacred Heart High School	Medequip Assistive Technology
Swift Ark Academy	Mitie Group plc
Thomas's Academy	Pinnacle PSG Limited
West London Free School	Quadron Services
	Serco
	Urban Partnership Group



Scheme membership

The following table shows the Fund’s membership over the last five years. The percentage of members in each category has remained fairly static over this time period with active contributing members continuing to make up 28% of the total membership.

	31 st March 2012	31 st March 2013	31 st March 2014	31 st March 2015	31 st March 2016
Contributors	3,837	3,782	3,963	4,024	4,071
Deferred	5,409	5,546	5,785	5,957	5,915
Pensioners & Dependents	4,265	4,379	4,269	4,288	4,518
Total Membership	13,511	13,707	14,017	14,269	14,504

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:

https://www.lbhf.gov.uk/sites/default/files/section_attachments/pension_fund_communication_policy_statement.pdf

A revised version of this policy is currently out for consultation.

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 Fund’s website: www.lbhfpensionfund.org

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 Maria Bailey, Bi-borough Pensions Manager via email to pensions@rbkc.gov.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.

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:

https://www.lbhf.gov.uk/sites/default/files/section_attachments/funding_strategy_statement_2014_0.pdf

On the following page is a statement from the Fund Actuary about changes since the valuation in 2013.

Fund Actuary's Statement

Introduction

The last full triennial valuation of the London Borough of Hammersmith and Fulham Pension Fund ("the Fund") was carried out 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. This statement gives an update on the funding position as at 31 March 2016 and comments on the main factors that have led to a change since the full valuation.

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 share of the deficit.

Assumptions

The assumptions used at the whole Fund level to value the benefits at 31 March 2013 are summarised below:

Assumption	31 March 2013
Discount rate	6.0% p.a.
Pension increases	2.7% p.a.
Salary increases	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.

*S1PA is the name of the mortality tables published by the actuarial profession

Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable on an unreduced basis
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

Assets

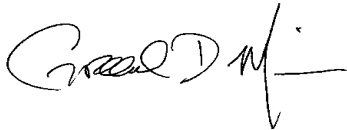
The assumptions used to value the liabilities are smoothed based on market conditions around the valuation date so the asset values are also measured in a consistent manner although the difference between the smoothed and market values is not expected to be significant.

At 31 March 2013, the value of the assets used was £716m and this has increased over the period to an estimated £869m.

Updated position

Using assumptions consistent with those adopted at the 2013 valuation, we estimate that the funding position at 31 March 2016 is similar to the position as at 31 March 2013.

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



Graeme D Muir FFA
Partner, Barnett Waddingham LLP

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 2016.

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 Strategic Director of Finance.
- 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 Strategic Director of Finance

The Strategic Director of Finance 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 Strategic Director of Finance 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 Strategic Director of Finance

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 2016 and income and expenditure for the year for the financial year 2015/16.

Hitesh Jolapara, Strategic Director of Finance

Fund Account

	Note	2015/16		2014/15	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the scheme					
Contributions					
From Employers	6	22,412		21,944	
From Members	6	6,795	29,207	6,658	28,602
Individual Transfers In from other Pension Funds			1,375		1,445
Other Income			35		35
Benefits					
Pensions	7	(29,076)		(28,155)	
Commutation and Lump Sum Retirement Benefits	7	(5,536)	(34,612)	(4,955)	(33,110)
Payments to and on account of leavers					
Individual Transfers Out to other Pension Funds			(3,230)		(856)
Refunds to members leaving service			(16)		(16)
Net Additions (Withdrawals) from dealings with members			(7,241)		(3,900)
Management expenses		8	(7,762)		(7,216)
Returns on Investments					
Investment Income	9		12,771		11,422
Taxes on Income (Irrecoverable Withholding Tax)			(140)		(255)
Profit and losses on disposal of investments and changes in value of investments					
Realised	11		129,570		65,392
Unrealised	11		(139,354)		40,203
Net Returns on Investments			2,847		116,762
Net Increase (Decrease) in the net assets available for benefits during the year			(12,156)		105,646
Opening Net Assets of the Scheme			868,475		762,829
Closing Net Assets of the Scheme			856,319		868,475

Net Asset Statement as at 31st March 2016

	Note	31 March 2016 £000	31 March 2015 £000
Investment Assets			
Index Linked Securities	14	36,771	31,923
Equities	14	136,937	371,885
Pooled Investment Vehicles	14	671,300	443,015
Commodities	14	1,976	2,540
Derivative contracts - forward foreign exchange	14	104	16
Cash Deposits	14	7,544	15,410
Other Investment Balances			
Amounts Outstanding on Sale of Investments	14	278	585
Investment Income Due	14	1,242	1,018
Investment Liabilities			
Derivative contracts - forward foreign exchange	14	(472)	(725)
Amounts Outstanding on Purchase of Investments	14	(16)	(886)
Net Investment Assets	14	855,664	864,781
Current Assets	20	677	354
Current Liabilities	21	(1,187)	(1,146)
Cash Balances		1,165	4,486
Net assets of the Fund available to fund benefits at the period end.		856,319	868,475

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 19.

Notes to the Pension Fund Accounts

Note 1: Description of Hammersmith and Fulham Pension Fund

a) General

The Pension Fund (the "Fund") is part of the Local Government Pension Scheme and is administered by Hammersmith and Fulham Council. It is a contributory defined benefit 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 from 1st April 2014 are based on career average re-valued earnings and the number of years of eligible service. The benefits payable in respect of service prior to 1st April 2014 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 Public Service Pensions Act 2013, the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from returns on the Fund's investments. Contributions from employees are made in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employer contributions are set based on the triennial actuarial funding valuation, as detailed in Note 18.

b) Pensions Sub-committee

The Council has delegated the investment arrangements of the scheme to the Audit, Pensions and Standards Committee, who in December 2014 formed a Pensions Sub-committee and delegated all pensions responsibilities to it. The sub-committee decide on the investment strategy most suitable to meet the liabilities of the Fund and have responsibility for the investment strategy. The sub-committee is made up of five elected representatives of the Council, including two opposition party representatives, each having voting rights. Members of the admitted bodies and representatives of the Trade Unions may attend the sub-committee meetings but have no voting rights.

The Sub-committee reports annually to the Audit, Pensions and Standards Committee and has full delegated authority to make investment decisions. The sub-committee obtains and considers advice from the Strategic Finance Director, and as necessary from the Fund's appointed actuary, investment managers and adviser.

c) Pension Board

In line with the provisions of the Public Service Pensions Act 2013, the Council has set up a Pension Board to oversee the governance arrangements of the Pension Fund. The Board meets twice a year and has its own Terms of Reference. Board members are independent of the Pensions Sub-committee.

d) 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 strategy of their Pension Fund. The Statement of Investment Principles was last approved on 17th March 2015 and this is available on the Council's website at the link below. The Statement shows the Authority's compliance with the Myrner's principles of investment management.

https://www.lbhf.gov.uk/sites/default/files/section_attachments/statement_of_investment_principles_2015_0.pdf

The Sub-committee has delegated the management of the Fund's investments to regulated investment managers (see note 10), appointed in accordance with the regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

e) 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. This category is mainly made up of academies.
- 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 and 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 2016	31 March 2015
Contributing employees	4,071	4,024
Pensioners receiving benefit	4,518	4,288
Deferred Pensioners	5,915	5,957

Details of the scheduled and admitted bodies are on pages 20-21.

Note 2: Basis of preparation of financial statements

The Statement of Accounts summarises the Fund's transactions for 2015/16 and its position at year-end as at 31st March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (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, 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. The Code 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 a note to the accounts (Note 19).

Note 3: Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

All contributions, both from the members and from the employers, 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 section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. 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) Management expenses

The Code does not require a breakdown of management expenses, however disclosure of expenses in accordance with the CIPFA guidance “Accounting for Local Government Pension Scheme Management costs” is provided in the interests of greater transparency.

All expenses are accounted for on an accruals basis to ensure expenses for the full accounting period are accounted for in the fund account. Staff costs associated with the running of the Fund are charged to the Fund along with an element of overhead charges.

The Sub-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.

Net Assets Statement

g) 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. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. 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, the investments in the Partners Multi Asset Credit fund and the Partners Infrastructure fund which, by their nature, will be realised over a long period of time.

h) Derivatives

The only derivatives held by the Fund are forward foreign exchange contracts for the purpose of managing currency risk. The value of forward foreign exchange contracts is based on market forward exchange rates at the year end and determined as the gain or loss that would arise if the contract were matched at the year end with an equal and opposite contract.

i) Foreign Currency Transactions

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

j) Cash and Cash Equivalents

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

k) Financial Liabilities

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

l) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19).

m) 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 Regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. 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.

n) Recharges from the General Fund

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs has been charged to the Fund on the basis of actual time spent on Pension Fund business. Costs incurred in the administration and the oversight and governance of the fund are set out separately in Note 8.

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.

The items for which there is a significant risk of material adjustment are:

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 the accompanying actuarial report. The estimates of the net liability to pay pensions depends on a number of judgements and assumptions. In particular are those relating to the discount rate, the rate at which salaries are projected to increase, change in retirement ages, mortality rates and expected returns on the Fund's assets.

The effect of changes in individual assumptions can be measured. A 0.5% increase in the discount rate would result in a decrease in the pension liability of £116.7m. A 0.2% increase in the pay inflation assumption would increase the value of liabilities by £5.4m, and a one-year increase in assumed life expectancy would increase liabilities by £41.0m.

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. The value of private equity investments at the balance sheet date was £8.83m.

The fair value of the Partners multi credit asset fund and the Partners infrastructure fund is also to some extent subjective. A number of the underlying assets are traded in private markets only and therefore judgements need to be made about value, using factors such as the enterprise value and net debt. The value in the net assets statement is £53.6m.

Note 5: Events after the Balance Sheet

The result of the referendum on EU membership held on 23rd June 2016 was in favour of the UK to leave the EU. The long term financial impacts of “Brexit” cannot, as yet, be easily ascertained, however given that this condition did not exist at the balance sheet date, any such impacts insofar as they could be ascertained, constitute a non-adjusting event. In the shorter term, at 31st July 2016, the market value of the investments of the Fund had increased to approximately £917.3 million due to the rise in global stock markets since the date of the balance sheet.

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 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.

	Employers' Contributions				Employees' Contributions	
	Normal		Deficit Recovery		2015/16 £000	2014/15 £000
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000		
Administering Authority	9,676	9,525	8,101	8,101	5,249	5,120
Scheduled Bodies	1,310	1,114	742	590	643	539
Admitted Bodies*	2,478	2,561	105	53	903	999
Grand Totals	13,464	13,200	8,948	8,744	6,795	6,658

*Deficit recovery contributions include augmentation contributions of £51k.

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	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
	Administering Authority	(27,850)	(27,344)	(4,565)	(3,885)	(641)
Scheduled Bodies	(142)	(81)	(14)	(100)	0	0
Admitted Bodies	(1,084)	(730)	(124)	(480)	(192)	(195)
Grand Totals	(29,076)	(28,155)	(4,703)	(4,465)	(833)	(490)

Note 8: Management Expenses

The table below shows a breakdown of the management expenses incurred during the year.

	2015/16	2014/15
	£000	£000
Administrative costs	(606)	(471)
Investment management expenses	(6,888)	(6,434)
Oversight and governance costs	(268)	(311)
	<u>(7,762)</u>	<u>(7,216)</u>

The table below provides a breakdown of the Investment Management Expenses.

	2015/16	2014/15
	£000	£000
Management fees	(4,774)	(4,216)
Performance fees	(1,646)	(1,687)
Transaction costs*	(395)	(432)
Custody fees	(73)	(99)
	<u>(6,888)</u>	<u>(6,434)</u>

*Transaction costs incurred on segregated assets only.

Note 9: Investment Income

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

	2015/16	2014/15
	£000	£000
Equity dividends	10,079	11,001
Income from Index-Linked Securities	1,327	248
Interest on Cash Deposits	55	63
Private Equity/Other	1,310	110
Total	<u>12,771</u>	<u>11,422</u>

Note 10: Investment Strategy

In March 2015 the Pensions sub-committee agreed a revised investment strategy and Statement of Investment Principles. The changes from the previous strategy were implemented during 2015-16. The portfolios with Majedie (UK equities) and Ruffer (absolute return) have not changed.

The liability matching portfolio previously held with Legal & General Investment Management (LGIM) was replaced by two multi asset credit portfolios with Partners Group and Oak Hill, an inflation opportunities investment with M&G and a long lease property fund with Standard Life in the early part of the year.

The management of the Fund's absolute return bonds portfolio was changed from Goldman Sachs to Insight in October 2015. The MFS active overseas equity portfolio was replaced with a passive equity portfolio managed by LGIM in November 2015.

In August 2015 a commitment was made to the Partners Group Direct Infrastructure fund and this is being funded over time from the cash held in the Legal and General sterling liquidity fund.

The private equity commitments were made some years ago and the funds are now in the distributing phase.

As shareholders of London LGPS CIV Ltd. (the organisation set up to run pooled LGPS investments in London), the Fund has purchased £150,000 of regulatory capital. This is in the form of unlisted UK equity shares. It is anticipated that some of the Fund's existing investment portfolios will be transferred into the London Collective Investment Vehicle during 2016/17.

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

	31 March 2016		31 March 2015	
	Market Value £000	Total %	Market Value £000	Total %
Majedie Asset Management	215,374	25.17	226,483	26.2
MFS International (UK) Ltd	319	0.04	222,849	25.8
LGIM Passive equities	207,706	24.27	0	0.0
Ruffer LLP	89,898	10.51	91,159	10.5
Goldman Sachs Asset Management	0	0.00	64,126	7.4
Insight Investments	64,848	7.58	0	0.0
LGIM LDI bespoke	0	0.00	132,187	15.3
LGIM Liquidity fund	41,451	4.84	80,036	9.3
Partners Group MAC fund	52,178	6.10	37,600	4.3
Partners Group Infrastructure fund	1,439	0.17	0	0.0
Oak Hill Advisers	47,555	5.56	0	0.0
M & G	81,552	9.53	0	0.0
Standard Life	43,925	5.13	0	0.0
Invesco Private Equity	5,728	0.67	6,251	0.7
Unigestion Private Equity	3,541	0.41	4,090	0.5
London LGPS CIV Ltd	150	0.02	0	0.0
	855,664	100.0	864,781	100.0

The Sub-committee has appointed Northern Trust as global custodian for the Fund. They are responsible for safe custody and settlement of all investment transactions, collection of income and the administration of corporate actions. Northern Trust has a long term credit rating of AA with the Fitch ratings agency, AA- with S&P and Aa2 with Moody's. The bank account for the Pension Fund is held with Nat West.

Note 11: 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 2015/16.

Fund Manager	Value at 1 April 2015	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 2016
	£000	£000	£000	£000	£000
Majedie Asset Management	223,849	43,581	(37,883)	(17,497)	212,050
MFS International (UK) Ltd	220,739	60,220	(271,808)	(9,151)	0
Ruffer LLP	80,345	254,864	(248,027)	(2,137)	85,045
Goldman Sachs Asset Management	64,126	0	(64,781)	655	0
Insight Investment	0	64,617	0	231	64,848
Legal & General Inv Mngt	132,185	197,095	(131,042)	9,367	207,605
Legal & General Inv Mngt Liquidity Fund	80,036	58,255	(97,000)	160	41,451
Partners Group Multi Asset Credit	37,500	12,143	(27)	2,555	52,171
Partners Group Infrastructure	0	1,533	(214)	120	1,439
Oak Hill Advisers	0	50,000	(286)	(2,159)	47,555
M & G Investments	0	79,341	0	2,211	81,552
Standard Life	0	39,777	0	4,148	43,925
Invesco Private Equity	5,798	17	(1,425)	911	5,301
Unigestion Private Equity	4,076	85	(1,544)	907	3,524
London CIV	0	150	0	0	150
Sub-total	848,654	861,678	(854,037)	(9,679)	846,616
Cash Deposits	15,410			(108)	7,544
<u>Other Investment Balances</u>					
Investment Income due	1,018				1,242
Pending trade purchases	(886)			1	(16)
Pending trade sales	585			2	278
Totals	864,781	861,678	(854,037)	(9,784)	855,664

The equivalent analysis for 2014/15 is provided below:

Fund Manager	Value at 1 April 2014	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 2015
	£000	£000	£000	£000	£000
Majedie Asset Management	207,701	61,217	(53,425)	13,356	223,849
MFS International (UK) Ltd	180,084	68,197	(65,378)	37,836	220,739
Baring Asset Management	125,250	62	(129,091)	3,779	0
Ruffer LLP	71,965	234,850	(235,285)	8,815	80,345
Goldman Sachs Asset Management	65,230	0	(16)	(1,088)	64,126
Legal & General Inv Mngt LDI	92,584	0	0	39,601	132,185
Legal & General Inv Mngt Liquidity Fund	0	120,675	(40,940)	301	80,036
Partners Group	0	37,500	(379)	379	37,500
Invesco Private Equity	6,024	0	(2,496)	2,270	5,798
Unigestion Private Equity	5,160	240	(1,672)	348	4,076
Sub-total	748,998	522,741	(528,682)	105,597	848,654
Cash Deposits	17,027			5	15,410
<u>Other Investment Balances</u>					
Investment Income due	752			0	1,018
Pending trade purchases	(2,425)			(8)	(886)
Pending trade sales	542			1	585
Totals	764,894	522,741	(528,682)	105,595	864,781

Note 12: 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%.

	2015/16	2015/16	2014/15	2014/15
	£000	%	£000	%
Legal & General World ex UK Developed Equity Index Fund	192,377	22.5	-	-
M & G Inflation Opportunities Fund V	81,552	9.5	-	-
Majedie UK Focus Fund	75,196	8.8	78,309	9.0
Insight Investment Bonds Plus Fund	64,848	7.6	-	-
Partners Group Multi Asset Credit 2014 Fund	52,071	6.1	-	-
Oak Hill Advisers Diversified Credit Strategies Fund	47,555	5.6	-	-
Standard Life Long Lease Property Fund	43,925	5.1	-	-
Legal & General Sterling Liquidity Fund	41,451	4.8	80,036	9.2
Goldman Sachs Libor plus 1 Fund	-	-	64,126	7.4
Legal & General LDI Bespoke Fund	-	-	132,185	15.2

Note 13: 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 2016 or 31 March 2015.

Open forward foreign exchange contracts at 31 March 2016

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	Liability value
		000		000	£000	£000
Up to one month	GBP	7,532	JPY	(1,292,600)		(472)
One to three months	GBP	24,878	USD	(35,611)	104	
					104	(472)
Net forward foreign exchange contracts at 31 March 2016						(368)

Open forward foreign exchange contracts at 31 March 2015

Net forward foreign exchange contracts at 31 March 2015

16 (725)

(709)

Note 14a: 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 st March 2016			31 st March 2015		
	Designated at fair value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost	Designated at fair value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost
	£000	£000	£000	£000	£000	£000
FINANCIAL ASSETS						
Index Linked Securities						
UK Public Sector	17,115			16,685		
Overseas Public Sector	19,656			15,238		
Equities						
UK	95,736			101,250		
UK unquoted	150			-		
Overseas	41,051			270,635		
Pooled Investment Vehicles						
Global Passive Funds	207,604			-		
UK Equity Funds	102,685			105,563		
LDI Bespoke Funds	-			132,185		
Absolute Return Bond Funds	64,848			64,126		
Multi Asset Credit Funds	47,555			0		
Multi Asset Credit Fund (unquoted)	52,170			37,500		
Sterling Liquidity Funds	41,451			80,036		
Inflation Opportunity Funds	81,552			-		
Property Funds	43,925			-		
Private Equity (unquoted)	8,826			9,874		
Infrastructure Funds (unquoted)	1,439			-		

	31 st March 2016			31 st March 2015		
	Designated at fair value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost	Designated at fair value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost
	£000	£000	£000	£000	£000	£000
FINANCIAL ASSETS cont'd						
Other Managed Funds	19,245			13,731		
Commodities	1,976			2,540		
Derivative contracts – forward foreign exchange	104			16		
Investment Income due	1,242			1,603		
Pending Trade Sales	278			-		
Cash deposits with managers		7,544			15,410	
Debtors		677			354	
Cash Balances		1,165			4,486	
	848,608	9,386		850,982	20,250	0
FINANCIAL LIABILITIES						
Derivative contracts – forward foreign exchange	(472)			(725)		
Pending Trade Purchases	(16)			(886)		
Creditors			(1,187)			(1,146)
	(488)		(1,187)	(1,611)	0	(1,146)
Grand Totals	848,120	9,386	(1,187)	849,371	20,250	(1,146)
			856,319			868,475

The carrying value is the same as the fair value for all financial instruments held by the Fund.

Note 14b: Net gains and losses on Financial Instruments

This table summarises the net gains and losses on financial instruments classified by type of instrument.

	2015/16 £000	2014/15 £000
Financial Assets		
Designated at fair value through Profit and Loss	(6,146)	107,050
Loans and Receivables	(108)	5
Financial Liabilities		
Designated at fair value through Profit and Loss	(3,530)	(1,460)
Financial Liabilities at Amortised Cost	0	0
Total	9,784	105,595

Note 14c: Valuation of Financial Instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. The definitions of the levels are detailed below and the table showing the analysis is overleaf.

Level 1 – Quoted market price

Fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Examples are quoted equities, quoted index linked securities and unit trusts. All level 1 investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2 – Using observable inputs

Quoted prices are not available for financial instruments at this level. The valuation techniques used to determine fair value use inputs that are based significantly on observable market data.

Level 3 – With significant unobservable inputs

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data e.g. private equity investments.

The values of the private equity investments are based on valuations provided by the General Partners to the private equity funds. The Partners Group multi credit asset and the infrastructure funds are closed ended and therefore not tradeable. The valuation is based on market prices where available for some underlying assets and on estimates of prices in secondary markets for others.

Note 14c: Valuation of Financial Instruments carried at fair value (cont'd)

	31 st March 2016			31 st March 2015		
	Quoted Market Price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Quoted Market Price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3
	£000	£000	£000	£000	£000	£000
FINANCIAL ASSETS						
Financial assets at fair value through profit and loss	603,084	174,823	70,701	667,694	132,202	51,085
Loans and Receivables	9,386	-	-	20,251	-	-
Total Financial Assets	612,470	174,823	70,701	687,945	132,202	51,085
FINANCIAL LIABILITIES						
Financial liabilities at fair value through profit and loss	(16)	(472)	-	(886)	(725)	-
Financial liabilities at amortised cost	(1,187)	-	-	(1,146)	-	-
Total Financial Liabilities	(1,203)	(472)	-	(2,032)	(725)	-
NET FINANCIAL ASSETS	611,267	174,351	70,701	685,913	131,477	51,085
			856,319			868,475

Note 15: 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.

The Sub-committee maintains a Pension Fund risk register and reviews the risks and appropriate mitigating actions at every meeting.

a) Market Risk

In order to meet the Fund's objective of being fully funded within 22 years of the 2013 actuarial valuation, the fund managers have been set differing targets appropriate to the types of assets they manage. 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 their benchmarks 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 maximise the opportunity for gains across the whole Fund portfolio within a tolerable level of risk of an overall reduction in the value of the Fund. Responsibility for the Fund's investment strategy rests with the Pensions sub-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.

All assets with the exception of cash, forward foreign exchange contracts, other investment balances, debtors and creditors are exposed to price risk. The table below shows the value of these assets at the balance sheet date (and the prior year) and what the value would have been if prices had been 10% higher or 10% lower.

<u>Assets exposed to price risk</u>	Value £000	+ 10% £000	-10% £000
At 31 st March 2016	846,835	931,518	762,151
At 31 st March 2015	849,361	934,298	764,425

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.

Index linked gilts, cash and some elements of the pooled investment vehicles are exposed to interest rate risk. The table below shows the value of these assets at the balance sheet date (and the prior year) and what the value would have been if interest rates had been 1% higher or 1% lower.

<u>Assets exposed to interest rate risk</u>	Value £000	+ 1% £000	-1% £000
At 31 st March 2016	300,436	303,440	297,432
At 31 st March 2015	365,666	369,323	362,010

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. In addition several of the pooled investment vehicles partially or fully hedge the currency back into sterling. These actions reduce the overall currency risk the Fund is exposed to.

Overseas equities, overseas index linked securities, cash in foreign currencies, the value of the forward foreign exchange contracts and some elements of the pooled investment vehicles are

exposed to currency risk. The table below shows the value of these assets at the balance sheet date (and the prior year) and what the value would have been if currencies had been 10% higher or 10% lower.

Assets exposed to currency risk

	Value £000	+ 10% £000	-10% £000
At 31 st March 2016	252,627	277,890	227,365
At 31 st March 2015	353,251	388,577	317,926

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 only assets in the Fund which cannot be liquidated within a month are detailed in the table below. These amounted to 12.4% of the Fund's Net Assets at 31st March 2016 (5.5% at 31st March 2015). The remaining investments can liquidated within a matter of days.

Manager	Portfolio	Value at 31 March 2016 £000	Value at 31 March 2015 £000
Partners Group	Multi Asset Credit	52,171	37,500
Partners Group	Infrastructure	1,439	-
Standard Life	Property	43,925	-
Invesco	Private Equity	5,302	5,798
Unigestion	Private Equity	3,525	4,076
		<u>106,362</u>	<u>47,374</u>

Note 16: Contingent Liabilities and Contractual Commitments

The Fund had the following commitments at the balance sheet date:

	31st March 2016 £000	31st March 2015 £000
Invesco Partnership Fund V L.P.	1,212	1,173
Unicapital Investments V	46	42
Partners Group Multi Asset Credit Fund 2014	-	12,500
Partners Group Direct Infrastructure Fund 2015	41,844	-
Standard Life Long Lease Property Fund	-	40,000
	<u>43,102</u>	<u>53,715</u>

The outstanding commitments for Invesco and Unicapital are expected to be paid over the next two years. The Partners infrastructure commitment is expected to be paid by December 2020.

Note 17: Stock Lending Agreements

The Fund did not participate in stock lending or underwriting.

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 28th March 2014 and this is available on the Council's website at the link below. This valuation set the employer contribution rates from 1st April 2014.

https://www.lbhf.gov.uk/sites/default/files/section_attachments/actuarial_valuation_report_2013.pdf

The 2013 valuation certified a common contribution rate of 21.9% of pensionable pay to be paid by each employing body participating in the Fund, based on a funding level of 83%. In addition, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

The actuary's smoothed market value of the scheme's assets at 31 March 2013 was £716m and the actuary assessed the present value of the funded obligation at £863m indicating a net liability of £147m.

The actuarial valuation, carried out using the projected unit method, is based on economic and statistical assumptions, the main ones being:

- i. The rate of accumulation of income and capital on new investments over the long-term and the increase from time to time of income from existing investments.
- ii. Future rises in pensionable pay due to inflation and pension increases.
- iii. Withdrawals from membership due to mortality, ill health and ordinary retirement.
- iv. Progression of pensionable pay due to promotion.

The contribution rate is set on the basis of the cost of future benefit accrual, increased to bring the funding level back to 100% over a period of 22 years, as set out in the Funding Strategy Statement. It is set to be sufficient to meet the additional annual accrual of benefits allowing for future pay increases and increases to pension payments when these fall due, plus an amount to reflect each participating employer's notional share of value of the Fund's assets compared with 100% of their liabilities in the Fund in respect of service to the valuation date.

The next actuarial valuation of the Fund will be as at 31st March 2016 and will be published in 2017.

Note 19: Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31st March 2016. 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 2016 £000	31st March 2015 £000
Present Value of Promised Retirement Benefits*	1,357,358	1,409,558
Fair Value of Scheme Assets (bid value)	<u>(856,319)</u>	<u>(868,475)</u>
Net Liability	<u>501,039</u>	<u>541,083</u>

*Present Value of Promised Retirement Benefits comprises of £1,311,744k (£1,271,900k at 31 March 2015) and £45,614k (£137,658k at 31 March 2015) in respect of vested benefits and non-vested benefits respectively as at 31 March 2016.

The assumptions applied by the actuary are set out below:

Financial Assumptions	31st March 2016	31st March 2015
RPI Increases	3.3%	3.2%
CPI Increases	2.4%	2.4%
Salary Increases	4.2%	4.2%
Pension Increases	2.4%	2.4%
Discount Rate	3.7%	3.3%

Demographic Assumptions

The post mortality tables adopted are the S1PA tables. The base tables are projected using the CMI 2012 Model, allowing for a long term rate of improvement of 1.5% p.a. The assumed life expectancies from age 65 are:

Life Expectancy from age 65		31st March 2016	31st March 2015
Retiring today	Males	22.9	22.8
	Females	25.3	25.2
Retiring today	Males	25.2	25.1
	Females	27.7	27.6

Other Assumptions:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age;
- 5% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

Note 20: Current Assets

	31st March 2016 £000	31st March 2015 £000
Debtors		
Contributions due - employers	337	195
Contributions due - employees	105	71
London Borough of Hammersmith and Fulham	174	88
Sundry debtors	61	-
	<u>677</u>	<u>354</u>

	31st March 2016 £000	31st March 2015 £000
Analysis of debtors		
Local authorities	211	88
Other entities and individuals	466	266
	<u>677</u>	<u>354</u>

Note 21: Current Liabilities

	31st March 2016 £000	31st March 2015 £000
Creditors		
Unpaid Benefits	(80)	(8)
Investment Management Expenses	(598)	(796)
HM Revenue and Customs	(476)	(342)
Sundry Creditors	(33)	-
	<u>(1,187)</u>	<u>(1,146)</u>

	31st March 2016 £000	31st March 2015 £000
Analysis of creditors		
Local authorities	(162)	-
Central government bodies	(476)	(342)
Other entities and individuals	(549)	(804)
	<u>(1,187)</u>	<u>(1,146)</u>

Note 22: Additional Voluntary Contributions

The Fund's AVC providers are Zurich Assurance and the Equitable Life Assurance Society. The table below shows information about these separately invested AVCs.

	2015/16	2014/15
Zurich Assurance		
Market Value at 31 st March	£1,134,250	£1,117,844
Contributions during the year	£33,101	£36,590
Number of members at 31 st March	48	50
Equitable Life Assurance		
Market Value at 31 st March	£192,259	£187,842
Contributions during the year	£0	£66
Number of members at 31 st March	32	32

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

London Borough of Hammersmith and Fulham

The Pension Fund is administered by the London Borough of Hammersmith and Fulham. The Council incurred costs of £412,812 in 2015/16 (£428,198 in 2014/15) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses.

In the year the Council contributed £17,777k in employer contributions to the Fund (2014/15 £17,626k).

As a result of the day to day administration, at 31st March 2016 the Council owed the Pension Fund a net amount of £174,042 (£88,399 at 31st March 2015). In addition £36,669 was owed by a Council maintained school in respect of March 2016 contributions.

Governance Arrangements

One member of the Pensions Sub-committee is a deferred member of the Hammersmith and Fulham Pension Fund. Members of the Sub-committee are required to make a declaration of interests at the beginning of each meeting.

Key management personnel

The Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members’ allowances detailed in section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit Regulations 2015) satisfy the key management personnel disclosure requirements of IAS24. This applies in equal measure to the accounts of the Hammersmith and Fulham Pension Fund.

The disclosures required by the legislation can be found in the main accounts of the London Borough of Hammersmith and Fulham.

Note 24: Agency Services

The Hammersmith and Fulham Pension Fund pays discretionary awards to the former employees of London Borough of Hammersmith and Fulham council. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the council. The gross sum paid out is disclosed below. At the balance sheet date the March 2016 reimbursement was outstanding. This amounted to £200k and is included in Note 23 Related Parties.

	2015/16	2014/15
	£000	£000
Payments on behalf of London Borough of Hammersmith and Fulham	2,433	-
	<u>2,433</u>	<u>-</u>

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



6. Contacts

www.lbhfpensionfund.org

Shared Service Pensions Finance Team

c/o Westminster City Council
City Hall
64 Victoria Street
London, SW1E 6QE
Email: pensionfund@lbhf.gov.uk

Bi-borough Pensions Manager

c/o Royal Borough of Kensington and Chelsea
The Town Hall
Hornton Street
London
W8 7NX
Email: pensions@rbkc.gov.uk

Surrey County Council

Pension Services
Surrey County Council
Room 243 County Hall
Penrhyn Road
Kingston upon Thames
Surrey, KT1 2DN
Email: myhelpdeskpensions@surreycc.gov.uk
Telephone: 020 8213 2802

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.

<p align="center">London Borough of Hammersmith & Fulham</p> <p align="center">AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p align="center">13 September 2016</p>	
<p>TREASURY OUTTURN REPORT 2015/16</p>	
<p>Report of the Cabinet Member for Finance - Councillor Max Schmid</p>	
<p>Open report</p>	
<p>Classification: For Information Key Decision: No</p>	
<p>Wards Affected: All</p>	
<p>Accountable Director: Hitesh Jolapara, Strategic Finance Director</p>	
<p>Report Author: Halfield Jackman, Treasury Manager</p>	<p>Contact Details: Tel: 020 7641 4354 E-mail: hjackman@westminster.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1. This report presents the Council's Outturn Treasury Report for 2015/16 in accordance with the Council's treasury management practices.

2. RECOMMENDATIONS

- 2.1. That this report be noted.

3. REASONS FOR CONSIDERATION

- 3.1. The Code of Practice on Treasury Management 2011, adopted by the Chartered Institute of Public Finance and Accountancy and later by the Council, requires the following:
 - Creation and maintenance of a treasury management policy statement which sets out the policies and objectives of the Council's treasury management activities. This was reported to the Cabinet in January 2012;
 - Creation and maintenance of treasury management practices which set out the manner in which the Council will seek to achieve those policies and objectives;
 - Receipt by the full Council of an annual treasury management strategy report for the year ahead and a mid-year review of the strategy;

- Receipt by the Cabinet Member for Finance and Strategy, the Audit and Transparency Committee and full Council of an annual review of the previous year (this report);
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and the execution and administration of treasury management decisions; and
- Delegation by the Council of the role of scrutinising of treasury management strategy and policy to a specific named body, which for this Council is the Audit and Transparency Committee.

4. INTRODUCTION AND BACKGROUND

4.1. Treasury management in this context is defined as:

“The management of the Council’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”¹

4.2. This annual treasury report covers:

- the treasury position as at 31 March 2016;
- the borrowing strategy for 2015/16;
- the borrowing outturn for 2015/16;
- compliance with treasury limits and prudential indicators;
- investment strategy for 2015/16; and
- investment outturn for 2015/16.

5. CURRENT TREASURY POSITION

5.1. The Council’s debt (all held with the Public Works Loan Board - PWLB) and investment positions at the beginning and end of the year were as follows:

£ million	31 March 2015 Principal	Rate/ Return at 31 March 2015	31 March 2016 Principal	Rate/ Return at 31 March 2016
Fixed Rate Borrowing				
General Fund (GF)	42.30	5.38%	39.62	5.11%
Housing Revenue Account (HRA)	205.30	5.38%	192.28	5.11%
Total / Weighted Average	247.60	5.38%	231.90	5.11%
Investments				
Total / Weighted Average	359.78	0.50%	299.24	0.59%

¹ Treasury Management Policy Statement adopted by Cabinet – 31 January 2012

5.2. The table below shows the allocation of interest paid and received during the year:

Fund	Interest Paid		Interest Received		Net £m
	Apportionment %	Amount £m	Apportionment %	Amount £m	
General Fund	17.1	(2.22)	62	1.25	(0.97)
Housing Revenue Account	82.9	(10.79)	25	0.48	(10.31)
other*	-	-	13	0.28	0.28
Total	100	(13.01)	100	2.01	(11.0)

* Other – Interest paid on balances held for Section 106 and other deposits.

5.3. Following the implementation of the self-financing initiative for housing, the Housing Revenue Account (HRA) is responsible for servicing 82.9% of the Council's external debt and the General Fund is responsible for the remainder.

5.4. **The Strategy for 2015/16**

5.5. The treasury strategy for 2015/16, approved by the Council on 2 February 2015, was based on the expectation that Bank rate would remain at the current level for most of the year.

5.6. Taking into account the worldwide economic climate it was considered appropriate to keep investments short-term and only invest with highly rated or UK Government backed institutions, resulting in relatively low returns compared to borrowing rates.

5.7. Due to the level of cash balances held by the Council (£360 million at 31 March 2015), it was anticipated that there would not be any need to borrow during 2015/16.

5.8. **Outturn for 2015/16**

5.9. Market expectations for an increase in Bank Rate moved during the year, starting at the third quarter of 2015, moving to the first quarter of 2016 and ending the year at the second quarter of 2017. Post year end the Base Rate has been cut to 0.25% and future increased pushed further back.

5.10. There has been some market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields as investors sought safe havens. Bank Rate remained unchanged at 0.5%. Growth in the UK's Gross Domestic Product fell steadily from an annual rate of 2.9% in the first quarter of 2015 to 2.1% in the fourth quarter. Inflation forecasts have also been revised downwards.

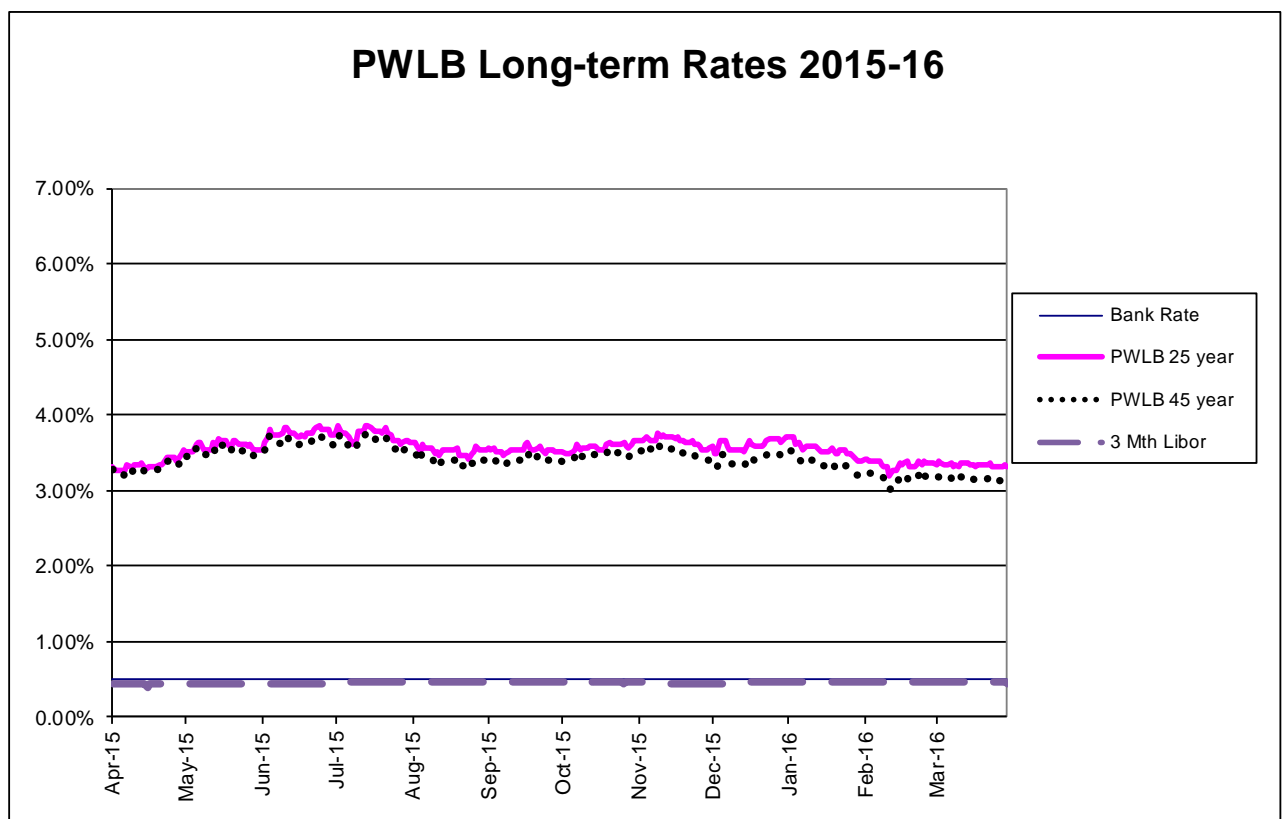
5.11. The European Central Bank commenced a quantitative easing programme in March purchasing sovereign bonds and securities from European institutions and national agencies at €60 billion a month. This is planned to continue until March 2017.

5.12. A majority Conservative government was elected in May 2015. The government has maintained the coalition's Government's fiscal policy but the recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position.

5.13. Treasury Borrowing

5.14. No new long-term borrowing was undertaken during the year. Public Works Loans Board (PWLB) debt maturing during the year, which was not refinanced, totalled £15.7 million with an average nominal interest rate of 9.3 per cent. This resulted in a reduction in debt to £232 million and the average interest rates went from 5.38% to 5.11%.

5.15. The following graph shows the levels of Bank of England Bank rate, three month London Interbank Offer Rate (LIBOR), PWLB 25 and 45 year rates during the year:



5.16. The Bank of England Bank rate remained at its historic low of 0.5% throughout the year, for the seventh successive year. Deposit rates remained depressed during the whole year due to the ongoing weak expectation as to when the Bank rate would start rising.

5.17. In general, there has seen some movement of PWLB rates throughout the year but rates ended close to where they started.

5.18. Housing Revenue Account (HRA) Self Financing

5.19. Following the implementation of the self-financing initiative the HRA could potentially be in a position where it is internally borrowing from the general fund. In 2015/16 the HRA PWLB debt of £192 million has dropped below the HRA CFR of £205 million, which generates internal borrowing of £13 million. This difference does not, as yet, exceed the value of HRA working balances. As such, the HRA could be considered to be borrowing from itself. Moving forwards, a policy will need to be considered concerning the charging of interest in the event that the HRA is internally borrowing from the general fund. HRA reserves and working capital, in excess of the internal borrowing, represents cash balances on which interest is allocated from the general fund. As at 31 March 2016, the HRA held cash balances of £70.4 million.

5.20. Capital Financing Requirement (CFR)

5.21. As at 31 March 2016, the Council had an under-borrowed position². This means that the capital borrowing need was not fully funded by existing external loan debt and the balance is funded by cash reserves (Internal borrowing).

The Closing Capital Financing Requirement analysed between General Fund and Housing Revenue Account.

£'000	31 st March 2015 CFR	31 st March 2015 DEBT	31 st March 2016 CFR	31 st March 2016 DEBT
GF CFR (Excluding DSG funded Schools Windows Borrowing)	45.182	-	44.179	-
GF CFR (DSG funded Schools Windows borrowing)	-	-	1.117	-
GF TOTAL	45.182	42.296	45.296	39.614
HRA TOTAL	204.846	205.302	204.846	192.282
TOTAL CFR/DEBT	250.028	247.598	250.142	231.896

NB: The 'headline' CFR shown above is the consistent with capital reports. The annual accounts disclose CFR of £267.58 million due to the inclusion of PFI, finance leases and deferred cost of disposal.

² The Capital Financing Requirement (CFR) represents the underlying cumulative need to borrow for the past, present and future (up to 2 years in advance) amounts of debt needed to fund capital expenditure (net of receipts). Debt can be met not only from external loans but also by the temporary use of internally generated cash from revenue balances i.e. internal borrowing.

5.22. Annual Investment Strategy for 2015/16

5.23. The 2015/16 Strategy was written with the knowledge that throughout the financial crisis institutions benefited from sovereign support but changes to the regulatory regime (Bail-in) meant support would be withdrawn and Credit ratings would fall at some point within the year. These changes did not reflect deterioration in the credit environment, more a realignment away from placing the burden on Governments (and taxpayers) on to institution bondholders.

5.24. Throughout the year the Council's strategy gradually moved away from fixed deposits with Banks to higher rated and more tradable investments like Government Treasury Bills (T/Bills), Supra-Nationals Banks and European Agencies, close to maturity Bonds, Certificates of Deposit and Commercial Paper.

- The Council strategy allowed investment in the following areas:
- An unlimited investment limit with the UK Government (DMO) deposits, UK gilts, Repos and T/Bills.
- Up to a maximum of £100 million per counterparty in Supra-national Banks, European Agencies and covered bonds debt on a buy to hold basis with maturity dates of up to five years. Transport for London(TfL) and Greater London Authority (GLA) for up to three years;
- No more than £25 million to be invested with any individual Money Market Fund.
- Any financial instrument held with a UK bank limited to £70 million depending on Credit rating and Government ownership above 25%. (A self-imposed limit of £50 million was implemented which has been further reduced temporarily to £25 million)
- Any financial instrument held with a Non-UK bank limited to £50 million. (A self-imposed limit of £30 million)

5.25. A small deposit was held in a National Westminster Bank call account to aid cash flow.

5.26. Investment Outturn for 2015/16

5.27. The investments outstanding at 31 March 2016 amounted to £299.24 million invested in short-term deposits. This compares with £359.78 million short-term investments at 1 April 2015.

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

(£m)	31/03/14	31/03/15	31/03/16
Liquid Deposits	-	-	0.90
Money Market Funds	39.20	34.15	33.70
Notice Accounts	25.00	14.00	19.90
Custodian Held Assets	189.50	212.13	204.74
Term Deposits	66.50	99.50	40.00
Total	320.20	359.78	299.24

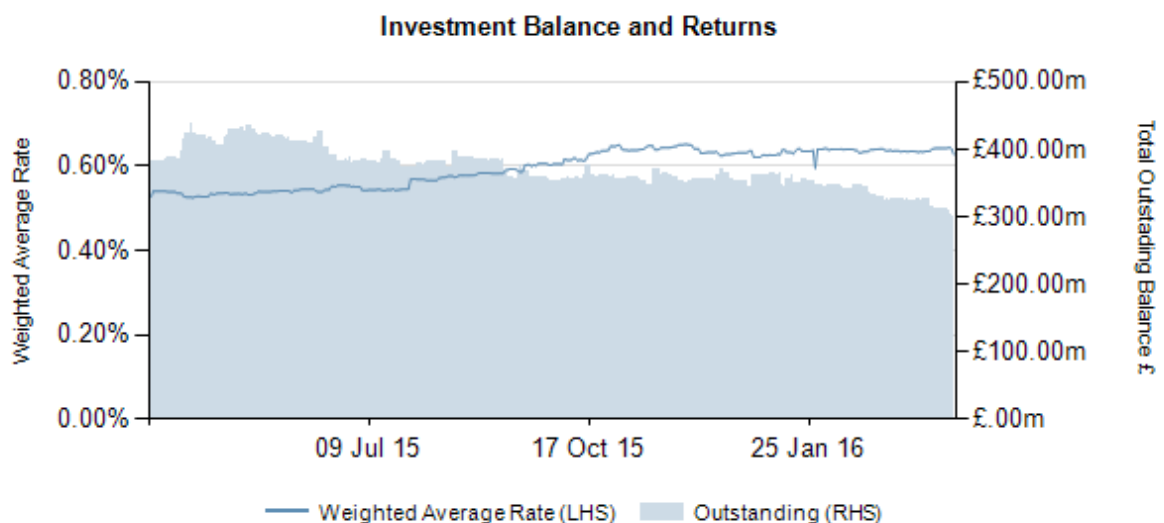
5.29. Investment balances reduced by £60 million during the year. The value of cash available for investment is impacted by:

- New borrowing and debt maturities,
- The capital programme – acquisitions and disposals
- Changes in reserves – additional reserves represent income banked for future use,
- Changes in debtors and creditors (working capital) – collecting debts more quickly increases cash balances while paying creditors more quickly leads to lower cash balances

5.30. Changes in cash are therefore an aggregation of many factors and are not equivalent to measuring the Council’s overall surplus or deficit in the year. For example a reduction in cash due to paying creditors more quickly could be seen as socially responsible, where as an increase in cash due to delaying payments will be seen in a less favourable light. The main factors impacting on the reduction in investment balances in 2015-16 are:

- Debt maturities of £16 million
- Cash in transit of £31 million not banked relating to schools, which is reflected in higher debtor balances.
- Reduction in creditors for grants and provisions of £12 million (cash reduction)
- Other factors in aggregation – net cash reduction of £1 million.

5.31. The investments outstanding during the year together with the average return are shown in the diagram below. Cash balances varied between £435 million and £300 million reflecting the timing of the Council’s income and expenditure. Balances tend to be highest in the June quarter due to grant and Council tax payments



5.32. The average return achieved on investments managed internally for the year was 0.59 per cent compared to the average 7 day money market rate (uncompounded) of 0.36 per cent. The total interest received of £2 million (compared with a weighted average of 0.50 per cent and a total interest £1.85 million for 2014/15). Interest rates remained low throughout the year; the Council follows a low risk strategy and does not seek potential higher returns which would increase counterparty risk.

6. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

6.1. During the financial year the Council operated within the treasury limits set out in the Council's Treasury Policy Statement and Treasury Strategy Statement. The outturn for Treasury Management Prudential Indicators is shown in **appendix A**.

6.2. Non Treasury related Prudential Indicators are set and monitored as part of the Council's Budget process.

7. CONSULTATION

7.1. N/A – for information only.

8. EQUALITY IMPLICATIONS

8.1. N/A – for information only.

9. LEGAL IMPLICATIONS

9.1. N/A – for information only.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. N/A – for information only.

11. RISK MANAGEMENT

11.1. N/A – for information only.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. N/A – for information only.

LOCAL GOVERNMENT ACT 2000

LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None.

LIST OF APPENDICES:

Appendix A – Treasury Management Prudential indicators


**LBHF – TREASURY MANAGEMENT PRUDENTIAL INDICATORS
2015/16**

Indicator	Approved Limit	Actual Debt	No. of days Limit Exceeded
Authorised Limit ³	£345m		None
Operational Boundary ⁴	£290m	£231.9m	None
Interest Rate Exposure	Lower Limit	Upper Limit	Actual at 31 Mar 2016
Fixed Rate Debt	£0m	£345m	£232m
Variable Rate Debt	£0m	£69m	£0m
Maturity Structure of Borrowing	Lower Limit	Upper Limit	Actual at 31 Mar 2016
Under 12 Months	0%	15%	3%
12 Mths to within 24 Mths	0%	15%	3%
24 Mths to within 5 years	0%	60%	11%
5 years to within 10 years	0%	75%	9%
Over 10 years	0%	100%	74%

³ The Authorised Limit is the maximum requirement for borrowing taking into account maturing debt, capital programme financing requirements and the ability to borrow in advance of need for up to two years ahead.

⁴ The Operational Boundary is the expected normal upper requirement for borrowing in the year.

Agenda Item 6

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>13 September 2016</p>	 <p>h&f hammersmith & fulham</p>
INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 APRIL TO 30 JUNE 2016	
Report of the Director for Audit, Fraud, Risk and Insurance	
Open Report	
Classification: For Information Key Decision: No	
Wards Affected: None	
Accountable Director: Moyra McGarvey, Director for Audit, Fraud, Risk and Insurance	
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 2016 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 2016.

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 24 audit reports were finalised in the first quarter of 2016/2017 from 1 April 2016 to 30 June 2016. In addition, 3 management letters and 2 follow up reports were issued.
- 5.1.3. One Nil assurance report was issued in this period for Fulham Primary School. 8 High, 8 Medium and 5 Low priority recommendations were raised. All recommendations have passed their due date at the time of writing and 3 Low, 2 Medium and 1 High Priority Recommendation have so far been reported as implemented.
- 5.1.4. One Limited assurance report was issued in July 2016 for HRD Health and Safety Checks. This is being reported to the September Committee now to avoid delay in reporting of our findings. 1 High, 5 Medium and 5 Low priority recommendations were raised. Two recommendation has passed their due date at the time of writing and one of these has been reported as implemented.
- 5.1.5. Two follows up were undertaken in the period:
 - 5.1.5.1. Melcombe Primary School where 15 of the 17 recommendations had been fully implemented, and 2 had been partly implemented; and
 - 5.1.5.2. Good Shepherd RC Primary School where 13 of the 17 recommendations had been fully implemented, 3 had been partly implemented, and 1 had not been implemented.
- 5.1.6. The results of our follow ups can be found in Appendix A.
- 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 are no outstanding draft reports at the time of writing.

- 5.1.9. There are now 66 audit recommendations where the target date for the implementation of the recommendation has passed and they have either not been fully implemented or the auditee has not provided any information on their progress in implementing the recommendation. This compares to 25 outstanding as reported at the end of the previous quarter and represents a deterioration in the position. We continue to work with departments and HFBP to reduce the number of outstanding issues.
- 5.1.10. The breakdown of the 66 outstanding recommendations between departments are as follows:
- Adult Social Care - 1
 - Children's Services (Non Schools) – 7
 - Schools - 29
 - Corporate Services – 12
 - Housing & Regeneration – 14
 - Environment Services - 3
- 5.1.11. 20 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. The table below shows the number of audit recommendations raised each year that have been reported as implemented. This helps to demonstrate the role of Internal Audit as an agent of change for the council.

Year	Number of recommendations due	Number of recommendations implemented
2013/14	248	248
2014/15	205	192
2015/16	154	101
2016/17	0	0

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 quarter 1 of the 2016/17 financial year.

Performance Indicators 2015/16

Ref	Performance Indicator	Target	Pro rata target	At 30 June 2016	Variance	Comments
1	% of deliverables completed	95%	24%	26%	+2%	20 deliverables issued out of a total plan of 77 (excluding exceptions)
2	% of planned audit days delivered	95%	24%	24%	0%	216 days delivered out of a total plan of 913 days
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	95%	100%	+5%	9 out of 9 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%	90%	-5%	9 out of 10 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%	3 out of 3 final reports issued within 5 working days.

5.3. Audit Planning

5.3.1. Amendments to the 2016/17 year Internal Audit plan 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**
None.

LIST OF APPENDICES:

Appendix A	Audit reports issued 1 April to 30 June 2016
Appendix B	Summary of Outstanding Audit Reports
Appendix C	Amendments to 2016/17 audit plan
Appendix D	Summary of Limited Assurance Reports
Appendix E	Outstanding Recommendations

Audit reports Issued 1 April to 30 June 2016

We have finalised a total of 24 audit reports for the period of 1 April to 30 June 2016. 3 Management letters were also issued and 2 follow ups were completed in the period.

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	2015/16	St John XXIII Catholic Primary School	Claire Chamberlain	Satisfactory
2	2015/16	Temporary Accommodation	Nilavra Mukerji	Satisfactory
3	2015/16	Fulham Primary School	Claire Chamberlain	Nil
4	2015/16	Housing Rents	Kathleen Corbett	Satisfactory
5	2015/16	Risk Management Compliance Review	Hitesh Jolapara	Satisfactory
6	2015/16	Public Health Joint Strategic Needs Assessments	Mike Robinson	Satisfactory
7	2015/16	Election Expenses	Kim Dero	Substantial
8	2015/16	Transition of Young People to Adults	Stella Baillie	Satisfactory
9	2015/16	Building Control	Maureen McDonald Khan	Satisfactory
10	2015/16	Mortuary Service	David Page	Satisfactory
11	2015/16	ELRS Departmental Risk Management	Mark Jones	Satisfactory
12	2015/16	Cambridge School	Claire Chamberlain	Satisfactory
13	2015/16	Parks Police	David Page	Satisfactory
14	2015/16	Corporate Services Risk Management	Hitesh Jolapara	Satisfactory
15	2015/16	Adult Social Care – Walk-Through Audit	Rachel Wigley	Satisfactory
16	2015/16	Semi-Independent Living Framework Procurement - Additional Places	Clare Chamberlain	Satisfactory
17	2015/16	Legal Services Governance	Tasnim Shawkat	Substantial
18	2015/16	Sexual Health Contract Management Review	Mike Robinson	Satisfactory
19	2015/16	Public Health Substance Misuse Contract Management and Procurement	Mike Robinson	Satisfactory
20	2015/16	HRD Health and Safety Checks	Nilavra Mukerji	Limited
21	2016/17	John Betts Primary School	Dave McNamara	Satisfactory
22	2016/17	Vehicle Fuel Contract	David Page	Satisfactory
23	2016/17	Gas Safety (Council Housing Properties)	Nilavra Mukerji	Satisfactory
24	2016/17	Internet Monitoring and Use of Social Media *	Ed Garcez	Satisfactory

Substantial Assurance

There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and few material errors or weaknesses were found.

Satisfactory Assurance

While there is a basically sound system, there are weaknesses and/or omissions which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Limited Assurance

Weaknesses and / or omissions in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.

No Assurance

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

Other Reports

Management Letters

No.	Audit Plan	Audit Title	Director
25	2015/16	Schools information Security Self-Assessment	Dave McNamara
26	2016/17	DBS Employee Checks	Debbie Morris
27	2016/17	Review of the Bank Reconciliation Process	Hitesh Jolapara

Follow ups

No.	Audit Plan	Audit Title	Total	Implemented	Partly Implemented	Not Implemented
28	2016/17	Melcombe Primary School	17	15	2	0
29	2016/17	Good Shepherd RC Primary School	17	13	3	1

Internal Audit reports in issue more than two weeks as at 30 June 2016

There are no outstanding reports at the time of writing.

Amendments to 2016/17 Audit Plan

	Department	Audit Name	Nature of Amendment	Reason for amendment
1	Corporate	Grants To Voluntary Organisations	Added	Added from contingency
2	Corporate	Anti-Fraud Service	Added	Added from contingency
3	Corporate	Members Allowances, Expenses, Hospitality and Declarations of Interests	Added	Added from contingency

Summary of Limited and Nil Assurance Reports

Ref	Audit and Scope	Details	Assurance / Risk
1	<p>Fulham Primary School</p> <p>The objectives of this review were to assess and evaluate the controls in the following areas:</p> <ul style="list-style-type: none"> • Governance and Leadership • Financial Management • Procurement • Staff Expenses & Petty Cash • Income • Payroll • Head Teachers Pay • Assets & Inventory • Leasing • Unofficial Funds 	<p>The London Borough of Hammersmith and Fulham's standard schools audits are carried out using an established probity audit programme. Audits are currently undertaken on a three year cycle unless issues dictate a more frequent review. The programme is designed to audit the main areas of governance and financial control. The programme's standards are based on legislation, the Scheme for Financing Schools and accepted best practice.</p> <p>8 High priority, 8 Medium priority, and 5 Low priority recommendations have been made. The key recommendations were as follows:</p> <ul style="list-style-type: none"> • The following policies and documents should be subject to review and approval by full the Governing Body on an annual basis: School Finance Policy; and Charging Policy. • The School should revise the Scheme of Delegation to ensure that the financial limits of delegation are clear and consistent across all documents and include information detailing who would cover financial duties in the event of a staff absence. • Bank reconciliations should be conducted on a monthly basis as a minimum. • The School Financial Value Standard (SFVS) self-assessment should be reassessed in light of the audit findings and, where appropriate, appropriate remedial action taken. • Where costs relating to transactions can be identified in advance, a purchase order should be raised and authorised prior to placing the order with the supplier. The School should also ensure invoices are paid only after the goods or services have been received by the School. • Quotations and Tenders should be obtained and retained for all high value purchases in accordance with the requirements of the School's Finance Policy and Scheme of Delegation. • Before paying invoices to self-employed individuals, the School should confirm the status of the person. • The School should ensure that adequate records are maintained for all income collected showing a clear trail between cash collection and banking. • Evidence of relevant qualifications should be obtained prior to the commencement of employment. Relevant qualifications should be retained in the successful candidate's personnel file. DBS checks should be progressed as soon as confirmation of employment is obtained and prior to the individual's employment start date. As a minimum a DBS barred list check should be conducted in instances where individuals are working under supervision. 	Nil

		<ul style="list-style-type: none"> • Evidence of seeking value for money on large leases should be obtained and retained in accordance with the requirements of the School's Finance Policy. • The School should develop an asset register for all valuable and portable items that belong to the School. • The School should ensure that appropriate payment documentation is maintained for all transactions (purchase orders if applicable, receipts and/or invoices). Regular checks should be undertaken on the school fund to ensure that this is being complied with. <p>Recommendations were accepted by management, and were due for implementation by April 2016. A further audit will be scheduled when all recommendations are confirmed as implemented.</p>	
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Ref	Audit and Scope	Details	Assurance / Risk
2	<p>HRD Health and Safety Checks</p> <p>The objectives of this review were to assess and evaluate the controls in the following areas:</p> <ul style="list-style-type: none"> • Roles, responsibilities and governance. • Policies, procedures and training. • Identification of properties requiring safety checks. • Completion of Gas Safety checks and TBR. • Completion of EICR and Remedial Works. • Asbestos Management Reports. • Completion of Communal Hot Water Tank Chlorination Tests. • Portable Appliance Testing • Performance Management and Reporting. 	<p>A 10 year repairs and maintenance contract with MITIE Property Services UK (MITIE) came into effect on 1st November 2013. This has consolidated eight previous contracts into a single borough wide contract and is projected to save the Council approximately £2 million per year when compared to the previous arrangements on a like for like basis. The new contract with MITIE incorporates the provision for gas servicing, checking electrical installations, Portable Appliance Testing (PAT) and completion of water checks on communal water tanks. The completion of asbestos surveys lies with Asbestos Consultants Europe Ltd (ACE) under a contract which commenced 1 November 2014. Records of asbestos surveys are held as an interim measure on a database maintained by Ayerst Ltd.</p> <p>1 High priority, 5 Medium priority, and 5 Low priority recommendations have been made. The key recommendations were as follows:</p> <ul style="list-style-type: none"> • Corporate policies should be reviewed and updated as required on an annual basis. Responsibility for overseeing review of policies should be allocated to an individual to help ensure policies in need of review are promptly identified. • The unsatisfactory completion of EICRs and should be raised at the Repairs Core Group and MITIE instructed to develop a plan to reperform the EICRs Completion of checks. Remedial works should be monitored more closely, including on site checks where there are concerns over the quality of work undertaken. • Where an existing contractor is engaged to undertake the provision of services for a temporary period, this should be formally confirmed in a contract, subject to agreement by Legal Services. • ACE should be required to submit a monthly performance report stating the numbers of asbestos surveys completed against plan. • Service Reports, Cleansing Disinfectant Certificates and Legionella Test Certificates should be obtained for all properties where these are outstanding. Progress with completing of checks and receipt of certificates should be monitored and reported to senior management. <p>Recommendations were accepted by management, and were due for implementation by December 2016.</p>	Limited

Summary of Outstanding Recommendations

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

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
1	2015/16	Adult Social Care	Section 75 Agreements - Mental Health	Limited	<p>LBHF and WLMHT should ensure the Section 75 agreement is finalised and signed.</p> <p>If necessary, the partners should consider practical ways of facilitating the finalisation and signing of the agreement. For example, certain schedules and appendices that contain detail that is likely to change over the life of the agreement could be included in a separate document that is reviewed and agreed annually by the partners. Such schedules and appendices could include: Schedule 1, Appendix 1 Performance indicators; Schedule 4, section 1 Partnership Staffing; Schedule 4, Appendix 1 Service Line Management Structure; and Schedule 5, Appendix 1 Staff Pay Budgets.</p> <p>The benefit of a Section 75 agreement written in this way is that it is less likely to quickly become out of date due to structural, financial and programmatic changes.</p> <p>Appropriate legal consultation should be made in consideration practical ways of facilitating the finalisation and signing of the agreement.</p>	1	31/03/2016	Stella Baillie, Director of Integrated Care	<p>Implementation is ongoing and will be completed shortly.</p> <p>The plan is to refresh all three section 75 agreements taking Audit's advice to develop it in such a way that the schedules can be updated on an annual basis.</p> <p>An officer has now been appointed to complete this work which is due to be completed by end of December 2016</p>

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
2	2014/15	Children's Services	3BM Service Management	Satisfactory	<p>An exit strategy should be developed to, ensure continuity of service in the event of the contractual relationship ending. This should include consideration of:</p> <ul style="list-style-type: none"> • Continuing Service Requirements; • Data Security and Privacy; • Knowledge and Documentation Transfer; • Costs; and • People <p>In addition, business continuity arrangements in the event of supplier failure should be defined.</p>	2	31/03/2016	Dave McNamara, Director for Finance and Resources (CHS)	The recommendation is a standard approach for the development of an exit strategy. The services that 3BM provide are strategic support to the council, project management of commissioned projects and estate management. There are specific responses to these but not consolidated into a strategy. The contract will be subject of an extension during 201/17 and these issues will be addressed then
3	2014/15	Children's Services	3BM Service Management	Satisfactory	<p>Monitoring of contract performance should be undertaken on a monthly or quarterly basis. This should include monitoring against the table of performance standards and deductions within the contract.</p> <p>An annual review meeting should be held in order to discuss the contract, past performance, achievements and issues, and future priorities, objectives and challenges. Where requirements are not being met, an action plan should be put in place and monitored against. Deductions should be made from the contract payment where required. The Council should seek independent validation of the performance information and key contractual requirements provided. A further recommendation has been included in relation to the holding regular Partnership Board meetings.</p>	2	31/03/2016	Dave McNamara, Director for Finance and Resources (CHS)	Monitoring meetings will be amended as requested to included performance against standards but will need to retain focus on critical business activities. Partnership Board has been reinstated.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
4	2014/15	Children's Services	3BM Service Management	Satisfactory	Scheduled repayments, including any interest payments should be monitored and recorded as and when received. 3BM should be advised that schools should not be invoiced in advance of services being provided. Where this is necessary, it should be kept to a minimum (such as monthly in advance).	2	31/03/2016	Dave McNamara, Director for Finance and Resources (CHS)	Repayments are to be monitored. However it is not agreed that 3BM should change their business model that was agreed with schools at the outset. As a fledgling organisation, 3BM do not have the resources to finance their expenditure without payments in advance. This was acknowledged when the Councils supported the establishment of the social enterprise
5	2014/15	Children's Services	3BM Service Management	Satisfactory	Partnership Board meetings should be held on at least a quarterly basis as per the terms of reference in place. A Red/Amber/Green dashboard report of performance against the agreed standards should be presented to each meeting for discussion as agreed at the January 2014 meeting. Alternatively, the Terms of Reference in place for the Partnership Board should be updated to state that meetings should be held less frequently, with additional meetings convened as necessary.	2	31/03/2016	Dave McNamara, Director for Finance and Resources (CHS)	No update received.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
6	2014/15	Children's Services	Framework Application (Children's)	Satisfactory	The Council should work with all relevant partners to agree and implement an appropriate Disaster Recovery Test plan, with all lessons learned being communicated and updated into the plans.	2	31/01/2016	Dave McNamara, Director for Finance and Resources (CHS)	We had scheduled a DR Test with Corelogic in August 2015 but due to connectivity issues this had to be abandoned. The person dealing with this left soon after and we are waiting for a date when we can reschedule. They have recently appointed a new Infrastructure Manager and hope to reschedule later this month. Once we have a successful test, we will schedule this in annually.
7	2014/15	Children's Services	School Admissions	Satisfactory	The reasons and evidence used in determining which applications received after the deadline can be accepted and processed, should be logged and retained.	2	31/10/2015	Ian Higgs, Borough Director of Schools Quality and Standards	No update received.
8	2015/16	Children's Services	All Saints CE Primary School	Satisfactory	The School Development Plan and Staffing Structure should be subject to review and approval by the Governing Body on an annual basis.	2	31/12/2015	Dave McNamara, Director for Finance and Resources (CHS)	No update received.
9	2015/16	Children's Services	All Saints CE Primary School	Satisfactory	The Governing Body should discuss the options available to the School before entering contracts. The School should obtain quotes and tenders as per the Schools financial policy before entering a contract with a supplier or document the justification for not doing so.	2	31/12/2015	Dave McNamara, Director for Finance and Resources (CHS)	No update received.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
10	2015/16	Children's Services	Askham Contact Centre	Satisfactory	Management should investigate if any interim income monitoring measures can be sourced to provide some assurance over the current income due and paid.	2	31/03/2016	Steve Miley, Director of Family Services	No update received.
11	2015/16	Children's Services	Avonmore Primary School	Satisfactory	<p>The following policies and documents should be subject to review and approval by the full Governing Body on an annual basis:</p> <ul style="list-style-type: none"> • Avonmore Primary School Financial Procedures; • Staff Structure; and • Pay Policy. <p>The School should ensure an asset check is conducted on an annual basis and that the results are presented to the full Governing Body or a delegated Committee on an annual basis.</p> <p>In all cases review or approval should be documented within meeting minutes.</p>	2	30/04/2016	Dave McNamara, Director for Finance and Resources (CHS)	No update received.
12	2015/16	Children's Services	Avonmore Primary School	Satisfactory	Quotations and Tenders should be obtained and retained for all high value purchases in accordance with the requirements of the School's Financial Procedures.	2	30/04/2016	Dave McNamara, Director for Finance and Resources (CHS)	No update received.
13	2015/16	Children's Services	Avonmore Primary School	Satisfactory	The School should include and maintain all relevant details of assets held at the School including serial numbers, actual or estimated values of the assets, on loan/disposed of items and date of acquisition of items where appropriate on the asset register.	2	31/01/2016	Dave McNamara, Director for Finance and Resources (CHS)	No update received.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
14	2015/16	Children's Services	Cambridge School	Satisfactory	<p>A purchase order should be raised and authorised by a senior officer prior to placing the order with the supplier.</p> <p>All invoices should be signed as authorised by the head teacher prior to payment being made.</p> <p>Deliveries of goods and services should be checked against the invoice and original order, and evidenced as such by the officer checking the quality and quantity of the goods/services, before any invoice is paid. Where possible, the officer checking the goods/services received should be independent of the person responsible for the administration of orders and payments.</p> <p>Signatures should be accompanied by a stamp or brief annotation to clarify what they represent.</p>	2	30/06/2016	Dave McNamara, Director for Finance and Resources (CHS)	No update received.
15	2015/16	Children's Services	Cambridge School	Satisfactory	<p>All petty cash claims should be authorised prior to payment.</p> <p>All overtime claims should be signed off as accurate by the claimant.</p>	2	30/06/2016	Dave McNamara, Director for Finance and Resources (CHS)	No update received.
16	2015/16	Children's Services	Cambridge School	Satisfactory	<p>Petty cash reconciliations should be undertaken on a monthly basis and retained on file with evidence of review by the officer preparing the report and a second senior officer, such as the Headteacher.</p>	2	30/06/2016	Dave McNamara, Director for Finance and Resources (CHS)	No update received.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
17	2015/16	Children's Services	Cambridge School	Satisfactory	The asset register should be updated on a regular basis. An annual asset check should be carried out by an independent officer and the outcome of the check should be reported to the Governing Body.	2	30/06/2016	Dave McNamara, Director for Finance and Resources (CHS)	No update received.
18	2015/16	Children's Services	Fulham Primary School	Nil	<p>The following policies and documents should be subject to review and approval by the full Governing Body on an annual basis:</p> <ul style="list-style-type: none"> • School Finance Policy and Scheme of Delegation; and • Charging Policy. <p>The School should ensure that the results of the annual School Fund audit are presented to the full Governing Body or a delegated Committee.</p> <p>In all cases, review or approval should be documented within the relevant meeting minutes.</p>	2	30/04/2016	Dave McNamara, Director for Finance and Resources (CHS)	No update received.
19	2015/16	Children's Services	Fulham Primary School	Nil	<p>The School should ensure that the Committee Terms of Reference documents are fully completed.</p> <p>The School should revise the Scheme of Delegation to ensure that the financial limits of delegation are clear and consistent across all documents and include information detailing who would cover financial duties in the event of a staff absence.</p> <p>The School should ensure that the document stating the roles and responsibilities of Governors is fully completed and provided to all Governors in post.</p>	2	30/04/2016	Dave McNamara, Director for Finance and Resources (CHS)	No update received.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
20	2015/16	Children's Services	Fulham Primary School	Nil	Petty cash reconciliation documents and payroll reports should be produced on a monthly basis and retained on file with evidence of review by the officer preparing the report and a second senior officer, such as the Head Teacher.	2	31/12/2015	Dave McNamara, Director for Finance and Resources (CHS)	No update received.
21	2015/16	Children's Services	Fulham Primary School	Nil	Bank reconciliations should be conducted on a monthly basis as a minimum as required, with both closing and opening balances fully reconciled.	2	31/12/2015	Dave McNamara, Director for Finance and Resources (CHS)	No update received.
22	2015/16	Children's Services	Fulham Primary School	Nil	The School Financial Value Standard (SFVS) self-assessment should be reassessed in light of the audit findings and, where appropriate, appropriate remedial action taken.	1	30/04/2016	Dave McNamara, Director for Finance and Resources (CHS)	No update received.
23	2015/16	Children's Services	Fulham Primary School	Nil	Where costs relating to transactions can be identified in advance, a purchase order should be raised and authorised prior to placing the order with the supplier. Management should remind staff that all undisputed invoices should be paid within 30 days from receipt. Where invoices are disputed, these should be annotated as such. The School should ensure invoices are paid only after the goods or services have been received by the School. In exceptional circumstances where the School can justify payments in advance, the reasons should be stated on the payment documentation	1	Immediate	Dave McNamara, Director for Finance and Resources (CHS)	No update received.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
24	2015/16	Children's Services	Fulham Primary School	Nil	Quotations and Tenders should be obtained and retained for all high value purchases in accordance with the requirements of the School's Finance Policy and Scheme of Delegation.	1	Immediate	Dave McNamara, Director for Finance and Resources (CHS)	No update received.
25	2015/16	Children's Services	Fulham Primary School	Nil	Before paying invoices to self-employed individuals, the School should confirm the status of the person by completing a tax questionnaire or obtaining an explicit statement from the individual's to confirm their employment status. If there is any doubt, the person must be paid through the payroll.	2	Immediate	Dave McNamara, Director for Finance and Resources (CHS)	No update received.
26	2015/16	Children's Services	Fulham Primary School	Nil	The School should ensure that the petty cash advance limit is adhered to and that the petty cash account is only used for emergency purposes. Where the current limit is considered too low, this may be increased with approval from the Governing Body.	2	30/04/2016	Dave McNamara, Director for Finance and Resources (CHS)	No update received.
27	2015/16	Children's Services	Fulham Primary School	Nil	The School should follow up and ensure that the identified staff member's employment contract is received, signed and a copy is retained on file. Two written references should be obtained for candidates prior to the commencement of employment. These references should be retained in the successful candidate's personnel file. Evidence of relevant qualifications should be obtained prior to the commencement of employment. Relevant qualifications should	1	Immediate	Dave McNamara, Director for Finance and Resources (CHS)	No update received.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
					be retained in the successful candidate's personnel file. DBS checks should be progressed as soon as confirmation of employment is obtained and prior to the individual's employment start date. As a minimum a DBS barred list check should be conducted in instances where individuals are working under supervision.				
28	2015/16	Children's Services	Fulham Primary School	Nil	The School should document approval of the ISR for the Head Teacher and Deputy Head Teacher.	2	30/04/2016	Dave McNamara, Director for Finance and Resources (CHS)	No update received.
29	2015/16	Children's Services	Fulham Primary School	Nil	The School should ensure the leases are approved by the Governing Body or other delegated Committee where appropriate. The award of any lease, and reasons for supplier selection, should be documented in the meeting minutes of the Governing Body or other delegated Committee. Evidence of seeking value for money on large leases should be obtained and retained in accordance with the requirements of the School's Finance Policy. The School should retrospectively determine the types of leases held by the School to confirm they are appropriate.	1	30/04/2016	Dave McNamara, Director for Finance and Resources (CHS)	No update received.
30	2015/16	Children's Services	Fulham Primary School	Nil	The School should develop an asset register for all valuable and portable items that belong to the School, including but not limited to: IT equipment, laptops, camcorders, cameras,	1	30/04/2016	Dave McNamara, Director for Finance and	No update received.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
					valuable instruments etc as appropriate. The register should contain relevant details including: <ul style="list-style-type: none"> • Date of acquisition • Serial number • Description of item • Location • Cost/estimated replacement value • On Loan/Disposed of. The School should then ensure that the asset register is updated on a regular basis and that an annual asset check is carried out by an independent officer and reported to the Governing Body			Resources (CHS)	
31	2015/16	Children's Services	Fulham Primary School	Nil	The School should ensure that all valuable and portable equipment (except leased equipment) is visibly and indelibly security marked as being the property of the School. Marking could be undertaken as part of the annual check of the asset register.	2	30/04/2016	Dave McNamara, Director for Finance and Resources (CHS)	No update received.
32	2015/16	Children's Services	St John XXIII Catholic Primary School	Satisfactory	The register of pecuniary interests should be brought up to date and when reviewed annually, all Governors should sign it promptly.	2	28/02/2016	Dave McNamara, Director for Finance and Resources (CHS)	No update received.
33	2015/16	Children's Services	St John XXIII Catholic Primary School	Satisfactory	The Governing Body or delegated committee should review and approve the Scheme of Delegation, Pay and Charging Policies.	2	31/12/2015	Dave McNamara, Director for Finance and Resources (CHS)	No update received.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
34	2015/16	Children's Services	St John XXIII Catholic Primary School	Satisfactory	The School should ensure appropriate references are obtained prior to the applicant being granted employment. Documents should be retained on file. HR should be promptly notified of leavers.	2	31/12/2015	Dave McNamara, Director for Finance and Resources (CHS)	No update received.
35	2015/16	Children's Services	St Stephen's Primary School	Satisfactory	Before paying invoices to self-employed individuals, the School should confirm the status of the person by completing an employment status check such as the one on the HMRC website. If there is any doubt, the person should be paid through the payroll.	2	31/05/2016	Dave McNamara, Director for Finance and Resources (CHS)	No update received.
36	2015/16	Children's Services	St Stephen's Primary School	Satisfactory	Purchase orders should be raised on SIMS for all goods and services where the cost is known in advance.	2	31/05/2016	Dave McNamara, Director for Finance and Resources (CHS)	No update received.
37	2015/16	Children's Services	St Stephen's Primary School	Satisfactory	All staff claiming overtime or other additional payments should complete and sign a timesheet or claim form, which is subsequently authorised by the relevant budget holder or Head Teacher.	2	31/05/2016	Dave McNamara, Director for Finance and Resources (CHS)	No update received.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
38	2014/15	Corporate Services	Mobile Device Security	Satisfactory	<p>Management should draft, agree and communicate a specific IT security policy that covers mobile device usage for Tri-Borough work. All users using mobile devices, whether issued by the Tri-Borough or not, should be required to formally sign off their acceptance of relevant policies before being issued with a Tri-Borough issued mobile device or before having their own device configured for Tri-Borough use. The development of relevant policies should also be supported by appropriate user training.</p>	2	30/04/2015	Ed Garcez, Chief Information Officer	<p>The IM team are working alongside the Mobile Working project team in order to assist in the drafting of guidance and policies. It is expected that the guidance will be complete, and the policies signed off</p> <p>It should be noted that:</p> <ul style="list-style-type: none"> • all three councils ask staff to sign up to a personal commitment statement or information security policy, the principles of which need to be carried through to the guidance drafted for specific projects. • Phase 2 of the Learning and Development training programme is currently taking place, with mandatory e-learning for all staff on information security and data protection to be completed and rolled out across the three boroughs by October 2016. • A new Information Security Policy framework with codes of practice on information handling and security classification is planned to be authorised by chief officers in June and July 2016.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
39	2014/15	Corporate Services	Tri borough Cloud Computing	Satisfactory	The Tri-Borough should ensure continuous compliance of their vendors and Cloud Service Providers with applicable regulations such as: PCI DSS, ISO 27001, EU Data Protection Regulations, Cloud Security Alliance Control Matrix, ISAE 3402, SSAE 16, and SAS 70 Type II.	2	31/03/2015	Ed Garcez, Chief Information Officer	<p>31 August 2016 update:</p> <p>A temporary IG manager was recruited at the beginning of August. The new temporary IG manager is leading on the privacy impact assessments (PIA) review which is due for completion by October, delayed due to inability to recruit a satisfactory individual.</p> <p>A new quarterly report is being prepared by the new temporary IG manager and will be ready for circulation to senior management by the end of October, as planned.</p> <p>Corporate Procurement are implementing the Performance Milestones in the capitalEsourcing system as listed above. There are 11 LBHF contracts on capitalEsourcing that involve a cloud based system. Contract Managers have been informed about the recommendations made by audit and the contract performance is being assessed and milestones created.</p>

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
40	2015/16	Corporate Services	Corporate Procurement	Satisfactory	<p>The Commercial Director, once appointed, should:</p> <ol style="list-style-type: none"> 1. Ensure a new corporate procurement strategy is developed in order to provide clarity regarding the future direction of LBHF Corporate Procurement. 2. Decide on the structure of the LBHF procurement function and approach to procurement that will be used. 3. Work with WCC and RBKC to review and update as necessary the existing shared-service procurement policies, procedures, and oversight arrangements in order to ensure they are efficient and effective. 4. Consider whether a procurement skills training programme would be appropriate for LBHF. 	1	31/03/2016	Michael Hainge, Commercial Director	<p>1. Draft strategy has been written and is being considered by the Cabinet Member. 2. Contract management has been identified as a weakness and the link between procurement and contract management needs to be defined and strengthened. A review of the contract management of contracts is underway and the final structure of the new team will be determined once this is complete. 3. Clear political direction has been given that procurement for H&F should stand alone except where shared service arrangements make joint working necessary. Shared services in Adults and Children's have their own procurement resources. 4. Training in commercial and contract management is underway.</p>

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
41	2015/16	Corporate Services	Corporate Procurement	Satisfactory	<p>1. The contract management framework should be finalised and rolled out, with accompanying training, in order to ensure a consistent approach to contract management across the Council.</p> <p>2. Compliance monitoring should be undertaken to ensure that this approach is being complied with.</p> <p>3. To reiterate points made at the May 2015 Procurement Board meeting, this framework should:</p> <p>a. Include more guidance on performance management and when contract extensions are permissible;</p> <p>b. Stress the importance of dealing robustly with contract breaches and poor performance by levelling defaults, remedies, and liquidated damages as appropriate; and</p> <p>c. Tie in more closely with the capitalEsourcing system, which should be covered in the guidance.</p>	2	31/01/2016	Michael Hainge, Commercial Director	<p>1. Contract management training is underway. A review of contract management is underway that will test H&F contract management against international standards. Once complete these standards will be embedded and appropriate governance put in place. 2. See previous reply. 3. a. The new procurement strategy required under Contract Standing Orders addresses this point. b. this point is answered in 1. above. c. Capital e-sourcing is under review and may not be an optimum solution for H&F</p>

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
42	2015/16	Corporate Services	High Level Review of New Systems and Processes	Limited	The process for requesting, approving changes to supplier details should be formalised and built into the workflow on ABW.	2	30/04/2016	Maria Benbow Head of Commercial Contracts	This functionality has been built into the workflow on ABW, but has not been released into live while work continues to cleanse the supplier address books. Full resolution, which enforces setting up the supplier in advance of them being used, is also dependent on achieving the full "no purchase order; no pay" regime As part of the overall re-plan of the outstanding deliverables, implementation of "no PO – no pay" will commence in September for WCC. Plans are being considered for H&F and RBKC.
43	2015/16	Corporate Services	High Level Review of New Systems and Processes	Limited	<p>A detailed plan should be developed showing which amendment tables should be activated for the purposes of logging amendments to the database records in the Agresso Business World system.</p> <p>A full list of amendment tables to be considered including details of which fields the tables relate to, what information would be retained by each, and retention periods should be created as part of this process.</p> <p>As part of the implementation process system testing and capacity testing should be undertaken to ensure the amendment tables are working correctly and data is being captured.</p>	1	31/05/2016	Maria Benbow Head of Commercial Contracts	A detailed plan showing which amendment tables have been activated and which have not has been developed. This includes details of which fields the tables relate to, what information is retained by each and retention periods. Our recommendations for amendment logging have been shared with BT, but there remains a balance to be struck between switching on amendment logging and system speed. So, for example, amendment logging for the position register is switched on, but amendment logging for

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
									position relations has not. This is because there are 125 position relations and switching on amendment logging for this number of relations at the present time will reduce system responsiveness. These matters will be resolved as we address system responsiveness through the re-plan of the outstanding deliverables and the implementation of Update 4.7. Regression testing of Update 4.7 will take place from September onwards and conclude on 19th December, but a date for implementation has yet to be agreed.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
44	2015/16	Corporate Services	High Level Review of New Systems and Processes	Limited	<p>The suite of exception and monitoring reports should be developed and run and monitored on a periodic basis.</p> <p>The content of each report, frequency of reporting, report owner, and audience should also be defined.</p> <p>This approach should also be extended to exception reports / alerts for each interface with Agresso.</p>	1	30/04/2016	Maria Benbow Head of Commercial Contracts	We are continuing with the task of developing a suite of exception reports and putting these into operation. The frequency with which these reports will be run is being agreed with the BT Shared Service Centre (SSC) along with the responsibility for correcting the errors identified. However, the deadline for implementation has not been met because, although the majority of the HR reports have passed UAT, they became the subject of commercial discussions connected with payment for the work. This has now been resolved and plan to promote the reports to live are being implemented.
45	2015/16	Corporate Services	IDOX Document Management System (DMS)	Satisfactory	<p>Management should implement the following:</p> <ul style="list-style-type: none"> • Investigate the current reporting capabilities within the DMS system for reports to be generated of users on the system, as well as their access roles and the permissions per role; • A process to periodically report and review users roles and permissions to ensure that access has been granted on a need basis; and • Revoke / remove inadequate permissions, if identified. 	2	31/03/2016	Mahmood Siddiqi, Director for Transport and Highways	No update received.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
46	2015/16	Corporate Services	IDOX Document Management System (DMS)	Satisfactory	<p>In line with the Council's security policy, the following logical controls should be implemented in the IDOX Document Management System:</p> <ul style="list-style-type: none"> • Password combination of alphabetic and numeric characters including special characters. • Minimum password length of eight characters. • Password violations set to a minimum of three unsuccessful access logon attempts. • Passwords are force changed every 30-90 days. • Log, report and review access violation attempts. 	2	31/03/2016	Mahmood Siddiqi, Director for Transport and Highways	Access to the Idox dms will be changed to be via the Uniform system which already has single sign on. This is part of an upgrade from v9.1 to v10 of Uniform scheduled for mid-June
47	2015/16	Corporate Services	IDOX Document Management System (DMS)	Satisfactory	<p>Management should implement the following:</p> <ul style="list-style-type: none"> • Formally document the user access management processes for granting and amending access to and for removing access from the IDOX DMS System. • Establish a process to periodically report and review user access and if identified, revoke access from leavers on the system. 	2	29/02/2016	Mahmood Siddiqi, Director for Transport and Highways	Access to the Idox dms will be changed to be via the Uniform system which already has single sign on. This is part of an upgrade from v9.1 to v10 of Uniform scheduled for mid-June

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
48	2015/16	Corporate Services	Third Party Remote Access	Satisfactory	Management should ensure there is a detailed 3rd party remote access procedures that details all the processes that services must follow. This should be formally communicated to all relevant users and services.	2	30/04/2016	Ed Garcez Chief Information Officer	31/05/16 - KN - Process has been written and reviewed by Service Desk and Field Engineering. Awaiting update to QMS. 11/04/16 - KN - Not yet completed due to unforeseen higher priority work since dates were initially agreed (0365 and Windows 2003). Request scheduled completion date changed to 31/05/16. AD to work with Service Desk to ensure Service Desk review and update process for third party remote access requests.
49	2015/16	Corporate Services	Third Party Remote Access	Satisfactory	Evidence should be provided which confirms accounts are expired after 90 days inactivity and these remain disabled until a formal request is received for re-activation.	2	31/05/2016	Ed Garcez Chief Information Officer	31/05 - KN - Awaiting reassurance and confirmation of current process. Escalated. 11/04/16 - KN - Not yet completed due to unforeseen higher priority work since dates were initially agreed (0365 and Windows 2003). Request scheduled completion date changed to 31/05/16. AD to work with Systems Team to verify Active Directory settings and that operational; process is in place and followed.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
50	2014/15	Housing & Regeneration	Housing Health and Safety of Service Users	Satisfactory	A schedule for the review and updating of policies and procedures should be developed. This should contain all the policies and procedures; the date by which the review should be completed; the date of the next review; and sign off when the review has been completed.	2	30/04/2016	Nilavra Mukerji Director of Housing Services	No update received.
51	2014/15	Housing & Regeneration	Housing Health and Safety of Service Users	Satisfactory	A policy should be created for the management of contractor health and safety. As a result of this policy, there should be some form of inspections/audits carried out in order to gain assurance that contractors are working in line with Council and regulatory health and safety requirements.	2	30/04/2016	Nilavra Mukerji Director of Housing Services	No update received.
52	2014/15	Housing & Regeneration	Housing Health and Safety of Service Users	Satisfactory	The Health and Safety Manager should review and update policies and include process maps so that staff are aware of their duties. These process maps should be communicated to staff to help ensure they are aware of their roles.	2	30/04/2016	Nilavra Mukerji Director of Housing Services	No update received.
53	2015/16	Housing & Regeneration	Garages	Limited	A periodic check of suspense account items and activity should be undertaken by a second more senior officer.	2	31/05/2016	Nilavra Mukerji Director of Housing Services	No update received.
54	2015/16	Housing & Regeneration	Garages	Limited	The draft re-charging policy should be approved and implemented to allow the garages team to charge former tenants a clearance charge if they have not cleared the garage to a suitable standard.	2	30/06/2016	Nilavra Mukerji Director of Housing Services	No update received.


Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
55	2015/16	Housing & Regeneration	Garages	Limited	Budget monitoring responsibilities should be formally delegated to ensure periodic monitoring is undertaken and evidence of this is readily available. Consideration should be given to whether the Garages team should monitor income from garages.	2	30/04/2016	Nilavra Mukerji, Director of Housing Services	No update received.
56	2015/16	Housing & Regeneration	Housing Rents	Satisfactory	A periodic check of suspense account items and activity should be undertaken by a second more senior officer.	2	30/06/2016	Kath Corbett Director of Housing and Regeneration	No update received.
57	2015/16	Housing & Regeneration	Housing Rents	Satisfactory	Compensation payments should be authorised in line with the Scheme of Delegation. Spot checks should be conducted to confirm this requirement is being complied with.	2	30/06/2016	Kath Corbett Director of Housing and Regeneration	No update received.
58	2015/16	Housing & Regeneration	Temporary Accommodation	Satisfactory	Routine periodic inspections should be undertaken on Council owned Temporary Accommodation properties to assess the performance and quality of the service provided. Furthermore, routine inspections should be undertaken on Non-Council Properties on an annual basis to assess general condition and compliance with health and safety requirements.	2	31/03/2016	Jo Rowlands, Director of Growth and Strategy	No update received.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
59	2015/16	Housing & Regeneration	Temporary Accommodation	Satisfactory	A contract should be in place between the Council and contractor (Stoneview) for the management and maintenance of non-Council owned properties. Assurance should also be obtained the value for money is being achieved. Routine inspections or spot checks of work should be undertaken to assess the performance and quality of the service provided.	2	31/03/2016	Jo Rowlands, Director of Growth and Strategy	No update received.
60	2015/16	Housing & Regeneration	Temporary Accommodation	Satisfactory	All feedback received should be periodically collated and analysed to identify common themes. An action plan should be prepared with the primary aim of addressing the reasons behind any negative feedback.	2	31/03/2016	Jo Rowlands, Director of Growth and Strategy	No update received.
61	2015/16	Housing & Regeneration	Temporary Accommodation	Satisfactory	Long standing former tenant arrears should be periodically reviewed and considered for write off.	2	30/06/2016	Jo Rowlands, Director of Growth and Strategy	No update received.
62	2015/16	Housing & Regeneration	Temporary Accommodation	Satisfactory	Management meetings should occur on a monthly basis. KPI/Performance Monitoring should be a standing agenda item at each Managers Meeting held.	2	31/03/2016	Jo Rowlands, Director of Growth and Strategy	No update received.
63	2015/16	Housing & Regeneration	Temporary Accommodation	Satisfactory	The budget monitoring process should be documented as evidence that monitoring is being undertaken and action is being taken to address any variances.	2	31/03/2016	Jo Rowlands, Director of Growth and Strategy	No update received.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
64	2014/15	Transport & Technical Services	Organisational Health and Safety	Satisfactory	<p>Service lines should be instructed, via the Corporate Health and Safety Committee to provide a copy of their risk assessments to Corporate Health and Safety so they can be uploaded onto Tri-B Net.</p> <p>These risk assessments should be reviewed and updated on an annual basis. Monitoring of activity should be undertaken by the Corporate Safety Team.</p>	2	30/06/2015	Nick Austin, Director for Environmental Health	<p>Update 18/2/2016 – Progress has been made. Departmental and team audits have been undertaken. Risk assessments for ELRS, TTS, Libraries and the majority of ASC are now collated centrally. Generic risk assessments for CHS and the remainder of ASC are being prepared and will be sent to managers for sign off. Completion tabled for end of April 2016.</p> <p>A significant number of general risk assessments are still outstanding for Adult Social Care (31/50) and Children's Services (29/37) and therefore this recommendation remains outstanding. Due to the setup of both adult social care and children services, these are tri-borough and there are ongoing organisational changes within the departments.</p>

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Agreed Target Date	Responsible Director	Status
65	2014/15	Transport & Technical Services	Rechargeable Street Works	Satisfactory	<p>Performance indicators for the service should be agreed and monitored against. This could include:</p> <ul style="list-style-type: none"> • % of assessments that have been undertaken, within set timeframe, after an application has been received; • % of estimates provided to customer, within set timeframe, after assessment has been completed; • % of proactive Inspections undertaken within timeframe; • % of additional works required as a result of quality inspections; and • % deviation of estimate to actual invoice amount. <p>Results should be reported to Senior Management on a periodic basis.</p>	2	01/06/2015	Mahmood Siddiqi, Director for Transport and Highways	<p>KPI's were administered by Finance and discontinued when Agresso was introduced. I advised Finance to re-commission this exercise and we are looking on ways to implement. There are a few difficulties as the finance functions in Agresso have not been finalised.</p> <p>As for the %ages above, we will endeavour to improve all of the above and have started making periodic reports to Senior Management.</p>
66	2015/16	Transport & Technical Services	Premises Licensing	Limited	<p>Management should ensure that all overdue annual fees for LBHF continue to be investigated and all records in the Uniform database are cleansed.</p>	1	31/03/2016	Nick Austin Director for Environmental Health	<p>Update 1/7/2016: Ongoing, a further £8K of historic debts have been sent for write-off since April 2016. We are contuing to work through the outstanding debts, collecting payment wherever possible. All licensed premies with outstanding invoices up to December 2015 have had the licences suspended. Enforcement officers will now be visiting the premises to check whether they are still in business.</p>

Agenda Item 7

London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 13 September 2016		 hammersmith & fulham
HEAD OF INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2015/16		
Report of the Director for Audit, Fraud, Risk and Insurance		
Open Report		
Classification: For Information Key Decision: No		
Wards Affected: None		
Accountable Director: Moyra McGarvey, Director for Audit, Fraud, Risk and Insurance		
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 Head of Internal Annual Assurance report is a summary of all audit work undertaken during the 2015/16 financial year and provides assurances on the overall System of Internal Control, the System of Internal Financial Control, Corporate Governance and Risk Management. The work carried out by the Council's Internal Audit Service, in the financial year 2015/16 found that, in the areas audited, internal control systems were generally effective with 81.4% of the audits undertaken receiving a positive assurance opinion.
- 1.2. There are a few areas where control improvements are required and compliance with agreed systems could be improved. In each case, action plans are in place to remedy the weaknesses identified. These will be followed up by the internal audit team until they are completed. It should be noted that a number of issues concerning compliance were directly or indirectly related to the implementation of the Managed Services Programme. It is anticipated that these issues have or will be addressed within the near future.

2. RECOMMENDATIONS

- 2.1. To note the contents of this report

3. REASONS FOR DECISION

- 3.1. Not applicable. No decision required.

4. INTRODUCTION AND BACKGROUND

4.1. See report below.

5. PROPOSAL AND ISSUES

5.1. See report below.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable.

7. CONSULTATION

7.1. Not applicable.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1. Not applicable.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. Not applicable.

11. RISK MANAGEMENT

11.1. Not applicable.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable.

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

None.

LIST OF APPENDICES:

Appendix A	Assurance Levels 01/04/2015 – 31/03/2016
Appendix B	Internal Audit Performance – 2015/16
Appendix C	Internal Audit work for which an assurance opinion was not provided
Appendix D	Follow up Audits



THE ROYAL BOROUGH OF
KENSINGTON
AND CHELSEA



City of Westminster

London Borough of Hammersmith and Fulham | The Royal Borough of Kensington and Chelsea | Westminster City Council

London Borough of Hammersmith and Fulham

2015/16 Head of Internal Audit Annual Assurance Report

April 2016



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1. Executive Summary

- 1.1. The work carried out by the Council's Internal Audit Service, in the financial year 2015/16 found that, in the areas audited, internal control systems were generally effective with 81.4% of the audits undertaken receiving a positive assurance opinion. There are a few areas where control improvements are required and compliance with agreed systems could be improved. In each case, action plans are in place to remedy the weaknesses identified. These will be followed up by the internal audit team until they are completed.
- 1.2. Two limited assurance reports were issued in relation to the Managed Services Programme, a High Level review new Controls and Processes, and Implementation Planning. Apart from the high level controls review, which indicated that there were a number of areas where assurance on controls could not be given, Internal Audit have not independently reviewed the system controls and have therefore not undertaken any substantive testing during 2015/16 in the key areas of HR, Payroll and Finance.

2. Introduction

- 2.1. The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. This opinion statement is provided for the use of the London Borough of Hammersmith & Fulham and is used to support its Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

3. Scope of Responsibility

- 3.1. The London Borough of Hammersmith & Fulham is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. In discharging this overall responsibility, the London Borough Hammersmith & Fulham is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

4. The Purpose of the System of Internal Control

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

5. The Internal Control Environment

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

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

6. 2015/2016 Year Opinion

- 6.1. The work carried out by the Council's Internal Audit Service, in the financial year 2015/16 found that, in the areas audited, internal control systems were generally effective with 81.4% of the audits undertaken receiving a positive assurance opinion. There are a few areas where control improvements are required and compliance with agreed systems could be improved which are largely documented at section 8 of this report. In each case, action plans are in place to remedy the weaknesses identified. These will be followed up by the internal audit team until they are completed. It should be noted that a number of issues concerning compliance were directly or indirectly related to the implementation of the Managed Services Programme. It is anticipated that these issues have or will be addressed within the near future.
- 6.2. In reaching this opinion, the following factors were taken into particular consideration:
- a) The whole programme of internal audit work undertaken by Mazars between 1 April 2015 and 31 March 2016. This included a review of the Council's Corporate Governance and Risk Management arrangements;
 - b) Internal Audit work undertaken by the Royal Borough of Kensington and Chelsea and Westminster City Council on shared services.
 - c) An independent review of Internal Audit against CIPFA's Public Sector Internal Audit Standards which provided a positive result;
 - d) The outcome of audit work for which no assurance level was provided. A summary of work undertaken and key findings can be found in Appendix C; and
 - e) Follow up of audits undertaken in the previous years. A summary of the outcome of these follow up visits can be found in Appendix D.

Internal Control

- 6.3. The system of internal control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council, in particular the system includes:
- Codes of practice and Financial Regulations;
 - Standing Orders, Standing Financial Instructions and Schemes of Delegation;
 - Comprehensive budgeting systems;
 - Regular reviews of periodic and annual financial reports which indicate financial performance against the forecast;
 - Setting targets to measure financial and other performance;
 - Clearly defined capital expenditure guidelines; and

- A formal programme and Project management discipline

Managed Services

- 6.4. The Managed Services Programme (MSP) was set up to introduce an external managed service delivering HR and finance processes. The programme went live on 16 March 2015 with a further programme of staged implementation originally extending to 30 April 2015 that has continued to be extended since. Overall, the programme work plans were reviewed by MSP post go-live and this established key deliverables with new baseline due dates. These plans and the target date for 'Business as Usual', now being referred to as 'Steady State', have necessarily slipped and a more recent review of plans has re-set due dates which now stretch through into the 2016/17 financial year.
- 6.5. During the first nine months of Managed Services being operational, an internal audit was started on the high level controls within the system. Progress on this audit was slow and, due to difficulties in meeting with appropriate staff at BT to undertake all aspects of this review, a number of areas could not be reviewed and a limited assurance opinion was given on the adequacy of the high level controls. It was apparent from this audit that in some of the areas reviewed significant changes had been made since implementation.
- 6.6. In addition to the High Level Controls review, a review of the bank reconciliations process has been undertaken as an advisory piece of work which has been discussed with the Finance Leads for the three Councils and an audit of the established interfaces with Managed Services is due to be reported in May 2016.
- 6.7. The main audits due to be undertaken in 2015/16 on various aspects of the Managed Service could not be undertaken for a number of reasons including a lack of appropriate auditor access and delays in implementing some aspects of the system as well as the provision of training on the system. In order to undertake an effective internal audit whereby reliance can be placed on the testing undertaken, there needs to be independent assurance that the system is operating in a stable environment with changes properly controlled and tested prior to being implemented. Apart from the high level controls review, which indicated that there were a number of areas where assurance on controls could not be given, Internal Audit have not independently reviewed the system controls and have therefore not undertaken any substantive testing during 2015/16 in the key areas of HR, Payroll and Finance.

Governance

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

Risk Management

- 6.9. Three risk management audits were completed as part of the 2015/16 audit plan. Namely, Corporate Risk Management Compliance Review and audit of risk management of both Corporate Services and what was Environment, Leisure and Residents Services.
- 6.10. A Satisfactory assurance opinion was provided for the Corporate Risk Management Compliance Review. Recommendations were raised that related to:
- Completing all fields on the risk register.
 - Following the standard risk register template and defining when all services

should transfer to the new risk register template.

- Organising the way risk registers are filed on SharePoint for easier review and access

6.11. A Satisfactory assurance opinion was provided for the audits of Corporate Services and Environment, Leisure and Residents Services. Recommendations raised related to:

- Existing controls should be recorded for all risks, and where controls are absent, this should also be stated in the register. Inherent risk scores should be reviewed to ensure they reflect the impact of these existing controls.
- A risk register owner should be appointed for the Finance risk register with overall responsibility for ensuring that this is up to date, and to act as the single point of contact for any queries regarding the register.
- The responsible officer for each risk should be assigned to an individual officer where possible.
- Risk scoring and existing controls on the Legal Services Risk Register should be reviewed and amended to help ensure that risk scoring is logical, and an accurate indicator of the inherent and residual risk exposure.

Qualifications to the opinion

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

7. Basis of Assurance

7.1. We have conducted our audits both in accordance with the mandatory standards and good practice contained within the CIPFA Public Sector Internal Audit Standards and additionally from our own internal quality assurance systems.

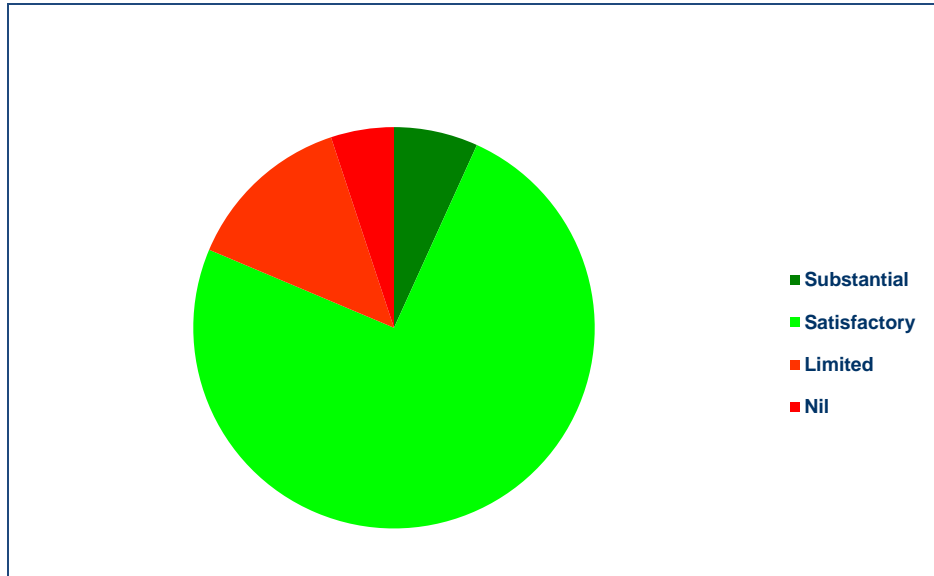
7.2. Our opinion is limited to the work carried out by Internal Audit based upon the internal audit plan. Where possible we have considered the work of other assurance providers, including External Audit and the Internal Audit services of Royal Borough of Kensington and Chelsea and Westminster City Council as part of the shared services arrangement.

7.3. The audit work that was completed for the 2015/16 financial year is listed in Appendices A, C and D. Appendix A lists all the audits where assurance opinions are provided.

7.4. The pie chart below shows the levels of audit assurance achieved for the 2015/16 year, so that it covers all audits covering systems that support delivery of LBHF services.

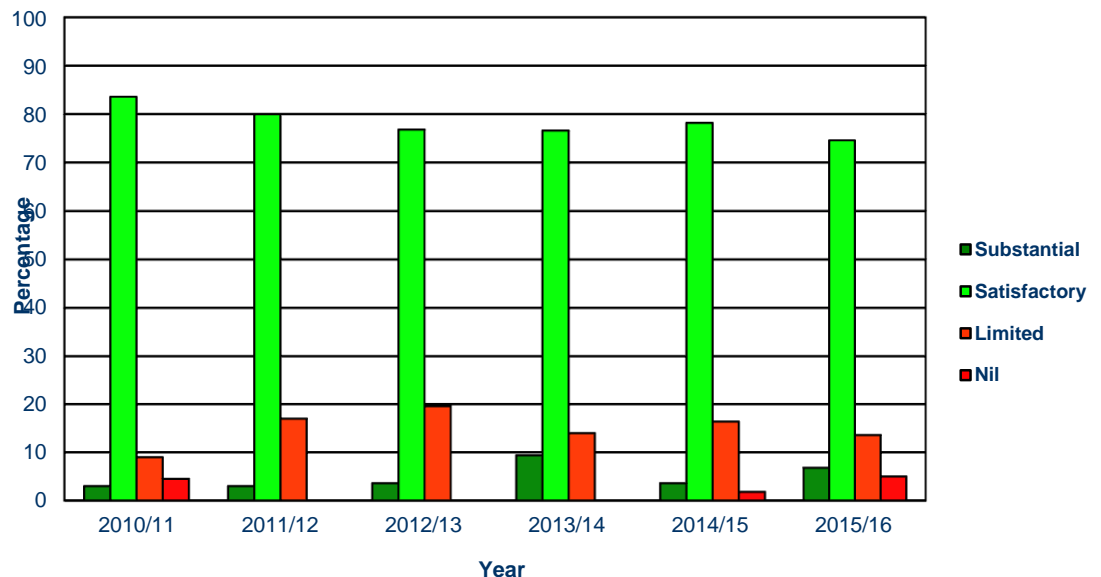
7.5. 81.4% of the systems audited achieved an assurance level of Satisfactory or higher, of which four audits received Substantial Assurance. 13.6% received a Limited Assurance, plus three Nil Assurance reports were issued in 2015/16 of which two were schools.

Assurance Levels for the year to 31 March 2016



7.6. To help put this into context the bar chart below shows the levels of assurance provided for all systems audited since the 2010/11 financial year. The distribution of assurance opinions shows a relatively stable position in the number of Limited assurance and substantial assurance reports although Nil assurance numbers have increased from one to three.

Assurance Levels of Reports from 2010/11 to 2015/16



Acceptance and implementation of Internal Audit recommendations

- 7.7. All of the recommendations made during the year were accepted by management. Whilst 18 reports remain at the draft report stage we have been provided with assurance by management as part of the debrief meeting process that the recommendations made will be implemented.
- 7.8. The table below shows the number of audit recommendations raised each year that have been reported as implemented. This helps to demonstrate the role of Internal Audit as an

agent of change for the council.

Year	Number of recommendations due	Number of recommendations implemented
2013/14	248	247
2014/15	203	191
2015/16	114	52

7.9. In total, 49 recommendations have been followed up by internal audit, of which 39 were either fully implemented or no longer relevant, representing 80% of all those tested. If partially implemented recommendations are added this totals 96% of all those tested. This is an improvement since 2014/15 and provides reasonable confidence that recommendations reported as implemented have been effectively actioned. The results of our follow up visits can be seen in Appendix D.

8. Significant Control Weaknesses

8.1. Internal Audit is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise. During the financial year 2015/16, the following significant issues were identified:

- Two limited assurance reports were issued in relation to the Managed Services Programme: A High Level review new Controls and Processes, and; Implementation Planning.
- Weaknesses were found within the Premises Licensing Audit, mainly related to the implementation of the Agresso system. The implementation of Agresso also affected a number of other audits but not sufficiently to impact on the assurance opinion provided.
- Weaknesses were found in the governance of Mental Health Section 75 Agreements;
- One school received Limited Assurance opinions (Kenmont Primary School), and two schools received Nil Assurance opinions (Brackenbury and Fulham Primary Schools); and
- Weaknesses were found within the letting and management of Council owned garages.
- The main Managed Services audits due to be undertaken in 2015/16 could not be undertaken for a number of reasons including a lack of auditor access and delays in implementing aspects of the system. Corrective action is being undertaken by both Council staff and the Managed Service provider and mitigating actions have been taken by the Council to minimise the impact of any errors identified on the Council's financial management information. Although the Council has been proactive in identifying errors and weaknesses to the Managed Services provider, it should be noted that until robust controls and systems are embedded, the potential for further related or unrelated errors, cannot be ruled out.

Annual Governance Statement

- 8.2. The Council's Annual Governance statement states:
- 8.2.1. 'We have been advised of the results and implications of the review of the effectiveness of the governance framework by the Audit Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.
- 8.2.2. Money received by Hammersmith and Fulham Council from central government is reducing significantly every year. Funding reduced by £18m in 2015/16 (to £57.6m) and is forecast to further reduce by £33.6m from 2015/16 to 2019/20. Based on the Local Government Finance Settlement the 2016/17 grant reduction is £8.2m. In addition, Government has imposed £3.4m of new responsibilities on LBHF without providing any funding. As part of the Local Government Finance Settlement the government announced that authorities can charge a 2% social care precept. This would raise £1.1m for Hammersmith and Fulham and is included in Government projections of LBHF's spending power. The Government also included an assumed further 1.75% increase in council tax in LBHF's spending power projection, meaning a total council tax increase of 3.75% is assumed in the spending power projection. The Council's administration does not wish to apply any tax increase to residents, so it does not form part of the 2016/17 budget proposals. In the context of this, the Council will continue to prioritise and endeavour to maintain strong governance arrangements, focusing on the purpose of the Council and on outcomes for the community, engaging with stakeholders, and promoting values for the authority whilst demonstrating the values of good governance through upholding high standards of conduct and behaviour. Further to this, proactive risk management arrangements will be enhanced to support the delivery of the Council's key objectives
- 8.2.3. Contract management arrangements require improvement across the Council and generally there is limited assurance on compliance with the exemptions to Contract Regulations. The monitoring of contract performance has been inconsistent across the Council, especially where performance frameworks do not exist and there has been a general lack of proactive contract management by services. The Council has recognised the significance of the issues identified in this area and has responded by designing new internal control and governance arrangements that include establishing a new team with a Commercial Director within the Chief Executive's Department. The primary responsibility of this team is to improve standards in both the procurement and contract management activities of the Council. Going forward this team will design and implement processes and procedures to embed a culture of best practice within these key activities across the Council.
- 8.2.4. The Managed Services Programme was procured by Westminster City Council in 2013 to provide transactional Human Resources, including payroll, finance services and a Shared Service help desk for the London Borough of Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea and the City of Westminster Councils. The programme overran its original delivery date of 1 April 2014 and went live on 16 March 2015 with a further programme of staged implementation originally extending to 30 April 2015 that has continued to be extended since. Overall, the programme work plans were reviewed by the Programme post go-live and this established key deliverables with revised due dates. These plans and the target date for to achieve a steady state, have slipped and a more recent review of plans has re-set due dates which now stretch through to June 2016.

8.2.5. The Council has recognised through its Audit Committee and Contract management arrangements that the contract with BT has had significant issues. During the year, the Council discontinued the use of Westminster City Council's Chief Executive as the SRO for the contract with BT and appointed the Council's Chief Executive as its SRO for the contract with BT. Officers and members from the Council held regular meetings with BT to review plans to improve performance, including making sure measures were taken to ensure internal controls operated. Work is on-going with BT to address the issues raised in this statement and additional resources are being applied by them and the Council to resolve the issues as soon as possible, although over the period improvements have been made we are unable to say with confidence when the system and service will be fully operational. In order to undertake an effective internal audit whereby reliance can be placed on the testing undertaken, there needs to be independent assurance that the system being reviewed is operating in a stable environment with changes properly controlled and tested prior to being implemented. Apart from the high level controls review of the Managed Service, which indicated that there were a number of areas where assurance on controls could not be given, Internal Audit have not been able to independently review the system controls and have therefore not undertaken any substantive testing during 2015/16 in the key areas of HR, Payroll and Finance. Due to problems with the system, additional internal finance and HR resources were engaged during the year by the Council to support HR and finance work, including to assist the production of the final accounts.'

9. ICT

- 9.1. Internal Audit undertook 7 ICT or ICT related audits in 2015/16. Five audits received a Satisfactory assurance opinion, 1 limited (MSP Interfaces) and one report was issued for which no assurance opinion was required (IT Contract Documentation).
- 9.2. We found the areas audited in 2015/16 to be generally well controlled. Areas of strength identified included controls related to Cyber Security, Software Licensing and 3rd Party Remote Access.
- 9.3. An internal audit of the Managed Services Interfaces was undertaken and is currently at draft stage. A Limited assurance opinion was provided with 4 medium and one high priority recommendations being raised. The audit identified improvements in interface error identification controls and issue resolution procedures since the system go live in April 2015. Although controls are in now place to help mitigate the risks detailed below, there is little transparency via interface management activity Key Performance Indicator and trend analysis reports to demonstrate the effectiveness of the service improvement initiatives

10. Finance

- 10.1. Of the 9 finance related audit reports issued in the 2015/16 financial year, 1 received Substantial assurance, 4 received Satisfactory assurance and 4 received Limited assurance of which 3 related to the Managed Services Programme, the other relates to Mental Health Section 75 Agreements. There are concerns relating to Managed Services which have already been outlined at paragraphs 6.4 to 6.8.
- 10.2. This represents a similar position to 2014/15 where 3 reports issued received Limited Assurance all of which related to Managed Services.
- 10.3. No significant error or fraud against the Council was detected as a result of our audit work.

11. Procurement and Contract Management

- 11.1. Of the 10 procurement and contract management related audits undertaken in 2015/16 three received Satisfactory Assurance; 2 received a split Satisfactory / Limited assurance opinion due to issues arising from the Agresso Implementation and 1 received a Nil Assurance. A management letter was issued for 3 pieces of Audit work and no assurance opinion was provided.
- 11.2. This shows a deterioration on 2014/15, where 1 Limited assurance report was issued. The introduction of Agresso from the 1st April 2015 negatively impacted on services' ability to monitor income and manage payments Other than this the results of the audits have identified no significant common weaknesses related to procurement and contract management in 2015/16.

12. Schools

- 12.1. Overall the results in 2015/16 has remained stable since the previous year, with eight schools receiving Satisfactory Assurance opinion, one schools receiving a Limited Assurance opinion and two schools receiving a Nil Assurance opinion. This compares to nine schools receiving Satisfactory Assurance opinion and four schools receiving a Limited Assurance opinion in 2014/15.
- 12.2. 18 high priority recommendations were raised as a result of the schools audits 2015/16 in comparison to nine in 2014/15. The main issues identified were:
- Evidence of value for money not being retained for large value purchases and appropriate ordering of goods and services for low value payments (i.e. raising and authorising purchase orders);
 - The adequacy of school income records and the audit trail between income collected and cash banked; and
 - The maintenance of Assets & Inventory records.

13. Key Issues for 2016/17

- 13.1. There are a range of key issues that are likely to be of significance for the 2016/17 year and beyond that Internal Audit need to be aware of. These include:
- The continued impact of the current economic climate on the Council's finances through reduced levels of income with councils facing further reductions in the amount of money they receive from Government. This is coupled with other factors such as likely increases in demand for services and the performance levels and financial stability of organisations the Council works with;
 - Transformation programme and projects continue to be undertaken to deliver savings, particularly, implementation of Managed Services and transformation within the Adult Social Care Department. This degree of change brings challenges in implementing a series of interconnected transformation projects successfully without impacting on service delivery. We would expect continued Internal Audit involvement in transformation projects and new initiatives, both to

provide assurance and provide early support for new systems being 'right first

- With continued staffing cuts, reorganisation and the increasing move to outcomes based delivery, managing culture is a key factor in helping to achieve objectives. Furthermore, risk management processes and systems of internal control are only effective if the people operating and overseeing them exhibit the right behaviours.
- With increasing volumes of data being collected, generated and handled, the Council is facing increasing challenges in protecting this information and delivering value from it. In addition, at a time when a significant proportion of activity takes place in the digital space and through mobile working, all organisations need to consider the impact of any cyber security breaches they may have.
- With Managed Services continuing to be put in place during the 2016/17 year and the need for the underlying application to be upgraded there continues to be a need for an audit focus on this service.

14. Internal Audit Performance

Audit Plan

- 14.1. The Operational Plan for the 2015/16 year drew on corporate and departmental risk registers and other issues brought to the attention of Internal Audit, as well as the use of an audit universe that identifies all organisational activities that can be considered for audit coverage. We agreed and discussed the audit plan with Executive Directors, Directors and Heads of Service. We also consulted various other sources and coordinated the plan with those for the Royal Borough of Kensington and Chelsea and Westminster City Council.
- 14.2. Our operational planning is designed to provide an even flow of work throughout the year, and to allow us to monitor progress. As a result, this information can be used as a key benchmark against which progress on individual assignments can be measured.
- 14.3. The level of Internal Audit resources was considered adequate for the 2015/16 year. Also the Internal Audit service continued to maintain its independence from the day to day operations of the organisation, the chief mechanisms for this were the use of a contractor, Mazars, to deliver the core audit service plus the use of the shared audit services for LBHF, RBKC and WCC to deliver parts of the audit programme.

Internal Audit Assurance Levels

- 14.4. Appendix A sets out the level of assurance achieved on each systems audit and the change in assurance opinion where the audit has been undertaken previously. Three areas audited this year have shown deterioration in control since the last time they were audited: Brackenbury Primary School, Fulham Primary School and Contracts Register.
- 14.5. Of the ten audits that received a Limited or Nil Assurance opinion (eight final and two draft) three were schools, one was corporate, one related to Children's Services, one to Adult Social Care, two to Housing and Regeneration and the remaining two to the Managed Services Programme. In all cases, audit recommendations were agreed with management at the time of the audit along with an action plan to address the identified weaknesses. Follow up audits will be undertaken in each case to review the adequacy and effectiveness of the corrective action taken.
- 14.6. Five follow up visits were undertaken in 2015/16 to determine if recommendations raised

within previous audit visits had been implemented. A summary of our findings can be found in Appendix D.

- 14.7. In total, 49 recommendations have been followed up, of which 39 were either fully implemented or no longer relevant, representing 80% of all those tested. If partially implemented recommendations are added this totals 96% of all those tested. This is an improvement since 2015/16. The follow up regime will continue, and will be expanded from April 2016 for a trial period to include all high and medium priority recommendations, so that it can continue to provide assurance going forward and the result of all follow ups will continue to be reported to the Audit Pensions and Standards Committee.
- 14.8. The results of our follow up work can be seen in appendix D.

Internal Audit Performance

- 14.9. Appendix B sets out pre-agreed performance criteria for the Internal Audit service. The table shows the actual performance achieved against targets. Overall performance of Internal Audit is broadly in line with 2015/16, with all targets being achieved or narrowly missed.
- 14.10. One target that was missed by 14% was to issue 95% of draft reports within 10 working days of the exit meeting. However the average time from exit meeting to draft report was 6 days.
- 14.11. Focus will be given to maintaining or improving these performance standards in 2016/17.

Compliance with CIPFA Public Sector Internal Audit Standards

- 14.12. Internal Audit has comprehensive quality control and assurance processes in place and we can confirm that we comply with the CIPFA Public Sector Internal Audit Standards. Our assurance is drawn from:
- a) Quality reviews carried out by both the Hammersmith and Fulham Internal Audit section and Deloitte / Mazars;
 - b) An internal review in May 2015 against the new enhanced PSIA Standards.
 - c) An independent external review of the service by LB Camden against the PSIA Standards

Working with External Audit

- 14.13. The Council's external auditors do not intend to rely on the work of internal audit at this stage other than our work on the Managed Services Programme however they have asked for copies of a number of audit reports issued in 2015/16. We have been in liaison with External Audit and will continue to offer information and support where requested.

Internal Audit Provision Going Forward

- 14.14. The following aspects will impact on the future delivery of the Internal Audit service:
- Shared working with Westminster and RBKC has led to increased coordination of the 2015/16 planning process across the three boroughs. This approach aims to increase the level of assurance received by each Council as well as better coordinating audit work across the three boroughs. Mazars has also been appointed as the sole outsourced internal audit provider for the three boroughs via call off contracts with the London Borough of Croydon. Previously two outsourced providers were used.
 - As transformation projects and changes to service delivery continue to be undertaken, there is likely to be continued requirement for Internal Audit

involvement in transformation projects and new initiatives at an early stage to provide both assurance and support but with the minimum of disruption.

APPENDIX A - Assurance Levels 01/04/2015 – 31/03/2016

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

		Audit Opinion				
Department	Audit	Nil	Limited	Satisfactory	Substantial	Issued
FINALISED						
Corporate / Finance	Corporate Procurement					16/10/2015
Corporate / Finance	Council Tax			↔		11/06/2015
Corporate / Finance	Call centre administration					01/09/2015
Corporate / Finance	Prevent					23/11/2015
Corporate / Finance	Concessionary Fares taxi cards & blue badges			↔		04/03/2016
Corporate	Business Intelligence					19/11/2015
Corporate	Contracts Register	←				06/01/2016
Adult Social Care	Community Independence Service					09/03/2016
Adult Social Care	Project management: Customer Journey					09/03/2016
Adult Social Care	NHS S75 agreement (was Health - services integration)					27/01/2016
Adult Social Care	Mental Health Section 75 Agreement (was NHS Pooled Budgets)					27/01/2016
Adult Social Care	S117 Mental health Care					30/09/2015
Children's Services	Adoption and Fostering					15/09/2015
Children's Services	Askam Contact Centre					25/01/2016
Children's Services (School)	All Saints C of E Primary			↔		19/10/2015
Children's Services (School)	Avonmore Primary School			↔		04/03/2016
Children's Services (School)	Brackenbury Primary School	←				05/02/2016
Children's Services (School)	Kenmont Primary School		↔			29/10/2015
Children's Services (School)	St Mary's RC Primary School			↔		13/07/2015
Children's Services (School)	St.Stephen's C of E Primary			↔		23/02/2016
Children's Services (School)	Sullivan Primary School			↔		26/10/2015
Children's Services (School)	Wood Lane High School			↔		13/07/2015

		Audit Opinion				
Department	Audit	Nil	Limited	Satisfactory	Substantial	Issued
Transport and Technical Services	Premises Licensing		←			10/12/2015
Transport and Technical Services	H&S and Food safety (Bibo)					07/12/2015
Transport and Technical Services**	Carriage and Footway Maintenance			↔		08/12/2015
Environment Leisure and Residents Services	Registrars			→		18/11/2015
Environment Leisure and Residents Service	Grounds Maintenance Contracts					25/11/2015
Environment, Leisure and Residents Services*	Commercial Waste			↔		13/10/2015
Housing and Regeneration	Garages					13/01/2016
Housing and Regeneration	Housing Revenue Account			↔		16/03/2016
Housing and Regeneration	Strategic Housing Stock Options Appraisal					11/12/2015
Housing and Regeneration	Housing strategy: housing demand					11/02/2016
Housing and Regeneration	Temporary Accommodation Procurement					22/09/2015
Housing and Regeneration	Tenancy Management					24/08/2015
Housing and Regeneration	Right To Buy			↔		01/03/2016
Corporate/IT	Software Licensing					10/02/2016
Corporate/IT	Third Party Remote Access					29/01/2016
Corporate/IT	Cyber Security					25/01/2016
IT	IDOX IT System (H&F)					05/02/2016
IT	IT Disaster Recovery arrangements			→		05/11/2015
Managed Services	MSP - High Level Review of Controls					24/03/2016
Managed Services	Implementation Planning					26/01/2016
Public Health	Joint Strategic Needs Assessment					14/04/2016
Draft						
Housing and Regeneration	Terminations, transfers and exchanges					27/04/2016

		Audit Opinion				
Department	Audit	Nil	Limited	Satisfactory	Substantial	Issued
Children's Services (Schools)	Cambridge School			→		15/04/2016
Children's Services	Schools Health and Safety					10/03/2016
Transport and Technical Services	Building Control					14/04/2016
Environment Leisure and Residential Services	Mortuary Service					14/04/2016-
Adult Social Care	Transition Young People to Adults					08/04/2016-
Public Health	Sexual Health Service Delivery					11/04/2016
Corporate / Finance	Departmental Risk Management - Corporate Services					22/04/2016
Corporate / Finance	Departmental Risk Management - ELRS					14/04/2016
Corporate / Finance	Corporate and Partnership Governance			↔		21/04/2016
Corporate / Finance	Asset Management			↔		21/04/2016
Corporate / Finance	Election Expenses				→	04/04/2016
Corporate / Finance	Risk Management Compliance Review					16/03/2016
Children's Services (School)	Fulham Primary School					22/01/2016
Children's Services (School)	Pope John RC Primary School			↔		18/11/2015
Environment Leisure and Residents Services	Recycling and Waste Reduction					04/04/2016
Housing and Regeneration	Housing Rents			↔		26/02/2016
Housing and Regeneration	MITIE Health and Safety Checks					25/11/2015
In Progress						
Corporate / Finance	Managed Services - Interfaces					-
Corporate / Finance	Housing Benefit					-
Corporate / Finance	NNDR					-
Adult Social Care	Continuing Healthcare Funding					-
Adult Social Care	Departmental Governance					-
Children's Services	Departmental Governance					-
Children's Services	Departmental Performance Management					-

		Audit Opinion				
Department	Audit	Nil	Limited	Satisfactory	Substantial	Issued
Environment Leisure and Residential Services	Service Review: Parks Police					-
Public Health	Departmental Governance					-
Total		3	8	44	4	

Total Reports (including those not yet issued)	70
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*A split opinion was issued for, and for Commercial Waste. Satisfactory assurance was provided for Operations and Limited Assurance for Income Management due to the impact of Managed Services.

**A split opinion was issued for Carriage and Footway Maintenance. Satisfactory assurance was provided for Operations and Limited Assurance for payments to contractors and claims to TFL due to the impact of Managed Services.

Assurance Levels

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

Substantial Assurance	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and few material errors or weaknesses were found.
Satisfactory Assurance	While there is a basically sound system, there are weaknesses and/or omissions which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited Assurance	Weaknesses and / or omissions in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
No Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

Direction of travel

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

APPENDIX B - Internal Audit Performance – 2015/16

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

Performance Indicators		Annual Target	Performance	Variance
1	% of deliverables completed (2014/15)	95%	93%	-2%
2	% of planned audit days delivered (2014/15)	95%	96%	+1%
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	98%	+3%
4	% of Draft reports issued within 10 working days of exit meeting	95%	81%	-14%
5	% of Final reports issued within 5 working days of the management responses	100%	100%	-

* Average time to issue draft report following exit meeting was 6.2 days against the target of 10 days

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

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


Department	Audit	Issued
Final		
Corporate/Finance	IT Contract Documentation	26/06/2015
Corporate/Finance	MS Licence Procurement	04/06/2015
Environment Leisure and Residential Services	Lessons Learnt – Janet Adegoke Pool and Phoenix Gym	18/11/2015
Adult Social Care	Better Care Fund	15/04/2016
Children’s Services	Schools Thematic Review – Information Security	04/04/2016

APPENDIX D - Follow up Audits

Follow visits were undertaken in 2015/16 on the following audits that received a 'Limited' or 'Nil' assurance opinion in their audit visit. The number of recommendations found to be implemented was as follows:

Department	Audit	Recommendations	Implemented	Partly Implemented	Not implemented	No longer applicable
Corporate	Supply Chain Resilience	7	4	2	1	-
Adult Social Care	ASC Risk Management	7	4	2	1	-
Children's Services	St Thomas Canterbury School	19	19	-	-	-
Children's Services	Jack Tizard School	12	10	2	-	-
Corporate	Follow up of High Priority Recommendations	4	2	2		
	Total	49	39	8	2	-
	%		80%	16%	4%	-

Agenda Item 8

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>13 September 2016</p>	 <p>h&f hammersmith & fulham</p>
INTERNAL AUDIT CHARTER AND STRATEGY – REVIEWED 2016	
Report of the Director for Audit, Fraud, Risk & Insurance	
Open Report	
Classification: For Information Key Decision: No	
Wards Affected: None	
Responsible Director: Moyra McGarvey, Director for Audit, Fraud, Risk & Insurance	
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 provides an update version of the Internal Audit Charter and Strategy following a 2016 year review. While there are a few minor word changes this is almost entirely unchanged from the version reported to the Committee a year ago.

2. RECOMMENDATIONS

- 2.1. To note the contents of the report.

H&F Internal Audit Charter

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

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

Definition

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

The Director of Audit, Fraud, Risk and Insurance is designated as the 'Head of Internal Audit' for the purposes of the PSIAS and this charter.

The Director of Finance is designated as the 'Chief Finance Officer' for the purposes of this charter.

The Audit, Pensions and Standards Committee are designated as the 'Board' for the purposes of this charter.

The Hammersmith and Fulham Business Board are designated as 'Senior Management' for the purposes of this charter.

Purpose

Internal audit provides independent and objective assurance to the London Borough of Hammersmith and Fulham through its Members, the Hammersmith & Fulham Business Board, and in particular to the Chief Financial Officer to help discharge responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

In addition, the Accounts and Audit Regulations 2015 specifically require a relevant authority (ie LBHF) to undertake an effective internal audit to evaluate the effectiveness of its risk management and control and governance processes.

Authority and Access to Records

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

The Internal Audit function will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit

work that has been finalised, which External Audit would need to discharge their responsibilities.

Responsibility

The Audit, Pensions and Standards Committee

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

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

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

Director of Internal Audit

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

Objectives

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

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes

- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.
- To provide advice and support to management to enable an effective control environment to be maintained
- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud
- To investigate allegations of fraud, bribery and corruption

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

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

Reporting

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

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

annual Head of Internal Audit report. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

Independence

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

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

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

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

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the APSC. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

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

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

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

Counter Fraud, Corruption and Irregularity

Managing the risk of fraud and corruption is the responsibility of management. Internal audit procedures alone cannot guarantee that fraud or corruption will be

prevented or detected. Auditors will, however, be alert in their work to risks and exposures that could allow fraud, corruption or other irregularity.

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

The role of the Contracted-Out Service

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

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

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

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

The Authorised Council Officer responsible for the management of the contract shall be the Director of Audit who may delegate day to day management to a nominated Responsible Officer.

Relationship between the Council and the Contractor

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

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

Due Professional Care

The Internal Audit function is bound by the following standards:

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

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

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

Audit Strategy

Scope

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

Process

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



Strategy

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

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

Internal Audit Objectives

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

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

Internal Audit's Remit

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

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

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

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

Service Delivery

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

The Internal Audit Service is a shared Service hosted by the Royal Borough of Kensington and Chelsea. The audit service is currently working with the Royal Borough of Kensington and Chelsea and Westminster City Council, to deliver audit

reviews across the services that are shared services. Sovereign audits will continue on services that remain solely H&F.

Internal Audit Planning

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

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

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

The Internal Audit Plan 2016-17 was based on the following:

- **Risk Based Systems Audit:** Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they operating correctly. The selection of work in this category is driven by Departments' own risk processes and will increasingly include work in areas where the Council services are delivered in partnership with other organisations.

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

- **Key Financial Systems:** Audits of the Council's key financial systems including any additional work where External Audit require annual assurance as part of their external audit work programme.
- **Probity Audit (schools & other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice are confirmed. For schools this includes assessment against the Schools Financial Value Standard.
- **Computer Audit:** The review of ICT governance, infrastructure and associated systems, software and hardware.
- **Contract Audit:** Audits of the procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.

- **Fraud and Ad Hoc Work:** The Corporate Anti Fraud Service, within the Internal Audit function, will continue to investigate any fraud and irregularity arising during the year. Internal Audit may undertake additional work due to changes or issues arising in-year.

Follow-up

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

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

Reporting

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

Reviewed and Agreed

Date	Reviewed by	Position	Authorised by	Position
April 2016	Geoff Drake	Senior Audit Manager	Moyra McGarvey	Director of Audit
April 2015	Geoff Drake	Senior Audit Manager	Moyra McGarvey	Director of Audit
May 2014	Geoff Drake	Senior Audit Manager	Moyra McGarvey	Director of Audit
May 2013	Michael Slonowski	Shared service Risk Manager	Geoff Drake	Chief Internal Auditor
March 2012	John Kanes	Internal Audit Manager	Geoff Drake	Chief Internal Auditor
March 2011	John Kanes	Internal Audit Manager	Geoff Drake	Chief Internal Auditor
March 2010	John Kanes	Internal Audit Manager	Geoff Drake	Chief Internal Auditor