

Audit, Pensions and Standards Committee

Agenda

Wednesday 20 September 2017

7.00 pm

COMMITTEE ROOM 1 - HAMMERSMITH TOWN HALL

MEMBERSHIP

Administration	Opposition
Councillor Iain Cassidy (Chair) Councillor Vivienne Lukey Councillor PJ Murphy Councillor Guy Vincent Councillor David Morton	Councillor Michael Adam Councillor Nicholas Botterill Councillor Mark Loveday Councillor Donald Johnson

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Date Issued: 13 September 2017

Audit, Pensions and Standards Committee Agenda

20 September 2017

<u>Item</u>	<u>Pages</u>
1. MINUTES OF THE PREVIOUS MEETING	1 - 15
<p>To approve the minutes of the previous meeting.</p> <p>A progress update on the 'Housing Health and Safety Checks' item from the last meeting is attached as an appendix to the minutes.</p>	
2. APOLOGIES FOR ABSENCE	
3. DECLARATIONS OF INTEREST	
<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	
4. STATEMENT OF ACCOUNTS 2016-17	16 - 291
<p>This report presents H&F's Statement of Accounts, including the Pension Fund Accounts, for 2016/17 and the external auditor's draft opinion on the accounts.</p>	

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|------------|---|-----------|
| 5. | INTERNAL AUDIT QUARTERLY REPORT | 292 - 305 |
| | This report summarises internal audit activity during the period 1 April to 30 June 2017. | |
| | The reports below (items 6 to 10) are final audit reports that are either limited or nil assurance. | |
| 6. | AUDIT REPORT - ST. THOMAS OF CANTERBURY PRIMARY SCHOOL 2016-17 | 306 - 327 |
| 7. | AUDIT REPORT - ADULT SOCIAL CARE CONTRACT MANAGEMENT - ELGIN CLOSE RESOURCE CENTRE | 328 - 345 |
| 8. | AUDIT REPORT - PROCUREMENT COMPLIANCE - COMMUNITY EQUIPMENT FRAMEWORK | 346 - 357 |
| 9. | AUDIT REPORT - AGRESSO PAYROLL REVIEW | 358 - 387 |
| 10. | AUDIT REPORT - PENSIONS ADMINISTRATION | 388 - 402 |
| 11. | ANNUAL CORPORATE HEALTH AND SAFETY REPORT 2016-17 | 403 - 422 |
| | This report summarises the safety performance of the Council from April 2016 to March 2017 and the aims of the Corporate Health and Safety Team for the year ahead. | |
| 12. | RISK MANAGEMENT UPDATE | 423 - 475 |
| | This report provides an update on risk management within the Council. | |
| 13. | DATE OF NEXT MEETING | |
| | The next meeting will be held on 6 December 2017. | |
| 14. | EXCLUSION OF THE PUBLIC AND PRESS | |
| | The Committee is invited to resolve, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in 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. | |
| 15. | RISK MANAGEMENT UPDATE - EXEMPT ELEMENTS | |
| | This report contains the exempt elements of item 12. | |

London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee

Minutes



Wednesday 21 June 2017

PRESENT

Committee members: Councillors Iain Cassidy (Chair), Ben Coleman, Vivienne Lukey, PJ Murphy, Guy Vincent, Michael Adam, Nicholas Botterill, Mark Loveday and Donald Johnson

Other Councillors: Councillor Stephen Cowan (Leader of the Council)

Officers: Kim Dero (Interim Chief Executive), Hitesh Jolapara (Strategic Finance Director), Peter Carpenter (Head of Treasury and Pensions), Jane Martin (Interim Director for Property Services), Chris Culleton (Principal Compliance Manager), David Hughes (Director for Audit, Fraud, Risk and Insurance), Andrew Hyatt (Head of Fraud), Geoff Drake (Senior Audit Manager), Dave McNamara (Director of Finance and Resources in Children's Services), Mike Boyle (Director for Strategic Commissioning and Enterprise in Adult Social Care), Mike Sloniowski (Risk Manager), and David Abbott (Scrutiny Manager)

1. MINUTES OF THE PREVIOUS MEETING

Councillor PJ Murphy reiterated his request for information on the proportion of absenteeism caused by stress within the organisation.

ACTION: Nick Austin

RESOLVED

The minutes of the previous meeting, held on 21 March 2017, were approved and signed by the Chair.

2. APOLOGIES FOR ABSENCE

Apologies for lateness were received from Councillor Mark Loveday.

3. DECLARATIONS OF INTEREST

There were no declarations of interest.

4. APPOINTMENT OF VICE CHAIR

RESOLVED

That Councillor Michael Adam be appointed Vice Chair for the Municipal Year 2017-18.

5. PENSIONS SUB-COMMITTEE MEMBERSHIP

RESOLVED

That the Committee approved the following membership of the Pensions Sub-Committee for 2017-18:

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

6. TREASURY OUTTURN REPORT 2016-17

Peter Carpenter, Head of Treasury and Pensions, presented the Council's Outturn Treasury Report for 2016-17 and noted that the overall treasury position at year end was higher than the previous year at £327m. Returns were down by around £300,000 because of low interest rates. Due to the level of cash held (£327m at 31 March 2016) it was anticipated that no new borrowing would be required in 2016-17.

Councillor Michael Adam, referring to paragraph 5.27 of the report, noted that the average return on investment was 45 basis points (0.45 percent). He asked if the higher yield investments agreed by members would come through this year – and if there was room to accept some more risk in this area for higher returns. Peter Carpenter said the Treasury Department would be putting £50-80m into enhanced money market funds over the medium term and expected a rise in returns of 15 basis points up to a total of 60 basis points.

Councillor PJ Murphy, referring to paragraph 5.17 of the report concerning Housing Revenue Account self-financing, asked when a policy on the charging of interest would be agreed. Peter Carpenter said Treasury needed to investigate this issue and consider an overall borrowing policy – he expected this to be done by September.

Councillor Nicolas Botterill, noted that 5.21 of the report stated that any financial instrument held with a non-UK bank was limited to £50m. He asked if this had changed recently because following the financial crisis of 2008-2009 this limit was lowered considerably. Peter Carpenter said the limit had been raised in the past year. He reassured the Committee that the Council followed Government Treasury Advisors Guidance and only used the most trusted institutions.

RESOLVED

That the Committee noted the report.

7. UPDATE ON HEALTH AND SAFETY CHECKS

Jane Martin, Interim Director for Property Services, and Chris Culleton, Principal Compliance Manager, attended to present the update report and provide a verbal update on the Council's response to the Grenfell Tower fire.

Jane Martin reported that all of the recommendations from the original internal audit report had now been completed (detailed in 4.1 of the report). The committee had requested further independent review of Mitie's remaining 591 EICR test reports not covered by the original sample review but due to staff resource issues this had not been commissioned and would not be available for review and comment until the September meeting.

Housing Property Services had appointed additional staff to support the existing teams and strengthen health and safety compliance and a new compliance database was being introduced at the end of July.

Jane Martin informed the committee that a new Fire Safety Strategy had been written and, with the appointment of consultant fire specialist Graham Coupar, Housing Property Services had embarked on an immediate targeted programme of service evaluation and improvements to ensure H&F was in a better position to deal with existing and future fire investigations, meet its responsibilities under the fire safety regulations, and further develop the borough's strategic approach to fire safety and risk management.

Following the fire at Grenfell Tower, officers and MITIE technicians had checked all blocks of six stories and above. A block of 12 stories and above is classified as a 'tower' and there were 14 in the borough. Three towers on the Edward Woods Estate were cladded, and while residents were understandably concerned, officers assured the committee that the panelling was a stone wall product and not comparable to the flammable cladding on Grenfell Tower. The fire brigade had visited the towers and tested the fitting of the panelling and had no immediate concerns. Officers were listening to residents' concerns and holding advice surgeries.

Councillor Nicholas Botterill asked if there was a reason all the relevant fire risk assessments were not publicly available on the Council's website. Chris Culleton said historically the Council had not published them but officers were intending to go forward. Councillors supported this and felt it was good practice to do so.

Councillor Guy Vincent asked what comfort the Council could provide to residents in tower blocks. Would sprinklers be installed for example? Jane Martin said officers were putting together cost proposals for the installation of sprinklers (in individual properties and common areas) on blocks six stories and above. The proposals would be completed by 14 July.

Councillor Guy Vincent asked if there would be funding available from Central Government for the installation of sprinklers and other fire safety improvements. Officers said it would be welcome but felt it was unlikely.

Councillor Mark Loveday noted that the committee had previously been told the programme of electrical safety testing would be completed by 2019 – he felt that was not a tenable position anymore. He asked officers how quickly the remaining electrical testing could be completed. Chris Culleton said they were reviewing this and would take away the committees call for urgency. Councillor Loveday added that the committee had previously been told that the programme would be partly suspended to move resources to the most severe CAT1 level testing – but

resource was no longer a priority. The relatively small sums of money involved should not be a barrier to completing safety testing.

Councillor Guy Vincent said the electrical testing programme was a rolling programme so it wasn't a question of properties not having certificates at all, just that some were older than others. Councillor Mark Loveday said minimum compliance was no longer a defensible position – the Council should make sure they were up to date on all testing.

Kim Dero, Interim Chief Executive, informed the committee that, in light of the Grenfell Tower fire, the administration had made funds available from the capital programme to carry out safety checking, tests and improvements – and the Council would not be satisfied by simply meeting the minimum standards. She added that all areas of health and safety across the organisation were being reviewed.

Councillor Mark Loveday asked if the timescales referred to in paragraph 5.5 of the report were still accurate – that targeted fire risk assessments would start in July 2017 and be completed by December 2017. Kim Dero responded that officers had already started doing the work and a number of assessments had been completed this week. The Council had some globally recognised specialists on contract and was building capacity within the organisation with the support of the Fire Brigade's Borough Commander. She said she would come back to the committee with a completion date for the entire programme shortly.

Councillor Donald Johnson noted that prior to the fire, residents at Grenfell Tower had made complaints about power surges – he asked if it was known if any blocks in the borough had experienced similar issues. Jane Martin said she was not aware of any but a thorough review of complaints was being undertaken to ensure issues had been addressed.

Councillor Donald Johnson also noted that another issue at Grenfell was the number of contractors and sub-contractors. He asked what due-diligence H&F had done to ensure third party contractors weren't sub-contracting out to lower quality providers. Chris Culleton said officers were reviewing everything – all sub-contractors and contractual relationships. Kim Dero added that officers had established a compliance action plan and met every week to discuss these issues.

Councillor Nicholas Botterill said Councils had to come up with an all-encompassing approach to safety management that could accommodate the complex arrangements of different organisations, contractors and sub-contracts. He made a comparison to the airline industry that had successfully achieved this and produced huge safety benefits at the same time. Kim Dero agreed and noted that too often the public sector delegated safety and compliance down. H&F would be putting far more robust arrangements in place with the support of a significant capital programme agreed by the administration. H&F wanted residents to get a clear message from the Council that their safety was of the utmost importance. She added that the senior management team would be taking greater responsibility for safety and she would return to the committee with an improvement plan detailing the new approach.

Councillor Michael Adam noted that a lot of the justifiable anger over Grenfell stemmed from the fact that residents had flagged up safety issues over a number of years. Any new safety strategy must be outward looking and reflect the concerns of residents.

Councillor Nicholas Botterill gave an example of a resident who had raised safety issues that had still not been resolved. Kim Dero said officers had gone back to the InTouch team to look at all fire safety related complaints from the last two years, as well as tenant meeting minutes and notes, to ensure any issues raised had been dealt with.

RESOLVED

That the Committee noted the contents of the report and the actions taken to date by officers.

8. CORPORATE ANTI-FRAUD SERVICE END OF YEAR REPORT 2016-17

Andrew Hyatt, Head of Fraud, presented the report on fraud related activity undertaken by the Corporate Anti-Fraud Service between 1 April 2016 and 31 March 2017. He noted that case summary one in appendix one of the report should have stated that the employee in question was a member of staff at a local school and was dismissed following the outcome of the investigation.

Councillor PJ Murphy, referring to 1.4 of the report, noted that proceeds of crime cases awarded a total of £662,073 to the Council but only £310,551 had been recovered. He asked if there was a business case there to have more staff to enable to service to recover more of this money. In response, Andrew Hyatt said the majority of the money awarded was compensation for losses the Council had incurred through fraud which had been recovered through the investigations. Having more staff was not guaranteed to increase the amount of money recovered but the team was looking at other improvements - such as hiring an additional financial investigator and bringing in a housing specialist to investigate illegal sub-letting.

Councillor Guy Vincent noted that the amount of proven fraud in the borough was increasing (table 1.5 of the report) and asked whether there genuinely were more incidents of fraud or if the Council was simply getting better at detection. Andrew Hyatt said the overall level of fraud seemed to be the same but the team had more resources this year and that had improved output. For example; Right to Buy was an area of growth because the team had become a part of the applications process – allowing them to vet and challenge applicants.

Councillor Ben Coleman asked if the team should take on more staff to increase output further. Andrew Hyatt said the team was currently carrying some vacancies, as they were finding it hard to recruit experienced investigators. He was looking to bring the team up to full complement first then looking at what could be achieved with a larger team. It was also noted that the fraud values, other than proceeds of crime figures, in the report were notional values used for benchmarking, such as the previous Audit Commission's assessment of the impact of subletting – the team was working on determining actual cashable values to more accurately represent the position in the borough.

Councillor Vivienne Lukey, referring to 4.3 of the report, asked how the team was enhancing the culture of fraud identification and prevention within the Council. Andrew Hyatt said the team wanted to be more proactive in this area and would be going into departments to do classroom-based fraud awareness training for staff to help them recognise and report suspected fraud to the team.

Councillor Michael Adam, asked how much money had been recovered from business rates relief for vacant properties fraud. Andrew Hyatt said he would provide that information after the meeting.

ACTION: Andrew Hyatt

Councillor Michael Adam noted that the Council seemed to have detected very few illegal sub-lets in the borough – despite the issue being endemic in central London. Andrew Hyatt responded that it was a major issue in the borough and one of the services major risk areas. He said the problem with detection was that all of the most obvious cases had been investigated, leaving the more difficult cases where tenants were complicit in the fraud and perpetrators were far better at disguising their fraud. The team was trying to use data to better focus resources. An added layer of difficulty in these cases was that the team had to run two sets of legislation in parallel – civil and criminal cases – which slowed the process. Andrew said he was aiming to have more officers focused on tenancy fraud in the near-future.

Councillor Michael Adam asked what ability the Council had to source data on who was actually living in flats vs who was registered at the address. Andrew Hyatt said his team used credit reference agency data National Fraud Initiative data collated by the Cabinet Office data primarily but that was only useful as intelligence, it wasn't admissible in court or sufficient by itself to prove fraud. Officers needed to obtain hard evidence, often by visiting residences unannounced outside of office hours.

Councillor Nicholas Botterill asked if the observations of other residents were used to identify properties where illegal sub-letting was taking place. He added that one of the residents in his ward had phoned the Council on a number of occasions to discuss one of their neighbours but felt they were not taken seriously. Andrew Hyatt said his team did take any information from residents very seriously and they did follow those leads up. Evidence like this was often used in civil cases – but in criminal cases residents would have to make a statement and appear in court which some were reluctant to do. Councillor Botterill asked that officers gave residents who did supply leads with a formal response letting them know that the issues raised were being investigated and that the Council appreciated their help.

Councillor Nicholas Botterill asked how the service put a value on things like Blue Badge fraud. Andrew Hyatt said in that area they relied on old data from the National Fraud Authority (closed by the Government in 2014) as they carried out the last full assessment of how much fraudulent Blue Badges were being used. Since then a lot had changed – there had been cases of Uber drivers using them for example – and he expected the figure would be lower today. Councillor Botterill felt that there was a danger of missing the full impact of some fraud by simply assigning a monetary value.

Councillor PJ Murphy, returned to the point about the team finding it difficult to recruit new staff. He asked for some background on why that was (skills shortage, pay etc.). Andrew Hyatt explained that the primary reasons went back to May 2015 when the Department for Work and Pensions transferred across a significant number of local government officers who had investigated benefit fraud. The relatively attractive work environment and benefits in the civil service made it difficult to hire them back into local government. However, the service had been running a successful apprenticeship scheme and was reviewing the role requirements to ensure that highly motivated staff could be recruited to take on the challenge of tackling fraud in the borough.

NOTE: Councillor Mark Loveday entered the meeting at 7.39pm

Councillor PJ Murphy supported that approach and said the team should look at their person specification to ensure it was as attractive as possible to the widest range of applicants – including those returning to work.

Councillor Donald Johnson asked whether the level of employee fraud was comparable to other authorities. Andrew Hyatt said it was around the same as any other authority. There were a higher number of employees that lived in the borough as compared with many London councils so it was fractionally more likely that they would be involved in tenancy fraud.

RESOLVED

That the committee noted the report.

9. INTERNAL AUDIT QUARTERLY REPORT

Geoff Drake, Senior Audit Manager, presented the report that summarised internal audit activity between 1 January to 31 March 2017. He noted that there had been a total of 19 audit reports finalised in the period, three of which were limited assurance reports.

Outstanding Recommendations – Children’s Services

Dave McNamara, Director of Finance and Resources in Children’s Services, attended for the outstanding recommendations that related to Children’s Services. He informed the committee that recommendations 6 and 9 (Old Oak Primary and Vanessa Nursery) were attributable to a failure of process within Children’s Services to pick up the outstanding recommendations and contact schools so they could resolve them. He had now confirmed with the schools that the recommendations had been implemented.

Councillor Donald Johnson asked if there was a communication problem between schools and the Council. Dave McNamara said in this case there was a simple failure to communicate between his officers and schools. Internal communications had been tightened to ensure this didn’t happen again. He added that in general his team had a very good working relationship with schools in the borough.

Dave McNamara reported that regarding recommendations 7 and 8 (Information Security), the survey was across the three shared-services areas and only three

schools in the borough responded – though headteachers said that most issues were reflected in the responses. Links had been made with 3BM and the Council's information manager and they were arranging an education programme for schools, starting in September, on data sharing and retention to ensure they had the correct processes in place.

Outstanding Recommendations - Adult Social Care

Mike Boyle, Director for Strategic Commissioning and Enterprise in Adult Social Care, attended to take questions on the outstanding recommendations for Adult Social Care and tabled an updated version of the recommendations current status. He apologised for the initial incomplete response presented in the published papers for the meeting.

Councillor PJ Murphy said he preferred the first version of the report because it seemed more honest. He felt the updated version was filled with jargon but ultimately had the same content – that the requisite training had not been done. He asked officers to use plain English in future. Mike Boyle said because of a capacity issue within the service it was not the best way to get practitioners trained. Now a joint-programme had been put in place with the CCG and it would be cascaded out between September and October.

Councillor PJ Murphy questioned whether there was also a planning issue there – if services make changes they needed to build in the time to train staff. That should have been built in when the policy was agreed. Mike Boyle said that was a fair criticism but the most important issue going forward was ensuring that as new people joined the organisations they could access the right training at the right time.

RESOLVED

That the Committee noted the report.

10. FINAL INTERNAL AUDIT REPORT - ST THOMAS OF CANTERBURY 2016-17

The Chair informed the Committee that the school's Headteacher and Chair of Governors had been invited to the meeting but were unable to attend due to prior engagements. They had requested that the item be deferred to the September meeting and the committee subsequently agreed.

ACTION: David Abbott

Councillor Vivienne Lukey asked when the school was scheduled to be inspected by Ofsted as there were some issues in the report that would likely be interesting to inspectors. Dave McNamara said he could provide that information after the meeting.

11. FINAL AUDIT REPORT - SERVICE CHARGES 2016-17

Geoff Drake, Senior Audit Manager, presented the report and noted that because the issues found by the audit that made this a limited assurance report related solely to BT Managed Services the Chair agreed that the lead officers were not required to attend the committee.

Councillor Mark Loveday had three questions that he asked to be sent to the relevant officers for a response:

1. Was the Council using the latest guidance (TECH 03/11) from the ICAEW? This guidance was on accounting and reporting in relation to service charge accounts for residential properties on which variable service charges are paid in accordance with a lease or tenancy agreement.
2. Was billing major works separately to regular service charges within the terms of the lease? In the past there had been arguments made that any costs should be recovered from the normal service charge.
3. The report stated that 40 percent of service charge receipts were initially miss-posted. He asked for an update on the current position.

ACTIONS: Geoff Drake

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

Geoff Drake, Senior Audit Manager, presented the report which summarised progress on implementing recommendations arising from the External Audit Report 2015/16 and the Annual Governance Statement.

RESOLVED

That the committee noted the contents of the report.

13. HEAD OF INTERNAL AUDIT ANNUAL REPORT 2016-17

Geoff Drake, Senior Audit Manager, presented the report that provided a summary of all audit work undertaken during the 2016/17 financial year and provided assurances on the overall System of Internal Control, the System of Internal Financial Control, Corporate Governance and Risk Management. The 2016-17 year opinion stated that internal audit could provide reasonable assurance that the system of internal control in place at Hammersmith & Fulham Council for the year ended 31 March 2017 generally accorded with proper practice with the exception of the entries listed at section 8 of the report. This section listed the limited assurance audit reports issued plus the details of the significant control weaknesses included in the draft Annual Governance Statement for the year to March 2017.

Councillor PJ Murphy said it would be helpful for members of the committee if, in future, the assurance levels table in Appendix 1 had an end column that gave a number of recommendations still outstanding.

Councillor Michael Adam noted that Pensions Sub-Committee had discussed issues related to the problems with the transfer of data between Capita and Surrey County Council and asked why there hadn't been an audit of an area of know weakness. Geoff Drake responded that internal audit was aware of the problems and felt an audit would simply surface problems that the Council was already aware of. There would however be an audit of pensions regulations compliance and the current data transfer from payroll should be addressed as part of that audit.

Councillor Guy Vincent asked if the Council's audit function had the resources necessary to be effective and what the committee could do to support it. Geoff Drake said he appreciated the support given by the committee. He added that now David Hughes, the new Director of Audit, Fraud, Risk and Insurance, was in post he would be reviewing processes and reporting back on potential improvements shortly.

RESOLVED

That the committee noted the contents of this report.

14. INTERNAL AUDIT CHARTER 2017

Geoff Drake presented the updated version of the charter and strategy following a 2017 year review.

RESOLVED

That the committee noted the report.

15. RISK MANAGEMENT UPDATE

Mike Sloniowski, Risk Manager, presented the report that provided an oversight of the Council's processes to identify and manage its significant corporate business risks. He acknowledged that recent months had seen a number of dramatic and tragic events – the Grenfell Tower Fire, terrorist attacks in London and Manchester, the NHS ransomware cyber-attack, and a snap-election – and noted that corporate risks were being reassessed as well as the Council's business resilience and continuity arrangements in view of them.

Councillor Michael Adam noted that the Royal Borough of Kensington and Chelsea Council was, until last week, widely considered to be a well-run and efficient organisation but their response to a major civil emergency was clearly lacking. He asked what officers were doing to understand what went wrong in Kensington and check their processes against our own. Mike Sloniowski said they were looking at lessons learned and following recent events were looking to use new processes to ensure the Council had a dynamic and agile continuity response. David Hughes said the team would be look closely at emergency planning and business continuity arrangements in the event of major incident.

Councillor PJ Murphy noted that Hammersmith and Fulham Council was historically closely linked with RBKC through the shared services arrangements and asked if our response to a similar incident would have been different. Mike Sloniowski said that Hammersmith and Fulham had a sovereign emergency planning and business continuity function, with its own response plan and the Emergency Planning Service would be assessing the lessons from Kensington and Chelsea's response.

Councillor Vivienne Lukey noted that she was working for Westminster City Council at the time of the 7/7 bombings and the legacy of that event was a set of clear government guidelines on emergency response – but they didn't seem to be used in relation to Grenfell. Mike Sloniowski said officers in the Council's

Emergency Services and Business Continuity Teams did look at the latest guidance from the Government as well as best practice from business and other local authorities.

Councillor Guy Vincent, referring to Appendix 1 on the exempt agenda, asked if a financial value could be determined for the risks presented. Mike Sloniowski said values could be attached to help articulate the severity of those risks – but advised that some departments were very risk-averse and some of those risks were likely to be moderated down. Training would be given to staff to help them more accurately assess the level of certain risks.

Councillor Nicholas Botterill, noted the high degree of risks associated with the new ICT service and asked if it was not achieving the desired outcomes. Mike Sloniowski advised that at the start of projects officers tended to mark risks as fairly high because there were so many unknowns – but he expected them to come down over time as the new team settled in.

Councillor Mark Loveday observed that the collapse of the Tri-Borough arrangements had been announced before these risks were collated but none of the Directors had identified it as an organisational risk. Mike Sloniowski said it was on the corporate risk register but he would follow up with Directors. Councillor Loveday felt the registers may not have been as thoroughly refreshed as they should have been and asked officers to look again at them. Councillor PJ Murphy said there should be a more generic risk about the failure of key suppliers in the register.

ACTIONS: Mike Sloniowski

Councillor Guy Vincent asked what the process was for challenging risks submitted by Directors. Mike Sloniowski said they should be reviewed and discussed within service management teams. He added that he would be going through service risk registers in depth with officers to get assurances they are up to date and of a high quality.

The Chair asked if all departments were now taking risk as seriously as they should. Mike Sloniowski said risk management was very much seen as a top priority for services.

Councillor Nicholas Botterill noted that the risks presented seemed to be reactive – they were all known quantities - but events like the Grenfell Tower fire showed that officers needed to look at where the gaps in their thinking could be. David Hughes said he would be reviewing the current risk identification process and report back to the committee about what improvements would be made to ensure all areas of risk were considered.

Councillor Vivienne Lukey said she hoped the Council would also be looking at how departments can work together and take a more strategic view. Kim Dero reassured the committee that since being appointed as Chief Executive she had taken a more hands-on approach to risk management – discussing risk and business continuity at regular senior leadership team meetings and holding service resilience team meetings. She said she would raise the issue of how often risks

were refreshed with Directors and ensure there was robust challenge of the registers at senior management level.

ACTION: Kim Dero

Councillor Mark Loveday noted that a report on the risks of the disaggregation of shared services was expected but was not on the agenda. Officers said the report would be coming to the September meeting.

Councillor PJ Murphy asked if the Council needed to get in an external consultant to look at risk in the organisation from a new perspective. Kim Dero replied that the Council had recently hired David Hughes as the new Director for Audit, Fraud, Risk and Insurance and she was confident that he would bring fresh ideas and expertise to the organisation. Councillor Michael Adam said external advice on crisis communications could be very useful as it was an area the public sector was not generally very good at. Mike Sloniowski said he would take that away and evaluate that suggestion as part of the review of audit and risk processes and procedures.

RESOLVED

That the Committee noted the report.

16. DATE OF NEXT MEETING

The next meeting was scheduled for 20 September 2017.

17. EXCLUSION OF 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.

18. RISK MANAGEMENT UPDATE - EXEMPT ELEMENTS

Discussion of this item can be found under Item 15.

Meeting started: 7.00 pm

Meeting ended: 9.45 pm

Chair

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Minutes are subject to confirmation at the next meeting as a correct record of the proceedings and any amendments arising will be recorded in the minutes of that subsequent meeting.

Update on Housing Health and Safety Checks actions from the meeting on 21 June 2017

Introduction

This briefing note updates members on key areas of discussion at the Committee on 21 June 2017 following the Housing Health and Safety Checks report.

Action Updates

Minute reference	Update												
<p>1. Electrical and gas testing</p> <p>Independent review of Mitie remaining 591 Electrical Installation Condition Reports (EICR) test reports not covered by the original sample review but due to staff resource had not been commissioned</p>	<p>At the June 2017 Committee officers confirmed they would commission Phoenix Compliance Management Ltd (PCM) to undertake a sample review of Mitie’s remaining 591 EICR electrical test reports not covered by their original December 2016 review.</p> <p>The PCM 10% sample audit review is ongoing and at the time of writing 25 EICR audits were complete with the remainder due for completion in September 2017. PCM advise site audits of these historical EICR test locations have found only one discrepancy.</p> <p>However, PCM have noted that Mitie’s original EICR subcontractor’s certification is not always completed correctly and contains some inaccuracies. Notwithstanding these historic certification issues PCM have reassured LBHF these sites are safe.</p> <p>PCM continues to carry out sample audit checks on Mitie’s EICR electrical tests, and Landlord Gas Safety Record, with faults or errors being reported and rectified by Mitie. Results from PCM audit checks of Mitie’s completed Gas Safety and EICR tests are summarised in the table below:</p> <table border="1" data-bbox="517 1615 1355 1881"> <thead> <tr> <th colspan="2" data-bbox="517 1615 981 1715">Mitie’s EICR electrical testing</th> <th data-bbox="981 1615 1163 1715">Pass Rate</th> <th data-bbox="1163 1615 1355 1715">Fail Rate</th> </tr> </thead> <tbody> <tr> <td data-bbox="517 1715 678 1778">1</td> <td data-bbox="678 1715 981 1778">PCM Site Audits</td> <td data-bbox="981 1715 1163 1778">90%</td> <td data-bbox="1163 1715 1355 1778">10%</td> </tr> <tr> <td data-bbox="517 1778 678 1881">2</td> <td data-bbox="678 1778 981 1881">PCM Desktop Audit</td> <td data-bbox="981 1778 1163 1881">87%</td> <td data-bbox="1163 1778 1355 1881">13%</td> </tr> </tbody> </table>	Mitie’s EICR electrical testing		Pass Rate	Fail Rate	1	PCM Site Audits	90%	10%	2	PCM Desktop Audit	87%	13%
Mitie’s EICR electrical testing		Pass Rate	Fail Rate										
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Minute reference	Update																
	<table border="1" data-bbox="518 304 1355 633"> <thead> <tr> <th colspan="2" data-bbox="518 304 983 360">Mitie's 'Gas Safety' testing</th> <th data-bbox="983 304 1163 360">Pass Rate</th> <th data-bbox="1163 304 1355 360">Fail Rate</th> </tr> </thead> <tbody> <tr> <td data-bbox="518 360 678 427">1</td> <td data-bbox="678 360 983 427">PCM Site Audits</td> <td data-bbox="983 360 1163 427">97%</td> <td data-bbox="1163 360 1355 427">3%</td> </tr> <tr> <td data-bbox="518 427 678 528">2</td> <td data-bbox="678 427 983 528">PCM Desktop Audit</td> <td data-bbox="983 427 1163 528">97%</td> <td data-bbox="1163 427 1355 528">3%</td> </tr> <tr> <td data-bbox="518 528 678 633">3</td> <td data-bbox="678 528 983 633">* PCM 'New Installation' Audit</td> <td data-bbox="983 528 1163 633">96%</td> <td data-bbox="1163 528 1355 633">4%</td> </tr> </tbody> </table> <p data-bbox="496 633 1398 707"><i>* Note: Only 1 out of a small sample of 25 new gas installations failed PCM's audit.</i></p> <p data-bbox="496 734 1458 853">A joint 'mid-year' review of Mitie's Gas Safety and EICR testing and PCM's test audit findings will take place in September 2017 between LBHF's compliance team engineers, Mitie and PCM.</p>	Mitie's 'Gas Safety' testing		Pass Rate	Fail Rate	1	PCM Site Audits	97%	3%	2	PCM Desktop Audit	97%	3%	3	* PCM 'New Installation' Audit	96%	4%
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<p data-bbox="102 913 448 954">2. Fire safety strategy</p> <p data-bbox="97 976 461 1234">LBHF's 2017 Fire Safety Strategy and responsibilities under health and safety regulations and approach to fire safety and risk management.</p>	<p data-bbox="496 913 1445 1133">The Fire Safety Strategy 2017 refocuses our approach and incorporates several best practice guidance sources. This includes the guidance issued in June by the Chief Fire Officers Association on 'Person Centered Fire Risk Assessments', the London Fire Brigade's Audit Tool and the LGA Fire Safety in purpose-built blocks of flats.</p> <p data-bbox="496 1173 1385 1319">The strategy sets out our twin-track approach on fire risk assessments (see below) and fire safety training for staff. The strategy captures feedback received on former versions by the London Fire Brigade.</p> <p data-bbox="496 1359 1437 1429">A key part of the strategy is our 'Fire Safety Plus' Programme. It commits to an immediate investment of up to £20m to ensure:</p> <ul data-bbox="544 1435 1270 1541" style="list-style-type: none"> ▪ Electrical checks and white goods replacement. ▪ Fire door checks and replacements. ▪ Heat detector checks and replacements. 																
<p data-bbox="102 1574 360 1653">3. Fire Risk Assessments</p> <p data-bbox="97 1682 461 1827">Publishing of FRAs. And target date for completion update of all FRAs (December 2017)</p>	<p data-bbox="496 1574 1430 1771">All LBHF high rise tower blocks were checked since the Grenfell Tower fire. The cladding of the tower blocks on the Edward Wood Estate is a 'rock wool' insulation material which is not the same type used at Grenfell Tower. They passed the independent fire tests and no further recommendations or actions are required.</p> <p data-bbox="496 1800 1458 1991">A programme to quality check all FRAs is well underway for all 6+ storey blocks, sheltered housing accommodation and temporary accommodation hostels. Our in-house team of fire risk assessors is leading the programme for updating all two to five storey FRAs. The programme will be completed by December 2017.</p>																

Minute reference	Update
	LBHF is committed to making FRA information publicly accessible via LBHF's website. Fire Safety Checks were completed for communal areas of all LBHF's 2+ storey blocks in August 2017. This checked fire safety, the operation of fire doors, fire related repairs and the obstruction of fire escape routes. A summary of the checks will be made public via LBHF's website.
<p>4. Sprinklers</p> <p>Sprinkler installation programme update in terms of final proposals and scheduling.</p>	Expert fire safety consultancy Colin Todd Associates have been commissioned to provide specialist advice on LBHF's approach to sprinklers systems. The Committee will be updated on this work at the next meeting.
<p>5. Residents complaints</p> <p>Analysis of complaints and whether there has been repeat complaints (as per the claim at Grenfell of power surges)</p>	An analysis of resident complaints has been undertaken to establish if there are any persistent or repeated concerns about fire safety or other compliance issues. This found no evidence of repeat or persistent enquiries relating to blocks.

Responsible Director: Jane Martin, Interim Director for Property Services

Contact: Chris Culleton | chris.culleton@lbhf.gov.uk

Agenda Item 4

London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 20 September 2017	 hammersmith & fulham
STATEMENT OF ACCOUNTS 2016/17	
Report of the Strategic Finance Director – Hitesh Jolapara	
Open Report	
Classification: For Decision Key Decision: No	
Wards Affected: All	
Accountable Director: Hitesh Jolapara, Strategic Finance Director	
Report Author: Christopher Harris, Chief Accountant	Contact Details: Tel: 020 8753 6440 E-mail: christopher.harris@lbhf.gov.uk

1. EXECUTIVE SUMMARY

- 1.1. This report presents the London Borough of Hammersmith and Fulham's Statement of Accounts, including the Pension Fund Accounts, for 2016/17 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 2016/17, including the Pension Fund Accounts (as included at appendix 1).
- 2.5. To approve the Annual Governance Statement which is included in the Statement of Accounts.
- 2.6. To approve the Pension Fund Annual Report 2016/17 (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 2016/17 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 accounts.

- 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 2016/17

- 4.2.1. The Narrative Statement at the beginning of the Statement of Accounts, gives an outline of the Council's financial activity during 2016/17. In summary the key points are:

- A General Fund revenue account under-spend of £0.2m
- A General Fund balance of £19.0m.
- A Housing Revenue Account (HRA) surplus of £1.6m for the year, increasing its working balance to £20.1m.
- Earmarked reserves at 31 March 2016 of £108.3m.

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 2016/17 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 4-5 of their report. The audit identified a number of disclosure adjustments to the draft accounts. These are detailed in Appendix 3 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.

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 accounts. The auditor plans to issue an unqualified opinion in this area and there are no specific matters which the auditor wishes to bring to the Council's attention concerning the pension fund audit.

4.4.2. The Pension Fund Annual Report is attached at Appendix 4 and will be considered in detail by the Pensions sub-committee on 19th September. This report 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. EQUALITY IMPLICATIONS

5.1. Not applicable.

6. LEGAL IMPLICATIONS

6.1.1. 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.

6.1.2. 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.

7. FINANCIAL AND RESOURCES IMPLICATIONS

7.1. Not applicable.

8. RISK MANAGEMENT

8.1. Not applicable

9. PROCUREMENT AND IT STRATEGY IMPLICATIONS

9.1. Not applicable.

10. IMPLICATIONS FOR LOCAL BUSINESSES

10.1. Not applicable.

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

None.

LIST OF APPENDICES:

Appendix 1 – London Borough of Hammersmith and Fulham Annual Statement of Accounts 2016/17 (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

2016/17

(Draft subject to final audit opinion and certification)

Hammersmith & Fulham Council

KPMG Audit Report to follow

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KPMG Audit Report to follow

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**CERTIFICATION BY CHAIR OF THE AUDIT
PENSIONS AND STANDARDS COMMITTEE**

I confirm that these accounts were approved by the Audit,
Pensions and Standards Committee on 20 September 2017

Councillor Iain Cassidy
20 September 2017

CONTENTS

The Strategic Finance Director's Narrative Report, the Council's Statement of Accounts for the Year Ended 31 March 2017 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 the next big regeneration scheme, 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 2016/17, the Council has had another successful year. At the beginning of the year – through our budget process - we found savings and efficiencies of £15.4m, while at the year-end we have been able to deliver a small underspend. The Council moves into 2017/18 with a balanced budget and planning is now well underway for 2018/19. 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

Some of the Council's performance highlights are as follows:

- We're putting an extra £3.4million into care services for older and disabled people, such as residential care and home help.
- We've abolished charges for home care and cut 85% of other charges in real terms.
- We've guaranteed to continue Independent Living Fund payments for disabled people.
- We're funding more police officers than ever before
- We've appointed a 'Street Czar' to work with local people to make streets cleaner and more attractive.

- We've guaranteed to keep our weekly (and in some cases twice-weekly) bin collections.
- To help cut pollution, we've opened 150 electric vehicle charging points and a green car club, with one-year free membership for residents.
- We've expanded 20mph safer neighbourhoods across the borough to help reduce congestion and improve safety.

- Our business commission has been tasked with developing policies to make H&F the best place to start and grow a business.
- We've supported new online social network 'Nextdoor' to set up hyper-local virtual neighbourhoods across H&F to share information and solutions to local problems.
- We're delivering new affordable, flexible office space for start-ups. This, together with our work with schools, infrastructure planning and business policy underpins our ambition to make H&F the best place for business in Europe.

Smarter Budgeting

In January 2016 we launched the Smarter Budgeting programme, which aimed to provide a comprehensive review of how the council spends money and provides services for residents.

Throughout the year, Members and staff across the council worked hard to establish:

- Where and how we were spending money against eight identified outcomes
- How our services aligned across boundaries and whether there was any duplication
- A drive for innovative thinking through workshops and brainstorming sessions
- A suite of business cases to take forward in 2017 and beyond

In doing so, we were able to take a high level view on how we develop our services and where we could implement ideas for cost savings to bridge the 2017-19 budget gap.

This work has identified a number of further activities that are being established in 2017 to ensure we're working smarter and more efficiently. In addition, it has provided us with hundreds of potential ideas we will look to take forward in the future.

Smarter Budgeting is evolving in 2017, with work beginning in earnest to realise the benefits identified through our work in 2016. This work includes:

- The development of a 'money matters' programme to train many more staff to develop skills around budgeting and money management
- Targeted reviews for service areas to determine potential future savings
- Development of around 60 business cases identified in 2016 to be taken forward
- A review of hundreds of other ideas generated in 2016 to decide what can be taken forward

The work we did around Smarter Budgeting in 2016 has set us up well to move forward and evolve for the future. In 2017, Smarter Budgeting will be everybody's business, with staff across all services encouraged to identify and drive forward savings and incremental improvements within their areas. Thanks to everyone who has already contributed to this vital work, we are confident that our approach has put us in a strong position to meet any financial challenges head on.

FINANCIAL PERFORMANCE

Economic climate and Future Outlook

Local government finances continue to be dominated by the austerity agenda. From 2010/11 to 2016/17 the Council's government funding was cut by £74m and further cuts will continue until at least 2020/21. 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 £8.9m in 2017/18. In addition the Government has imposed £0.7m of unfunded new burdens on the Council for 2017/18. Funding is forecast to reduce by a further £19m from 2018/19 to 2020/21.

For 2017/18 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 4% below the level modelled (2% social care precept and 4% for council tax) by the Government in 2017/18.

The Council's 2017/18 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 2016/17 are £19m.

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 2016/17 budgets included:

- A Council Tax freeze (including not levying a 2% adult social care precept);
- Savings of £15.4 million off-setting cost pressures and grant losses; which produced:
- a net revenue budget requirement of £144.2 million funded from Council Tax, the local share of business rates and Revenue Support Grant from government within a gross budget of £642 million.

The revenue outturn for 2016/17 includes:

- A General Fund under-spend of £0.2 million. This underspend has been transferred to the Efficiency Reserve
- General Fund and earmarked reserves at 31 March 2017 of £83 million and
- A stable balance sheet (total net assets have decreased, but due substantially to the annually updated revaluation of the pension liability).

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

Department	Budget	Actual	Over/ (Under) Spend
	£'000	£'000	£'000
Children’s Services	54,963	55,747	784
Adult Social Care	60,119	62,009	1,890
Housing & Regeneration	11,194	11,604	410
Controlled Parking Account	(22,384)	(22,795)	(411)
Environmental Services	48,468	48,411	(57)
Public Health	-	-	-
Libraries and Archives	3,422	3,422	-
Corporate Services	23,733	23,413	(320)
Centrally Managed Budgets	17,684	15,190	(2,494)
Gross Operating Expenditure	197,199	197,001	(198)
Technical and Financial Accounting Adjustments	(10,540)	(10,540)	-
NDR Tariff	2,961	2,961	-
Capital Grants	(13,663)	(13,663)	-
Non-Ring-fenced Revenue Grants	(15,369)	(15,369)	-
Net Contribution to Earmarked Reserves	(7,269)	(7,071)	198
Total Net Expenditure	153,319	153,319	-

Funded by:			
Formula Grant	38,453	38,453	-
Localised NDR	59,100	59,100	-
Council Tax	55,766	55,766	-
Total Funding	153,319	153,319	-
Final Position	-	-	-

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 £1.6 million, 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 2017 is summarised below. Aside from the change in the estimated pension liability, which historically has been volatile, the overall position is substantially stable.

LBHF Summary Balance Sheet	31-Mar-17	31-Mar-16
	£m	£m
Long Term Assets	1,839	1,869
Current Assets	390	444
Current Liabilities	(185)	(205)
Net Pension Liabilities	(691)	(491)
Other Long Term Liabilities	(244)	(251)
Net Assets	1,109	1,366
<i>Represented by:</i>		
Usable Reserves	(238)	(258)
Unusable reserves	(871)	(1,108)
Total Reserves	(1,109)	(1,366)

The breakdown of the usable reserves is set out below:

LBHF Summary Usable Reserves	31-Mar-17	31-Mar-16
	£m	£m
General Fund Balance	(19)	(19)
General Fund Earmarked Reserves	(83)	(90)
HRA Balance and Earmarked Reserves	(46)	(41)
Schools Reserves	(9)	(14)
Capital Reserves (Receipts and Grants)	(81)	(91)
Total	(238)	(255)

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 2016/17, the actual capital expenditure (outturn) totalled £70.6 million. The table below summarises capital expenditure by service area:

Department	2016/17	2015/16
	£'000	£'000
Adult Social Care	315	1,392
Children's Services	12,655	19,039
Environmental Services	13,345	9,644
Finance and Corporate Services	95	-
Housing Revenue Account Programme	40,294	53,592
Housing and Regeneration	3,922	12,023
Libraries and Archives	-	89
Total	70,626	95,779

The 2016/17 capital programme was financed as follows:

Capital Financing	2016/17 £'000	2015/16 £'000
Capital receipts	25,085	49,013
Increase in Capital Finance Requirement (CFR)	5,623	1,117
Capital Grants and Contributions	15,168	22,744
Major Repairs Reserve (MRR)	17,618	16,685
Council and School reserves	4,024	3,608
Housing Revenue Account	3,048	2,300
General Fund Revenue Account	60	312
Total	70,626	95,779

Financial Management – A look forwards

Revenue

The 2017/18 budget was approved by Council in February 2017. 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 £7.3m to meet statutory obligations, demographic and service pressures and key local priorities, including £4.4m for Adult Social Care, off-set by:
- Savings of £14.5m to balance the 2017/18 budget and to meet the ongoing challenge of unprecedented government funding cuts.
- An additional contribution to reserves of £2.9m to fund future efficiency projects
- A standard up lift of 1.8% in fees and charges based on August 16 retail price index, with all Adult Social care, Children's services, Libraries and Housing charges frozen.

Capital

The Council has an ambitious capital programme for the period 2017-21. The Council plans to spend £253m over this period.

The programme includes:

- A Housing programme in excess of £170m.
- 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.

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

LBHF Capital Programme 2017-21

	Indicative Budgets				Total Budget (All years) £'000
	2017/18	2018/19	2019/20	2020/21	
	£'000	£'000	£'000	£'000	
CAPITAL EXPENDITURE					
Children's Services	28,258	7,334	-	-	35,592
Adult Social Care	865	450	1,387	450	3,152
Environmental Services	16,486	7,831	7,731	7,731	39,779
Sub-total (Non-Housing)	45,609	15,615	9,118	8,181	78,523
HRA Programme	33,523	29,634	28,826	32,475	124,458
Decent Neighbourhoods Programme	19,655	13,599	7,662	9,313	50,229
Sub-total (Housing)	53,178	43,233	36,488	41,788	174,687
Total Expenditure	98,787	58,848	45,606	49,969	253,210

CAPITAL FINANCING					
Specific/External Financing:					
Government/Public Body Grants	10,360	2,157	3,364	2,157	18,038
Developers Contributions (S106)	18,920	501	-	-	19,421
Leaseholder Contributions (Housing)	2,849	2,849	2,849	2,849	11,396
Sub-total - Specific Financing	32,129	5,507	6,213	5,006	48,855
Mainstream Financing (Internal):					
Capital Receipts - General Fund	14,790	3,840	3,840	3,840	26,310
Capital Receipts - Housing*	11,063	16,952	13,575	17,832	59,422
Revenue funding - General Fund	544	544	544	544	2,176
Revenue Funding - HRA	2,464	6,028	-	1,313	9,805
Major Repairs Reserve (MRR) [Housing]	18,174	17,404	19,794	19,794	75,166
Sub-total - Mainstream Funding	47,035	44,768	37,753	43,323	172,879
Internal Borrowing	19,623	8,573	1,640	1,640	31,476
Total Capital Financing	98,787	58,848	45,606	49,969	253,210

THE ENVIRONMENT

"Our ambition is to become the greenest borough in the country and that means creating an environment where people, plants and animals can all thrive."

We have the challenge of being a densely populated urban borough but remain committed to;

- Providing effective waste collection and recycling services including a commitment to maintain at least weekly collections.
- Reducing waste, fly-tipping, fly-posting, graffiti and litter and increasing recycling and have appointed a 'Street Czar' to work with local people to make streets cleaner and more attractive.
- Providing excellent parks and open spaces and delivering on the objectives of our Parks & Open Spaces Strategy.
- Enabling the efficient flow of traffic around the borough while improving air quality by tackling congestion, targeted enforcement, expanding electric charging points, and promoting cycling.
- Reducing the risk of flooding, particularly from surface water and sewer surcharging.

Climate change

We aim to do everything we can to improve our energy efficiency and reduce our carbon footprint. H&F has already rolled out smart metering at our major council offices and we're installing energy-saving LED street lamps.

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

Air quality and biodiversity

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.

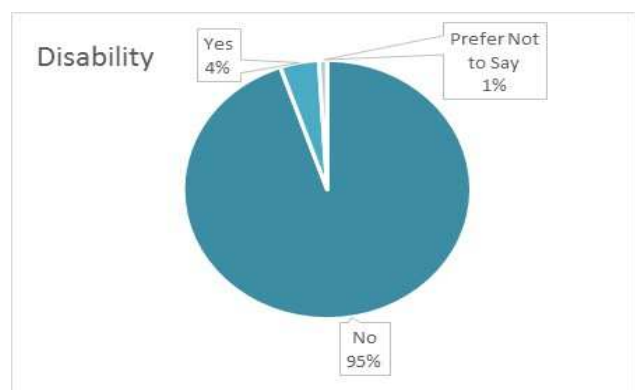
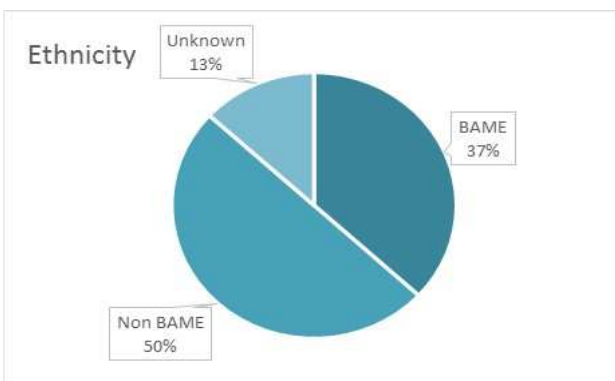
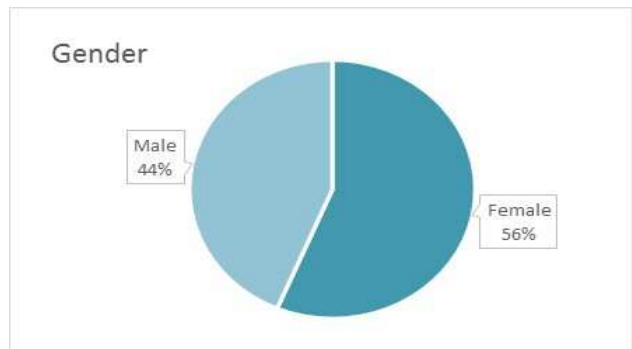
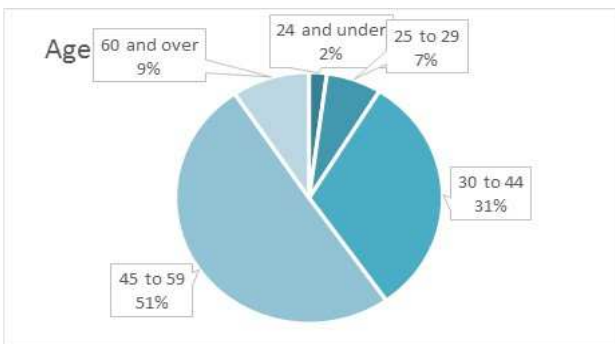
In response, H&F Council established a resident-led Air Quality Commission and more recently a biodiversity commission to engage with external experts and residents and recommend solutions.

- To help cut pollution, we’ve opened 150 electric vehicle charging points and a green car club, with one-year free membership for residents.
- We’ve expanded 20mph ‘safer neighbourhoods’ across the borough to help reduce congestion and improve safety.
- We’re planting grasses to reduce roadside pollution and create ‘green corridors’ for wildlife.
- We’ve stopped using potentially harmful glyphosate weed killer and are pioneering environmentally-friendly alternatives.
- We’ve invited residents to grow plants around tree bases in their streets.
- We’ve become a lead London authority for green flood reduction projects with two of our sustainable drainage schemes winning awards.
- We’re proposing new planning policies to enhance biodiversity, increase the number of trees and improve green infrastructure in the borough

Further details on how the Council is tackling a range of environmental issues, are available on the Council’s website: <https://www.lbhf.gov.uk/>

PEOPLE

The Council employs 1,799 people in full time and part-time contracts (excluding schools) . 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

The Council's highest level risks	Impact	Mitigation
Continued reductions in government funding, restricts revenue spending.	Impacts the Council's ability to run full services and may mean that some services are changed or reduced.	Robust Medium Term Financial Process (MTFS); 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; enhanced checks.
Risks associated with major system and process change following implementation of the Managed Services Programme.	Financial transactions, processing and management, accounts; accounts recoverable and payable. HR transactional items salaries and pensions.	Programme management; effective contract management; retention of in-house staff and legacy systems.
Information risks associated with Cyber-crime.	Disruption to the continuity of the IT function. Theft of data.	Continuity planning and deployment of technological controls.
Impact on services and/or service providers following the decision to leave the European Union.	Uncertainty in connection with future contracts and service providers and financial markets.	Maintain an ongoing assessment of key Government decisions and policies.

FINANCIAL STATEMENTS

The Statement of Accounts sets out the Council's income and expenditure for the financial year 2016/17 and its Balance Sheet at 31 March 2017. 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 2017. 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.
- Included in the Notes is the **Expenditure and Funding Analysis (EFA)**. This shows how annual expenditure is used and funded from resources by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting principles.

Supplementary Financial Statements

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

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

- The **Pension Fund Account** sets out a summary of the transactions during the year (Fund Account) and the overall financial position of the fund at 31st March 2017 (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 2016/17 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 2016 (the Code) which is based on IFRS.

The accounting policies adopted by the Council comply with the Code and are set out in Note 37 to the Statement of Accounts. These are substantially unchanged from 2015/16.

GROUP ACCOUNTS

As with the 2015/16 Statement of Accounts, Group Accounts have not been included in the 2016/17 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 considered the Hammersmith and Fulham Bridge Partnership (HFBP) as a Subsidiary. HFBP was wound-up in October 2016. Details on the financial activity of HFBP can be found in Note 33 (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 2016/17 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 2017 and income and expenditure for the year for the financial year 2016/17.



Hitesh Jolapara
Strategic Finance Director
20 September 2017

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	GF Earmarked Reserves	Schools Balance	Restated Housing Revenue Account (HRA)	HRA Earmarked Reserves	Capital Grants Unapplied	Major Repairs Reserve	Capital Receipts Reserve	Capital Reserves	Total Usable Reserves	Restated Unusable Reserves	Total Authority Reserves	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Balance at 31 March 2015	(19,004)	(89,520)	(14,975)	(13,166)	(14,790)	(44,109)	-	(70,135)	(878)	(266,577)	(958,164)	(1,224,741)	
Movement in Reserves during 2015/16													
Total Comprehensive Income and Expenditure	26,912	-	-	(48,781)	-	-	-	-	-	(21,869)	(119,102)	(140,971)	
Adjustments between accounting basis & funding basis under regulations	3	(28,869)	-	2,862	35,422	-	477	(406)	21,184	-	30,670	(30,670)	(0)
Net (Increase)/Decrease before Transfers to Earmarked Reserves		(1,957)	-	2,862	(13,359)	-	477	(406)	21,184	-	8,801	(149,772)	(140,971)
Transfers to/(from) Earmarked Reserves	4	1,957	(537)	(1,420)	8,005	(8,005)	-	-	-	-	-	-	
(Increase)/Decrease in 2015/16		0	(537)	1,442	(5,354)	(22,795)	477	(406)	21,184	-	8,801	(149,772)	(140,971)
Balance at 31 March 2016	(19,004)	(90,057)	(13,533)	(18,520)	(22,795)	(43,632)	(406)	(48,951)	(878)	(257,776)	(1,107,936)	(1,365,712)	
Movement in Reserves during 2016/17													
Total Comprehensive Income and Expenditure	83,798	-	-	4,254	-	-	-	-	-	88,052	169,047	257,099	
Adjustments between accounting basis & funding basis under regulations	3	(72,986)	-	763	(8,392)	-	2,129	-	10,257	-	(68,229)	68,229	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves		10,812	-	763	(4,138)	-	2,129	-	10,257	-	19,823	237,276	257,099
Transfers to/(from) Earmarked Reserves	4	(10,812)	7,071	3,741	2,530	(2,530)	-	-	-	-	-	-	
(Increase)/Decrease in 2016/17		(0)	7,071	4,504	(1,608)	(2,530)	2,129	-	10,257	-	19,823	237,276	257,099
Balance at 31 March 2017 carried forward		(19,004)	(82,986)	(9,029)	(20,128)	(25,325)	(41,503)	(406)	(38,694)	(878)	(237,953)	(870,660)	(1,108,613)

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.

	Notes	Year Ended 31 March 2017			Year Ended 31 March 2016		
		Gross	Gross	Net	Gross	Gross	Net
		Expenditure	Income	Expenditure	Expenditure	Income	Expenditure
		£000	£000	£000	£000	£000	£000
Children's Services		174,530	(115,809)	58,721	181,318	(126,273)	55,045
Adult Social Care		95,480	(34,675)	60,805	92,212	(29,661)	62,551
Housing & Regeneration		30,357	(18,752)	11,605	25,603	(16,894)	8,709
Local authority housing (HRA)		68,233	(81,499)	(13,266)	60,953	(82,267)	(21,314)
Local authority housing (HRA) - Dwelling Revaluation	5	15,131	-	15,131	(24,112)	-	(24,112)
Controlled Parking Account		12,626	(35,421)	(22,795)	13,391	(35,602)	(22,211)
Environmental Services		76,604	(29,146)	47,458	71,619	(26,587)	45,032
Public Health		22,843	(22,843)	-	21,481	(21,476)	5
Libraries and Archives		3,934	(512)	3,422	2,585	(385)	2,200
Corporate Services		31,039	(7,834)	23,205	28,753	(7,751)	21,002
Centrally Managed Budgets		165,177	(151,395)	13,782	174,995	(159,747)	15,248
Cost of Services		695,954	(497,886)	198,068	648,798	(506,643)	142,155
Other Operating Expenditure	6	42,535	(983)	41,552	3,210	894	4,104
Financing and investment income and expenditure	7	30,740	(2,389)	28,351	31,245	(4,169)	27,076
Taxation and non-specific grant income and expenditure	8	2,961	(182,880)	(179,919)	2,937	(198,141)	(195,204)
(Surplus) or Deficit on Provision of Services				88,052			(21,869)
(Surplus) or deficit on revaluation of non-current assets				(16,992)			(69,235)
(Surplus) or deficit on revaluation of available for sale financial assets				1,755			585
Remeasurements of the net defined benefit liability	27			184,284			(50,452)
Total Comprehensive Income and Expenditure				257,099			(140,971)

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 2017 £000	31 March 2016 Restated £000
Property, Plant and Equipment	9	1,746,727	1,777,790
Heritage Assets	11	8,023	8,023
Investment Property	10	81,744	80,940
Intangible Assets		608	805
Long Term Investments	21	195	100
Long Term Debtors	21	1,384	1,637
Long Term Assets		1,838,681	1,869,295
Assets Held for Sale	12	4,435	3,889
Short Term Investments	21	279,478	264,830
Short Term Debtors	16	53,280	74,125
Inventories		69	55
Cash and Cash Equivalents	17	52,683	100,665
Current Assets		389,945	443,564
Short Term Borrowing	21	(10,052)	(9,869)
Short Term Creditors	18	(162,367)	(174,902)
Provisions	20	(7,927)	(12,676)
Grants and Contributions Receipts in Advance	30	(4,868)	(8,367)
Current Liabilities		(185,214)	(205,814)
Long Term Borrowing	21	(217,661)	(225,073)
Long Term Creditors	21	(100)	(100)
Provisions	20	(193)	(303)
Other Long Term Liabilities	19	(700,568)	(499,345)
Grants and Contributions Receipts in Advance	30	(16,277)	(16,512)
Long Term Liabilities		(934,799)	(741,333)
NET ASSETS		1,108,613	1,365,712
Usable Reserves	3	(237,953)	(257,776)
Unusable Reserves	3	(870,660)	(1,107,936)
TOTAL RESERVES		(1,108,613)	(1,365,712)

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	2016/17 £000	2015/16 £000 Restated
Net surplus or (deficit) on the provision of services		(88,052)	24,389
Adjustments to net surplus or deficit on the provision of services for non-cash movements	22	116,148	27,327
Adjust for items in the net deficit on the provision of services that are investing or financing activities		(15,394)	(28,236)
Net cash flows from Operating Activities		12,702	23,480
Investing Activities			
Purchase of Property, plant and equipment, investment property and intangible assets		(60,293)	(76,397)
Purchase of short-term and long-term investments		(14,743)	-
Proceeds from sale of property, plant and equipment, investment property and intangible assets		15,394	28,235
Proceeds from short-term and long-term investments		-	55,766
Other receipts from investing activities		17,537	25,793
Net cash flows from Investing Activities		(42,106)	33,397
Financing Activities			
Cash receipts of short and long term borrowing		-	-
Other receipts from financing activities		-	990
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts		(333)	(505)
Repayments of short and long term borrowing		(7,464)	(15,520)
Other payments for financing activities		(10,782)	-
Net cash flows from Financing Activities		(18,578)	(15,035)
Net increase or (decrease) in cash and cash equivalents		(47,982)	41,842
Cash and cash equivalents at the beginning of the reporting period		100,665	58,823
Cash and cash equivalents at the end of the reporting period	17	52,683	100,665

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's departments. Income and expenditure is presented more fully in the Comprehensive Income and Expenditure Statement.

	Total			General Fund			HRA		
	Comprehensive Income and Expenditure Statement (CIES)	Adjustments between Accounting and Funding Basis	Net Expenditure chargeable to GF and HRA Balances	CIES	Adjustments between Accounting and Funding Basis	Net Expenditure chargeable to GF and HRA Balances	CIES	Adjustments between Accounting and Funding Basis	Net Expenditure chargeable to GF and HRA Balances
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Children's Services	58,721	(3,202)	55,519	58,721	(3,202)	55,519	-	-	-
Adult Social Care	60,805	(589)	60,216	60,805	(589)	60,216	-	-	-
Housing & Regeneration	11,605	(131)	11,474	11,605	(131)	11,474	-	-	-
HRA	1,865	(19,266)	(17,401)	-	-	-	1,865	(19,266)	(17,401)
Controlled Parking Account	(22,795)	(534)	(23,329)	(22,795)	(534)	(23,329)	-	-	-
Environmental Services	47,458	(14,743)	32,715	47,458	(14,743)	32,715	-	-	-
Public Health	-	(1)	(1)	-	(1)	(1)	-	-	-
Libraries and Archives	3,422	(362)	3,060	3,422	(362)	3,060	-	-	-
Corporate Services	23,205	(1,406)	21,799	23,205	(1,406)	21,799	-	-	-
Centrally Managed Budgets	13,782	3,705	17,487	13,782	3,705	17,487	-	-	-
	198,068	(36,529)	161,539	196,203	(17,263)	178,940	1,865	(19,266)	(17,401)
Other income and expenditure not charged to services	(110,016)	(44,849)	(154,865)	(112,405)	(55,723)	(168,128)	2,389	10,874	13,263
(Surplus) or Deficit on Provision of Services before planned use of Earmarked Reserves	88,052	(81,378)	6,674	83,798	(72,986)	10,812	4,254	(8,392)	(4,138)
<i>Appropriations to and (from) reserves:</i>									
Earmarked reserves (see Note 4)			(4,541)			(7,071)			2,530
Schools Reserves transfer			(3,741)			(3,741)			-
(Surplus) or Deficit after planned use of Earmarked Reserves			(1,608)			-			(1,608)
Opening Balance of General Fund/ HRA Working Balance			(37,524)			(19,004)			(18,520)
add: (Surplus) or Deficit after planned use of Earmarked Reserves			(1,608)			-			(1,608)
Closing Balance of General Fund/ HRA Working Balance			(39,132)			(19,004)			(20,128)

	Total			General Fund			HRA		
	Comprehensive Income and Expenditure Statement (CIES)	Adjustments between Accounting and Funding Basis	Net Expenditure chargeable to GF and HRA Balances	CIES	Adjustments between Accounting and Funding Basis	Net Expenditure chargeable to GF and HRA Balances	CIES	Adjustments between Accounting and Funding Basis	Net Expenditure chargeable to GF and HRA Balances
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Children's Services	55,045	2,495	57,540	55,045	2,495	57,540	-	-	-
Adult Social Care	62,551	(783)	61,768	62,551	(783)	61,768	-	-	-
Housing & Regeneration	8,709	(326)	8,383	8,709	(326)	8,383	-	-	-
HRA	(45,426)	20,704	(24,722)	-	-	-	(45,426)	20,704	(24,722)
Controlled Parking Account	(22,211)	(506)	(22,717)	(22,211)	(506)	(22,717)	-	-	-
Environmental Services	45,032	(12,958)	32,074	45,032	(12,958)	32,074	-	-	-
Public Health	5	(4)	1	5	(4)	1	-	-	-
Libraries and Archives	2,200	864	3,064	2,200	864	3,064	-	-	-
Corporate Services	21,002	(331)	20,671	21,002	(331)	20,671	-	-	-
Centrally Managed Budgets	15,248	3,136	18,384	15,248	3,136	18,384	-	-	-
	142,155	12,291	154,446	187,581	(8,413)	179,168	(45,426)	20,704	(24,722)
Other income and expenditure not charged to services	(164,024)	(5,738)	(169,762)	(160,669)	(20,456)	(181,125)	(3,355)	14,718	11,363
(Surplus) or Deficit on Provision of Services before planned use of Earmarked Reserves	(21,869)	6,553	(15,316)	26,912	(28,869)	(1,957)	(48,781)	35,422	(13,359)
<i>Appropriations to and (from) reserves:</i>									
Earmarked reserves (see Note 4)			8,111			106			8,005
Schools Reserves transfer			1,851			1,851			-
(Surplus) or Deficit after planned use of Earmarked Reserves			(5,354)			-			(5,354)
Opening Balance of General Fund/ HRA Working Balance			(32,170)			(19,004)			(13,166)
add: (Surplus) or Deficit after planned use of Earmarked Reserves			(5,354)			-			(5,354)
Closing Balance of General Fund/ HRA Working Balance			(37,524)			(19,004)			(18,520)

The Cost of Service per the Comprehensive Income and Expenditure Statement is substantially similar to the position as reported to decision makers (per the management accounts as summarised in Narrative Report, p. 6). This is because the Council's management accounts include technical items such as capital charges and pension adjustments where these are chargeable to services. The differences which do arise are attributable to items which are included within the Departmental analysis in the Council's management accounts but are reported below the cost of services line in the statements of accounts. These items primarily consist of financing income and expenditure, levies, and a small number of technical accounting entries.

1a. Note to the Expenditure and Funding Analysis

Adjustments from the General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement Amounts

	2016/17				2015/16			
	Adjustments for Capital Purposes £000	Net Change for Pension Adjustments £000	Other Differences £000	Total Adjustments £000	Adjustments for Capital Purposes £000	Net Change for Pension Adjustments £000	Other Differences £000	Total Adjustments £000
Children's Services	(2,640)	(562)	-	(3,202)	4,188	(1,693)	-	2,495
Adult Social Care	(679)	(120)	211	(589)	(589)	(380)	186	(783)
Housing & Regeneration	(84)	(47)	-	(131)	(169)	(157)	-	(326)
HRA	(19,268)	2	-	(19,266)	20,992	(202)	(86)	20,704
Controlled Parking Account	(534)	-	-	(534)	(506)	-	-	(506)
Environmental Services	(14,625)	(224)	107	(14,743)	(12,355)	(661)	59	(12,958)
Public Health	-	(1)	-	(1)	-	(4)	-	(4)
Libraries and Archives	(347)	(15)	-	(362)	864	-	-	864
Corporate Services	(220)	(1,379)	193	(1,406)	(13)	(575)	257	(331)
Centrally Managed Budgets	1,111	2,440	154	3,705	1,446	1,494	197	3,136
Net Cost of Services	(37,286)	92	665	(36,529)	13,857	(2,178)	613	12,292
Other income and expenditure not charged to services - General Fund	(41,102)	(15,507)	885	(55,723)	(11,194)	(15,085)	5,822	(20,457)
Other income and expenditure not charged to services - HRA	12,741	(1,781)	(86)	10,874	16,488	(1,771)	-	14,717
(Surplus) or Deficit on Provision of Services	(65,647)	(17,196)	1,465	(81,378)	19,152	(19,034)	6,435	6,552

2. Expenditure and Income Analysed by Nature

This Note analyses the nature of the council's expenditure and income. The totals for income and expenditure vary from the totals for gross expenditure and income on the CIES, due to the treatment of internal recharges, and from showing NDR income and gains/losses on disposals as net figures in this note.

	2016/17 £000	2015/16 £000 Restated (See Note 9)
Expenditure		
Employee Benefits Expenses	175,115	178,225
Supplies and Services	67,658	56,754
Premises	32,910	32,762
Capital Charges	64,927	23,117
Support Services	1	1
Third Party Payments	180,398	180,318
Transfer Payments	179,414	181,973
Transport	4,300	3,975
(Gains)/losses on the disposal of non-current assets	38,756	1,768
Interest Payments	12,775	13,958
Levies	2,837	2,854
Payments to the Government Housing Capital Receipts Pool	781	201
Net interest on the net defined benefit liability (asset)	17,288	16,856
Schools converted to Academy Status	677	431
Total Expenditure	777,836	693,191
Income		
Customer and Client Receipts	(155,707)	(153,274)
Government Grants and Contributions	(333,919)	(362,182)
Internal recharge Income	(10,957)	(11,000)
Other Reimbursements and Contributions	(74,085)	(70,870)
Interest and Investment Income	(2,389)	(4,169)
Income from Council Tax and NDR	(111,905)	(113,565)
Other Operating Income and Expenditure	(823)	-
Total Income	(689,784)	(715,060)
Surplus or Deficit on the Provision of Services	88,052	(21,869)

3. 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 2015/16	General Fund Balance £000	School Balances £000	Earmarked Reserves £000	Capital Grants Unapplied £000	Restated Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Reserves £000	Restated 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	-	-	-	(48,781)	-	-	-	(21,869)
Total Comprehensive Income and Expenditure	26,912	-	-	-	(48,781)	-	-	-	(21,869)
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	-	-	-	24,113	-	-	-	36,457
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
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
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	-	-
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
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	(33,191)	-	-	-	(3,775)	-	-	-	(36,966)
Employer's pensions contributions and direct payments to pensioners	16,130	-	-	-	1,802	-	-	-	17,932
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	35,422	(406)	21,184	-	30,670
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)

3. Adjustments between Accounting Basis and Funding Basis under Regulations (cont'd)
Movement on Usable Reserves 2016/17

	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 2016	(19,004)	(13,533)	(112,852)	(43,632)	(18,520)	(406)	(48,951)	(878)	(257,776)
Surplus or (deficit) on the provision of services	83,798	-	-	-	4,254	-	-	-	88,052
Total Comprehensive Income and Expenditure	83,798	-	-	-	4,254	-	-	-	88,052
Adjustments between accounting basis & funding basis under regulations									
Depreciation of Property, Plant and Equipment	(20,002)	-	-	-	(223)	-	-	-	(20,225)
Amortisation of Intangible Assets	(163)	-	-	-	(34)	-	-	-	(197)
Dwelling Depreciation	-	-	-	-	21,498	(21,498)	-	-	-
Reversal of Major Repairs Allowance credited to the HRA	-	-	-	-	(25,377)	3,879	-	-	(21,498)
Impairment/Revaluation losses (charged to the CIES)	1,036	-	-	-	(15,131)	-	-	-	(14,095)
Revenue expenditure funded from capital under statute (REFCUS)	(8,772)	-	-	-	(141)	-	-	-	(8,913)
Movements in the market value of investment properties	1,111	-	-	-	-	-	-	-	1,111
Capital grants and contributions applied	6,296	-	-	2,753	58	-	-	-	9,107
Capital grants and contributions applied (REFCUS)	1,718	-	-	4,342	-	-	-	-	6,060
Use of capital receipts reserve to finance capital expenditure (including REFCUS)	-	-	-	-	-	-	25,085	-	25,085
Capital expenditure charged against the General Fund and HRA balances	3,120	763	-	-	3,249	-	-	-	7,132
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	-	17,619	-	-	17,619
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement (CIES)	4,195	-	-	(4,966)	771	-	-	-	-
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(48,281)	-	-	-	(5,108)	-	-	-	(53,389)
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	650	-	-	-	14,619	-	(15,774)	-	(505)
Contribution from the Capital Receipts Reserve towards admin costs of non-current asset disposals (In-Year)	(7)	-	-	-	(158)	-	165	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	-	-	-	-	(4)	-	(4)
Deferred costs in respect of disposals transferred to the CAA	760	-	-	-	(550)	-	-	-	210
Release of Deferred costs from CAA to UCR upon receipt of cash	-	-	-	-	-	-	4	-	4
Contribution from the Capital Receipts Reserve to finance the payments to the Govt Capital Receipts Pool (Housing Pooled Capital Receipts)	(781)	-	-	-	-	-	781	-	-
Statutory provision for the financing of capital investment (Minimum Revenue Provision)	45	-	-	-	-	-	-	-	45
Voluntary repayment of debt (above Minimum Revenue Provision)	63	-	-	-	-	-	-	-	63
Statutory provision for finance lease liabilities (including PFI)	511	-	-	-	-	-	-	-	511
Reversal of items relating to retirement benefits debited or credited to the CIES made in accordance with IAS19	(31,551)	-	-	-	(3,657)	-	-	-	(35,208)
Employer's pensions contributions and direct payments to pensioners	16,134	-	-	-	1,878	-	-	-	18,012
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	885	-	-	-	-	-	-	-	885
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	18	-	-	-	-	-	-	-	18
Total Adjustments between accounting basis & funding basis under regulations	(72,986)	763	-	2,129	(8,392)	-	10,257	-	(68,229)
Net (Increase)/Decrease before Transfers to Earmarked Reserves	10,812	763	-	2,129	(4,138)	-	10,257	-	19,823
Transfers (to)/from Earmarked Reserves (Note 8)	(10,812)	3,741	4,541	-	2,530	-	-	-	0
(Increase)/Decrease in year	(0)	4,504	4,541	2,129	(1,608)	-	10,257	-	19,823
Balance at 31 March 2017 carried forward	(19,004)	(9,029)	(108,311)	(41,503)	(20,128)	(406)	(38,694)	(878)	(237,953)

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

	Restated	Restated									
	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
Movement on Unusable Reserves 2015/16											
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	-	-	-	-	-	-	-	-	-	(21,869)	(21,869)
Surplus or deficit on revaluation of Property, Plant and Equipment assets	(69,235)	-	-	-	-	-	-	-	(69,235)	-	(69,235)
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	(69,235)	-	-	(50,452)	-	585	-	-	(119,102)	(21,869)	(140,971)
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)	-
Reversal of Major Repairs Allowance credited to the HRA	-	19,917	-	-	-	-	-	-	19,917	(19,917)	-
Impairment/Revaluation losses (charged to the CIES)	-	(36,457)	-	-	-	-	-	-	(36,457)	36,457	-
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 Capital expenditure charged against the General Fund and HRA balances)	-	(49,013)	-	-	-	-	-	-	(49,013)	49,013	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	(6,221)	-	-	-	-	-	-	(6,221)	6,221	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	(16,685)	-	-	-	-	-	-	(16,685)	16,685	-
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)	-
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	-
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	-
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	-	-	-	36,966	-	-	-	-	36,966	(36,966)	-
Employer's pensions contributions and direct payments to pensioners	-	-	-	(17,932)	-	-	-	-	(17,932)	17,932	-
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	-	-	-	-	-	-	(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	-	-	-	-	-	-	-	(68)	(68)	68	-
Total Adjustments between accounting basis & funding basis under regulations	7,614	(51,496)	11	19,034	57	-	(5,822)	(68)	(30,670)	30,670	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(61,621)	(51,496)	11	(31,418)	57	585	(5,822)	(68)	(149,772)	8,801	(140,971)
Transfers (to)/from Earmarked Reserves (Note 8)	-	-	-	-	-	-	-	-	-	-	-
(Increase)/Decrease in year	(61,621)	(51,496)	11	(31,418)	57	585	(5,822)	(68)	(149,772)	8,801	(140,971)
Balance at 31 March 2016 carried forward	(199,295)	(1,398,744)	(56)	490,930	1,142	1,070	(6,601)	3,618	(1,107,936)	(257,776)	(1,365,712)

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

Movement on Unusable Reserves 2016/17

	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 2016	(199,295)	(1,398,744)	(56)	490,930	1,142	1,070	(6,601)	3,618	(1,107,936)	(257,776)	(1,365,712)
Surplus or (deficit) on the provision of services	-	-	-	-	-	-	-	-	-	88,052	88,052
Surplus or deficit on revaluation of Property, Plant and Equipment assets	(16,992)	-	-	-	-	-	-	-	(16,992)	-	(16,992)
Actuarial gains/losses on pension assets / liabilities	-	-	-	184,284	-	-	-	-	184,284	-	184,284
Gains/losses on Available for Sale Financial Assets	-	-	-	-	-	1,755	-	-	1,755	-	1,755
Total Comprehensive Income and Expenditure	(16,992)	-	-	184,284	-	1,755	-	-	169,047	88,052	257,099

Adjustments between accounting basis & funding basis under regulations											
Depreciation of Property, Plant and Equipment	-	20,225	-	-	-	-	-	-	20,225	(20,225)	-
Amortisation of Intangible Assets	-	197	-	-	-	-	-	-	197	(197)	-
Reversal of Major Repairs Allowance credited to the HRA	-	21,498	-	-	-	-	-	-	21,498	(21,498)	-
Impairment/Revaluation losses (charged to the CIES)	-	14,095	-	-	-	-	-	-	14,095	(14,095)	-
Revenue expenditure funded from capital under statute (REFCUS)	-	8,913	-	-	-	-	-	-	8,913	(8,913)	-
Movements in the market value of investment properties	-	(1,111)	-	-	-	-	-	-	(1,111)	1,111	-
Difference between fair value depreciation and historical cost depreciation	4,450	(4,450)	-	-	-	-	-	-	-	-	-
Capital grants and contributions applied	-	(9,107)	-	-	-	-	-	-	(9,107)	9,107	-
Capital grants and contributions applied (REFCUS)	-	(6,060)	-	-	-	-	-	-	(6,060)	6,060	-
Use of capital receipts reserve to finance capital expenditure (including REFCUS)	-	(25,085)	-	-	-	-	-	-	(25,085)	25,085	-
Capital expenditure charged against the General Fund and HRA balances	-	(7,132)	-	-	-	-	-	-	(7,132)	7,132	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	(17,619)	-	-	-	-	-	-	(17,619)	17,619	-
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	-	53,389	-	-	-	-	-	-	53,389	(53,389)	-
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	-	505	-	-	-	-	-	-	505	(505)	-
Removal of revaluation reserve balances for Property, Plant and Equipment disposed of	5,551	(5,551)	-	-	-	-	-	-	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	4	-	-	-	-	-	4	(4)	-
Deferred costs in respect of disposals transferred to the CAA	-	(210)	-	-	-	-	-	-	(210)	210	-
Release of Deferred costs from CAA to UCR upon receipt of cash	-	(4)	-	-	-	-	-	-	(4)	4	-
Statutory provision for the financing of capital investment (Minimum Revenue Provision)	-	(45)	-	-	-	-	-	-	(45)	45	-
Voluntary repayment of debt (above Minimum Revenue Provision)	-	(63)	-	-	-	-	-	-	(63)	63	-
Statutory provision for finance lease liabilities (including PFI)	-	(511)	-	-	-	-	-	-	(511)	511	-
Reversal of items relating to retirement benefits debited or credited to the CIES made in accordance with IAS19	-	-	-	35,208	-	-	-	-	35,208	(35,208)	-
Employer's pensions contributions and direct payments to pensioners	-	-	-	(18,012)	-	-	-	-	(18,012)	18,012	-
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	-	-	-	-	-	-	(885)	-	(885)	885	-
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	-	-	-	-	-	-	-	(18)	(18)	18	-
Total Adjustments between accounting basis & funding basis under regulations	10,001	41,874	4	17,196	57	-	(885)	(18)	68,229	(68,229)	-

Net (Increase)/Decrease before Transfers to Earmarked Reserves	(6,991)	41,874	4	201,480	57	1,755	(885)	(18)	237,276	19,823	257,099
Transfers (to)/from Earmarked Reserves (Note 8)	-	-	-	-	-	-	-	-	-	-	-
(Increase)/Decrease in year	(6,991)	41,874	4	201,480	57	1,755	(885)	(18)	237,276	19,823	257,099

Balance at 31 March 2017 carried forward	(206,286)	(1,356,870)	(52)	692,410	1,199	2,825	(7,486)	3,600	(870,660)	(237,953)	(1,108,613)
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4. 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 2016/17.

	Balance at 31 March 2015 £000	Transfers Out 2015/16 £000	Transfers In 2015/16 £000	Movement Between Reserves 2015/16 £000	Balance at 31 March 2016 £000	Transfers Out 2016/17 £000	Transfers In 2016/17 £000	Movement Between Reserves 2016/17 £000	Balance at 31 March 2017 £000
General Fund									
1 Insurance Fund	(5,842)	122	-	-	(5,720)	-	(622)	-	(6,342)
2 Controlled Parking Fund	(713)	454	(894)	-	(1,153)	521	(521)	99	(1,054)
3 Computer Replacement Fund	(1,413)	176	-	-	(1,237)	55	-	-	(1,182)
4 IT Infrastructure	(5,403)	1,847	(800)	(172)	(4,528)	3,531	(800)	(591)	(2,388)
5 Efficiency Projects Reserve	(13,281)	1,158	(4,681)	2,252	(14,552)	3,303	(4,949)	449	(15,749)
6 Corporate Demand Pressures	(9,116)	1,445	(2,392)	930	(9,133)	219	-	1,383	(7,531)
7 Dilapidations/Office Moves	(4,311)	63	-	-	(4,248)	921	-	-	(3,327)
8 Housing Benefit	(2,248)	-	-	-	(2,248)	-	-	-	(2,248)
9 Planning Inquiries	(488)	197	-	-	(291)	291	-	-	-
10 LPFA Sub Fund	(1,000)	-	-	-	(1,000)	-	(272)	-	(1,272)
11 Imperial Wharf	(800)	-	-	800	-	-	-	-	-
12 Temporary Accommodation	(3,506)	-	-	-	(3,506)	-	-	-	(3,506)
13 ASC Pressures & Demands	(4,401)	1,407	-	-	(2,994)	1,116	-	-	(1,878)
14 Human Resources Reserve	(1,000)	80	-	-	(920)	-	-	-	(920)
15 Capital Reserves	(1,479)	559	-	(800)	(1,720)	298	(524)	-	(1,946)
16 Supporting People Programme	(1,989)	180	-	-	(1,809)	300	-	-	(1,509)
17 CHS Shared Service Integration	(106)	106	-	-	-	-	-	-	-
18 MTFS Delivery Risk	(6,148)	-	-	-	(6,148)	523	-	-	(5,625)
19 Legal Fees Reserve	(20)	20	-	-	-	-	-	-	-
20 VAT Reserve	(2,500)	-	-	-	(2,500)	-	-	-	(2,500)
21 Business Board Reserve	(823)	-	(257)	-	(1,080)	-	-	-	(1,080)
22 TFM Reserve	(1,113)	273	-	(50)	(890)	37	-	-	(853)
23 3SIF Grant Reserve	(542)	-	(399)	-	(941)	-	(67)	-	(1,008)
24 Troubled Families	(411)	235	(403)	-	(579)	-	(238)	-	(817)
25 NDR Deficit Support	(3,242)	34	-	-	(3,208)	-	-	-	(3,208)
26 Stock Options Appraisal	(1,200)	734	-	-	(466)	697	-	(1,240)	(1,009)
27 Partners in Practice	-	-	-	-	-	-	-	(852)	(852)
28 Redundancy Reserves	(3,747)	-	-	-	(3,747)	-	-	-	(3,747)
29 Other Funds	(10,619)	4,282	(1,887)	(2,960)	(11,184)	4,661	(1,249)	743	(7,029)
General Fund Reserves	(87,461)	13,372	(11,713)	-	(85,802)	16,473	(9,242)	(9)	(78,580)
General Fund Revenue Grants									
30 S106 - Revenue Schemes	(1,398)	10	(2,246)	-	(3,634)	581	(731)	-	(3,784)
31 Other Revenue Grants	(661)	40	-	-	(621)	85	(95)	9	(622)
Revenue Grants Sub-Total	(2,059)	50	(2,246)	-	(4,255)	666	(826)	9	(4,406)
General Fund Total	(89,520)	13,422	(13,959)	-	(90,057)	17,139	(10,068)	-	(82,986)
HRA Reserves									
32 HRA Efficiency Reserve	(1,411)	-	-	-	(1,411)	-	-	911	(500)
33 HRA Non-dwellings Impairment Reserve	(6,635)	-	(780)	-	(7,415)	-	153	-	(7,262)
34 HRA Strategic Regeneration and Housing Development	(1,746)	-	(1,004)	(500)	(3,250)	697	(1,655)	-	(4,208)
35 HRA Utilities Reserve	(1,261)	-	(4,250)	-	(5,511)	-	(2,663)	(1,208)	(9,382)
36 Welfare Reform Reserve	(500)	-	(1,000)	-	(1,500)	-	-	-	(1,500)
37 Parking Charges Review Reserve	(606)	-	-	-	(606)	-	-	-	(606)
38 Other HRA Funds	(2,631)	430	(1,401)	500	(3,102)	1,187	(249)	297	(1,867)
HRA Sub-Total	(14,790)	430	(8,435)	-	(22,795)	1,884	(4,414)	-	(25,325)
Total	(104,310)	13,852	(22,394)	-	(112,852)	19,023	(14,482)	-	(108,311)

4. Earmarked Reserves Description

The main purpose of each earmarked reserve is explained below:

1 Insurance Fund	- this was established to underwrite a proportion of the Council's insurable risks.
2 Controlled Parking Fund	- the surplus from the running of the Controlled Parking operations within the Borough is accumulated in this Fund. In the past, this reserve had to be used to meet expenditure on transport and highways related activities.
3 Computer Replacement Fund	- this is for the enhancement to the Council's IT systems required to meet existing commitments and future demands.
4 IT Infrastructure	- this reserve has been set up for future IT improvement programmes.
5 Efficiency Projects Reserve	- this reserve will fund future revenue expenditure and capital investment that will provide future revenue savings.
6 Corporate Demand Pressures	- To meet unbudgeted demands and pressures.
7 Dilapidations/Office Moves	- this reserve has been set up to fund potential office moves and the repair of office accommodation dilapidations.
8 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.
9 Planning Inquiries	- this reserve has been established to fund possible future costs of planning inquiries that may become chargeable to the General Fund.
10 LPFA Sub Fund	- this reserve has been set aside to cover a potential pensions liability to the LPFA.
11 Imperial Wharf	- this reserve has been set up to under write the construction of Imperial Wharf Overground station.
12 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.
13 ASC Pressures & Demands	- this reserve is to address non-recurring new financial pressures within Adult Social Care.
14 Human Resources Reserve	- this is a reserve to fund any requirements in relation to Human Resources.
15 Capital Reserves	- this is a revenue-backed reserve to support capital expenditure and to provide bridging finance pending receipts of grants, etc.
16 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.
17 CHS Shared Service Integration	- this reserve is to address one off costs arising from shared service integration projects.
18 MTFS Delivery Risk	- This reserve is to mitigate the risks associated with the implementation of new MTFS projects.
19 Legal Fees Reserve	- this reserve has been created to cover future one off legal costs relating to planning and environmental health.
20 VAT Reserve	- this reserve is to cover costs incurred as a result of VAT related changes.
21 Business Board Reserve	- this reserve is to fund projects approved by the HF Business Board.
22 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.
23 3SIF Grant Reserve	- this reserve is to support the Third Sector Investment Fund medium term allocation plan.
24 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.
25 NDR Deficit Support	- this is a reserve to smooth the impact of statutory timing differences between funding and impact NDR deficits.
26 Stock Options Appraisal	- this is a reserve to address the potential outcomes of the Stock Options Appraisal .
27 Partners in Practice	- this is a reserve for Children's Services social care practice improvement as part of DFE innovation programme.
28 Redundancy Reserves	- these reserves were set up to cover any redundancy costs.
29 Other Funds	- This comprises a number of smaller reserves, generally not exceeding £500k. These reserves exist to fund various projects and potential future commitments
30-31 Revenue Grants	- these are grants which have been transferred as an earmarked reserve due to the implementation of International Financial Reporting Standards (IFRS).
32 HRA Efficiency Reserve	- this reserve is to provide funding for the one off costs associated with implementing MTFS savings.
33 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.
34 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.
35 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.
36 Welfare Reform Reserve	- this is a reserve to provide for the further and continuing impact of Welfare Reform.
37 Parking Charges Review Reserve	- this reserve is to cover the potential need to refund parking charges on HRA properties.
38 Other HRA Funds	- this reserve is to fund various smaller projects specific to the HRA.

5. Material Items of Income and Expense

Transactions in 2016/17

Penion Liability: Following the triennial revaluation the net pensions liability has increased by £184m. A complete analysis of this increase is set out in Note 27.

Revaluations: HRA Council Dwellings have been valued downward by a net £8.00m. This revaluation loss is divided between a gross loss in the Comprehensive Income and Expenditure Statement (CIES) of £15.13m and a gross gain in the Revaluation Reserve of £7.13m.

School Academy Transfers: Four local authority maintained schools converted to Academy status in year, resulting in the transfer of land and buildings with a net book value of £45.7m. These are detailed below.

	2016/17 £'000
Phoenix High	24,519
Queen's Manor Primary	7,515
Fulham Primary	7,498
Sullivan Primary	6,122
Total	45,654

These Academy transfers have been reflected as disposal losses in the Council's accounts. These are included in the (gains)/losses on disposal as disclosed in note 6. The disclosure in note 6 also includes gains from the sale of other assets hence the net total of £38,756k.

Transactions in 2015/16

The revaluation of Council Dwellings for 2015/16 has been restated downwards in the 2016/17 however the restated revaluations continues to constitute a material sum. The revised net gain in the value of dwellings was £44.6m (compared with £74.07m as previously disclosed). This gain is divided between the Comprehensive Income and Expenditure Statement (CIES), £24.1m (previously disclosed as £26.63m) and the Revaluation Reserve, £20.5m (previously disclosed as £47.44m). Further details of this restatement can be found in Note 9.

6. Other Operating Expenditure

	2016/17 £000	2015/16 £000
Levies	2,838	2,855
Payments to the Government Housing Capital Receipts Pool	781	201
(Gains)/losses on the disposal of non-current assets	38,756	1,865
Other Operating Income and Expenditure	(823)	(817)
	41,552	4,104

7. Financing and Investment Income and Expenditure

	2016/17 £000	2015/16 £000
Interest payable and similar charges	12,775	13,958
Net interest on the net defined benefit liability (asset)	17,288	16,856
Interest receivable and similar income	(1,431)	(1,943)
Income and expenditure in relation to investment properties and changes in their fair value	(958)	(2,226)
Schools converted to Academy Status	677	431
	28,351	27,076

8. Taxation and non-specific grant income and expenditure

	2016/17 £000	2015/16 £000
Council Tax Income	(55,767)	(53,435)
Non-domestic rates income and expenditure	(56,140)	(60,131)
Non-ringfenced government grants	(53,821)	(62,276)
Capital grants and contributions	(14,191)	(19,362)
	(179,919)	(195,204)

9. Property, Plant and Equipment

(i) Movements on Balances

Movements in 2016/17

	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 2016 (restated-see note 9(ii))	1,295,997	331,898	201,610	12,312	24,795	34,035	2,730	1,903,377	17,649
Additions	42,417	6,412	9,164	1,227	949	32	1,330	61,531	-
Donations	-	-	-	-	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(3,390)	5,755	-	-	-	(51)	-	2,314	576
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(26,061)	(5)	-	-	-	(6)	-	(26,072)	-
Derecognition – disposals	(4,900)	(49,058)	-	-	-	-	(95)	(54,053)	-
Derecognition – other	-	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Investment Properties	-	-	-	-	-	-	-	-	-
Other reclassifications	-	(575)	-	-	-	575	-	-	-
Other movements in cost or valuation	-	-	-	-	-	-	(546)	(546)	-
At 31 March 2017	1,304,063	294,427	210,774	13,539	25,744	34,585	3,419	1,886,551	18,225
Accumulated Depreciation and Impairment									
At 1 April 2016	-	(677)	(106,340)	(9,909)	(8,662)	-	-	(125,588)	-
Depreciation charge	(21,498)	(5,622)	(11,700)	(878)	(1,886)	(139)	-	(41,723)	(318)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	10,515	4,028	-	-	-	137	-	14,680	317
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	10,930	1,045	-	-	-	2	-	11,977	1
Derecognition – disposals	53	777	-	-	-	-	-	830	-
Derecognition – other	-	-	-	-	-	-	-	-	-
Other movements in depreciation and impairment	-	-	-	-	-	-	-	-	-
At 31 March 2017	-	(449)	(118,040)	(10,787)	(10,548)	-	-	(139,824)	-
Net Book Value at 31 March 2017	1,304,063	293,976	92,734	2,752	15,196	34,585	3,419	1,746,727	18,225

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

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	11,068	27,515	-	-	-	17,891	-	56,474	2,790
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	13,435	8,388	-	-	-	1,679	-	23,502	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 (restated - see note 9(ii))	1,295,997	331,898	201,610	12,312	24,795	34,035	2,730	1,903,377	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	1,295,997	331,221	95,270	2,403	16,133	34,035	2,730	1,777,789	17,649

(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 (Building element only - land not depreciated)	15 - 50 years
Infrastructure Assets	3 - 40 years
Vehicles, Plant, Furniture & Equipment	4 - 25 years
Community Assets	5 - 73 years

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

(ii) Prior Period Adjustment

It was established during the financial year that the value of HRA dwellings as at 31 March 2016 were overvalued by £29.462m. This was due to a technical error whereby the EUV-SH factor was not applied to 124 properties. As a result of this error a prior period adjustment has been applied in these accounts. The revised total net gain in the value of dwellings for 2015/16 was £44.606m (compared with £74.068m per the 2015/16 accounts as published). The net adjustment of £29.462m resulted in an adjustment to the 2015/16 Comprehensive Income and Expenditure Statement (CIES) of £2.52m (with a commensurate amount neutralised in the Capital Adjustment Account) and adjustment to the Revaluation Reserve of £26.94m. This adjustment has had no impact on Usable Reserves, the General Fund or HRA Balances. A comparison of the previously published and corrected position for the 2015/16 movements in the value of Council Dwellings is provided below together with the impact on the relevant main statements and reserves:

	Council Dwellings- Position as per published 2015/16 accounts £000	Council Dwellings- Revised position £000	Difference (prior year adjustment applied) £000	Impact on main statements/reserves			
				CIES £000	Movement in Reserves Statement (MiRS) £000	Revaluation Reserve £000	Capital Adjustment Account £000
Prior Period Adjustment - PPE Movements in 2015/16							
Cost or Valuation							
At 1 April 2015	1,213,135	1,213,135	-				
Additions	65,077	65,077	-				
Revaluation increases/(decreases)	38,009	11,068	(26,941)			26,941	
Revaluation increases/(decreases)	15,956	13,435	(2,521)	2,521	(2,521)		2,521
Derecognition – disposals	(6,718)	(6,718)	-				
At 31 March 2016	1,325,459	1,295,997	(29,462)	2,521	(2,521)	26,941	2,521
Accumulated Depreciation and							
At 1 April 2015	(269)	(269)	-				
Depreciation charge	(19,916)	(19,916)	-				
Revaluation increases/(decreases)	9,426	9,426	-				
Revaluation increases/(decreases)	10,677	10,677	-				
Derecognition – disposals	82	82	-				
At 31 March 2016	-	-	-	-	-	-	-
Net Book Value							
at 31 March 2016	1,325,459	1,295,997	(29,462)	2,521	(2,521)	26,941	2,521

In 2016/17 the Authority made no material changes to its accounting estimates for Property, Plant and Equipment.

(iii) 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 2017.

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	1,426,746	232,192	92,734	2,752	15,196	16,267	3,419	1,789,306
Carried at Historical Cost	-	-	92,734	2,752	15,196	-	3,419	114,101
Valued at current value as at:								
31 March 2017	1,304,063	277,606	-	-	-	34,585	-	1,616,254
31 March 2016	-	8,248	-	-	-	-	-	8,248
31 March 2015	-	6,583	-	-	-	-	-	6,583
31 March 2014	-	1,541	-	-	-	-	-	1,541
	1,304,063	293,978	92,734	2,752	15,196	34,585	3,419	1,746,727

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

(iii) 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 - 2016". 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 - 2016." Subsequently, on an annual basis, a desk -top revaluation on dwellings as at 31 March 2017 was commissioned by the Council, and completed by the external valuer Wilks, Head and Eve. A revaluation based on full inspection is scheduled for 2020/21.

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 2016/17 which identified impairment of six HRA Dwellings, however this did not constitute of material sum.

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).

(iv) Capital Commitments

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

	31 March 2017 £000	31 March 2016 £000
Service Department		
Housing Revenue Account	10,845	14,855
Children's Services	4,078	-
	14,923	14,855

10. Investment Properties

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

	2016/17 £000	2015/16 £000
Rental income from investment property	(5,832)	(4,816)
Direct operating expenses (including repairs and maintenance) arising from investment properties	102	86
Net (gain)/loss	(5,730)	(4,730)

(i) Revaluation

In 2016/17 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 2017. 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.

10. 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 2017 £000	31 March 2016 £000
Balance at start of the year	80,940	79,310
Additions:		
• Subsequent expenditure	13	-
Disposals	(167)	(596)
Net gains/(losses) from fair value adjustments	958	2,226
Balance at end of the year	81,744	80,940

Fair Value Hierarchy

All the Council's investment properties have been assessed as Level 2 on fair value hierarchy for valuation purposes (see Note 38 Accounting Policies for an explanation of the fair value levels).

11. Heritage Assets

(i) Movements on Balances

	Art Collections £000	Books & Printed Materials £000	Ceramics & Glass £000	Other Heritage Assets £000	Total Assets £000
Cost or Valuation					
At 1 April 2016	7,688	131	118	86	8,023
Movement on balance	-	-	-	-	-
At 31 March 2017	7,688	131	118	86	8,023

There have been no movements on Heritage Assets in 2016/17. 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

12. 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 2017 £000	31 March 2016 £000
Balance outstanding at start of year	3,889	2,401
Additions:		
Assets newly classified as held for sale:		
• Property, Plant and Equipment	546	3,889
Assets sold	-	(2,401)
Balance outstanding at year-end	4,435	3,889

13. 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.

	2016/17 £000	2015/16 £000
Opening Capital Financing Requirement	267,577	267,460
Capital Investment		
Property, Plant and Equipment	61,531	77,241
Investment Properties	13	-
Intangible Assets	-	100
Revenue Expenditure Funded from Capital under Statute	8,912	18,438
Capital Funding of third-party capital loans	345	-
Sources of Finance		
Capital receipts - used to fund Capital Expenditure	(25,085)	(49,013)
Government grants and other contributions	(32,786)	(39,429)
Sums set aside from revenue:		
Direct revenue contributions	(7,132)	(6,221)
MRP/loans fund principal	(618)	(602)
Voluntary Application of Capital Receipts	-	(902)
Deferred costs of capital disposals	(213)	505
Closing Capital Financing Requirement	272,544	267,577
Explanation of movements in year		
Increase/(Decrease) in underlying need to borrow (supported by government financial assistance)	5,068	577
Increase/(Decrease) in underlying need to borrow (unsupported by government financial assistance)	(63)	(63)
Voluntary application of Capital Receipts to repay debt	-	(902)
Increase/(Decrease) in Deferred costs of capital disposals	(213)	505
Assets acquired under finance leases	175	-
Assets acquired under PFI/PPP contracts	-	-
Increase/(decrease) in Capital Financing Requirement	4,967	117

14. 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 2017 £000	31 March 2016 £000
Not later than one year	1,035	1,073
Later than one year and not later than five years	3,812	3,563
Later than five years	9,741	8,823
	14,588	13,459

The Council has sub-let some of the accommodation and equipment held under these leases. At 31st March 2017 the minimum income expected to be received under non-cancellable sub-leases was £17k (£87k at 31st March 2016).

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

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

	31 March 2017 £000	31 March 2016 £000
Minimum lease payments	1,062	1,124
Contingent rents	19	23
Sublease payments receivable	(70)	(118)
	1,011	1,029

Council as Lessor

Finance Leases

The Council is not engaged in any material Finance Leases as a Lessor.

Operating Leases

The Council leases out property and equipment under operating leases for the following purposes:

- for the provision of community services, such as sports facilities, day centres and community centres
- for economic development purposes providing suitable affordable accommodation for local businesses
- as an investment to make the use of the Council's assets

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

	31 March 2017 £000	31 March 2016 £000
Not later than one year	2,321	1,327
Later than one year and not later than five years	6,180	4,087
Later than five years	6,340	8,610
	14,841	14,024

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 2016/17 £75k contingent rents were receivable by the Council (2015/16 £75k).

15. Private Finance Initiative

2016/17 was the twelfth 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 9.

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 2017 (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 2017/18	5,172	240	1,177	6,589
Payable within two to five years	21,692	1,331	4,333	27,356
Payable within six to ten years	29,487	3,014	4,067	36,568
Payable within eleven to fifteen years	21,341	3,587	1,287	26,215
	77,692	8,172	10,864	96,728

15. 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:

	2016/17 £000	2015/16 £000
Balance outstanding at start of year	8,384	8,570
Payments during the year	(211)	(186)
Capital expenditure incurred in the year	-	-
Balance outstanding at year-end	8,173	8,384

16. Debtors

	31 March 2017 £000	31 March 2016 £000
Central government bodies	11,188	19,668
Other local authorities	14,421	21,525
NHS bodies	1,872	2,645
Public corporations and trading funds	-	1
Other entities and individuals	25,799	30,286
Total	53,280	74,125

17. Cash and Cash Equivalents

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

	31 March 2017 £000	31 March 2016 £000
Cash held by the Council	420	182
Bank current accounts	238	28,026
School bank accounts	9,377	37,949
Short-term deposits	44,798	34,619
Total	54,833	100,776
Bank overdraft*	(2,150)	(111)
	(2,150)	(111)
Net Cash and Cash Equivalents	52,683	100,665

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

18. Creditors

	31 March 2017 £000	31 March 2016 £000
Central government bodies	(29,513)	(36,733)
Other local authorities	(29,007)	(33,142)
NHS bodies	(6,759)	(11,700)
Public corporations and trading funds	-	-
Other entities and individuals	(97,088)	(93,328)
Total	(162,367)	(174,903)

19. Other Long Term Liabilities

	31 March 2017 £000	31 March 2016 £000
Net Pensions Liability	(692,411)	(490,931)
Long Term Lease Liability	(8,157)	(8,414)
TOTAL	(700,568)	(499,345)

20. Provisions

	Insurance £000	NDR - Losses on Appeals £000	Other Provisions £000	Total £000
Balance at 1 April 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)
Additional provisions	(124)	-	(753)	(877)
Amounts used	-	4,935	-	4,935
Unused amounts reversed	-	492	309	801
Unwinding of discounting	-	-	-	-
Balance at 31 March 2017	(2,656)	(4,717)	(747)	(8,120)
<i>Of which:</i>				
Next twelve months	(2,656)	(4,717)	(554)	(7,927)
Over twelve months	-	-	(193)	(193)
Balance at 31 March 2017	(2,656)	(4,717)	(747)	(8,120)

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 next actuarial review is being undertaken in 2017/18. 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. 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:

- £0.681m to cover HRA disputed invoices and disrepair cases

21. Financial Instruments

(i) Financial Instruments - Balances

The following categories of financial instruments are carried in the Balance Sheet:

	Long Term		Current	
	31 March 2017 £000	31 March 2016 £000	31 March 2017 £000	31 March 2016 £000
Financial Assets:				
Investments - Loans and Receivables	195	100	78,022	60,128
Investments - Available for sale financial assets	-	-	201,456	204,702
Cash & cash equivalents	-	-	52,683	100,665
Long Term Debtors	1,384	1,637	-	-
Trade Debtors	-	-	61,440	70,335
Total	1,579	1,737	393,601	435,830
Financial Liabilities :				
Measured at amortised cost				
Borrowings	(217,661)	(225,073)	(10,052)	(9,869)
Long Term Creditors	(100)	(100)	-	-
Trade Creditors	-	-	(4,638)	(7,924)
PFI & Finance Lease liabilities	(217,761)	(225,173)	(14,690)	(17,793)
Other Liabilities:				
PFI & Finance Lease liabilities	(8,397)	(8,625)	(307)	(386)

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.

21. Financial Instruments (cont'd)

The amounts for trade debtors and creditors are the values identified in Notes 16 and 18 to the accounts gross of any allowance for bad debts, see paragraph on Credit Risk 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 14 and 15.

(ii) Reclassifications

No financial instruments have been reclassified between valuation at amortised cost and valuation at fair value during 2016/17 or previous years.

(iii) Income, Expense, Gains and Losses

	2016/17				2015/16			
	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	12,775	-	-	12,775	13,958	-	-	13,958
Losses on derecognition	-	-	-	-	-	-	-	-
Reductions in fair value	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-
Fee expense	-	-	-	-	-	-	-	-
Total expense in Surplus or Deficit on the Provision of Services	12,775	-	-	12,775	13,958	-	-	13,958
Interest income	-	(197)	(1,234)	(1,431)	-	(792)	(1,151)	(1,943)
Increases in fair value	-	-	-	-	-	-	-	-
Gains on derecognition	-	-	-	-	-	-	-	-
Fee income	-	-	-	-	-	-	-	-
Total income in Surplus or Deficit on the Provision of Services	-	(197)	(1,234)	(1,431)	-	(792)	(1,151)	(1,943)
Net gain/(loss) for the year	12,775	(197)	(1,234)	11,344	13,958	(792)	(1,151)	12,015

21. 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 2017.
- 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 2017 includes outstanding mortgages of £53k (£57k 31 March 2016). 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 2017 (£100k at 31 March 2016) 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 2017		31 March 2016	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities				
<u>Borrowings</u>				
PWLB Debt	(224,822)	(304,095)	(231,896)	(293,646)
Total	(224,822)	(304,095)	(231,896)	(293,646)
 Financial Assets				
<u>Loans and receivables</u>				
Money market loans less than one year	78,022	78,022	60,128	60,128
Money market loans greater than one year	-	-	-	-
Available for Sale less than one year	201,456	201,456	204,702	204,702
Available for Sale greater than one year	-	-	-	-
Total	279,478	279,478	264,830	264,830

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 £350,054k as at 31 March 2017 (£335,755k at 31 March 2016.)

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.

21. Financial Instruments (cont'd)

At 31st March 2017, 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.

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

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.

21 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 2017 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 16. The sums shown are net of a prudent allowance for their impairment amounting to £45.82 million at 31 March 2017 (£45.61 million at 31 March 2016). 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 2017 £000	31 March 2016 £000
Less than three months	33,271	41,900
Three to six months	1,379	4,629
Six months to one year	4,348	3,171
More than one year	22,442	20,635
	61,440	70,335

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.

21 Financial Instruments (cont'd)

The maturity analysis of financial liabilities is as follows:

	31 March 2017 £000	31 March 2016 £000
Less than one year	(10,052)	(9,869)
Between one and two years	(4,564)	(7,417)
Between two and five years	(21,109)	(25,673)
Between five and ten years	(25,673)	(19,968)
More than ten years	(166,058)	(171,763)
Total	(227,456)	(234,690)

The maturity analysis of financial assets is as follows:

	31 March 2017 £000	31 March 2016 £000
Less than one year	279,478	264,830
Between one and two years	-	-
Between two and three years	-	-
More than three years	1,579	1,737
Total	281,057	266,567

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.

22a. Cash Flow Statement - Net Cash Flow from Operating Activities

	2016/17 £000	2015/16 £000 Restated
Adjustment for items included elsewhere in the Cash Flow Statement:		
Capital Grants	(17,537)	(25,793)
Adjustment for 'non-cash' items included in the Income and Expenditure Statement:		
Depreciation and Amortisation of non-current assets	41,920	41,136
Impairments and revaluations	13,137	(41,203)
Value of non-current assets derecognised on disposal	53,389	27,713
Value of 'Assets Held for Sale' derecognised on disposal	-	2,401
Assets transferred to/(from) Assets Held for Sale	546	3,889
Net adjustment made in respect of IAS 19 (Pensions)	17,196	19,034
Revaluations of Available for Sale Financial Assets	(1,755)	(585)
Amortisation of Premia and Discounts	4	4
Movement in non-cash assets and liabilities:		
(Increase)/decrease in short-term Debtors*	21,235	(18,748)
add/less: (Increase)/decrease in Capital Debtors	329	(845)
(Increase)/decrease in Long-term Debtors	253	11
Increase/(decrease) in short-term Creditors*	(1,836)	35,080
add/less: Increase/(decrease) in Capital Creditors	(1,580)	(100)
Assets transferred to 'Assets Held for Sale'	(546)	(3,889)
(Increase)/decrease in Inventories	(14)	19
Increase/(decrease) in Provisions	(4,859)	(8,149)
Increase/(decrease) in Grants and Contributions Receipts in Advance	(3,734)	(2,648)
Adjustments to net surplus or deficit on the provision of services for non-cash movements	116,148	27,327

*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.

22b. Cash Flow Statement - Operating Activities

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

	2016/17 £000	2015/16 £000
Interest Received	1,937	2,014
Interest Paid	(11,678)	(13,011)

23. 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.

24. Members' Allowances

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

	2016/17 £000	2015/16 £000
Members' Allowances	821	816

25. 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 (i.e. those reporting to the Chief Executive) 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	1	2016/17	190,000	24,700	0	95,012	0	309,712
		2015/16	190,000	22,800	832	0	31,697	245,328
Joanne Rowlands - Lead Director. Regeneration, Planning & Housing	2	2016/17	73,505	9,340	0	0	12,230	95,076
		2015/16	0	0	0	0	0	0
Elizabeth Bruce - Shared Services Executive Director of Adult Social Care for LBHF, RBKC and WCC	3	2016/17	166,667	11,550	2,672	0	2,433	183,321
		2015/16	158,132	10,850	352	0	22,665	191,999
Hitesh Jolapara - Strategic Finance Director (Section 151 Officer)		2016/17	125,851	13,844	866	0	18,872	159,433
		2015/16	124,803	13,728	0	0	17,973	156,504
Michael Hainge - Commercial Director		2016/17	105,851	7,410	790	0	15,846	129,897
		2015/16	34,934	2,446	0	0	4,716	42,096
Kim Dero - Director of Delivery and Value		2016/17	120,532	14,950	791	0	18,493	154,765
		2015/16	117,601	11,981	0	0	17,440	147,022
Veronica Barella - Chief Information officer	4	2016/17	73,968	4,193	0	0	10,885	89,047
		2015/16	105,085	7,336	0	0	15,177	127,598
Juliemma McLoughlin - Lead Director of Planning and Development	5	2016/17	110,961	0	0	65,174	0	176,135
		2015/16	120,000	8,400	0	0	5,940	134,340
Nick Austin - Director of Environmental Health	6	2016/17	104,615	9,767	32	0	16,159	130,573
		2015/16	100,847	8,068	0	0	14,822	123,737
Debbie Morris - Director of Human Resources	7	2016/17	112,333	12,883	213	0	17,642	143,071
		2015/16	114,506	9,012	0	0	16,800	140,318

Note 1 - The Chief Executive left the Council on 31st March 2017. On termination of his contract, the Council was obliged to pay all contractual amounts owed to the Chief Executive including any compensation for loss of office, salary and performance related pay (PRP). The outcome of the performance review process for 2014/15, 2015/16 and 2016/17 was agreed in February 2017 which resulted in arrears arising from the previous non-application of the contractual PRP scheme. In relation to 2014/15, this resulted in salary and bonus arrears of £2,150 and £2,850 respectively. The table has been restated to include the salary arrears of £5,000 in relation to 2015/16. These arrears, together with the bonus payments for 2015/16 and 2016/17 and the compensation for loss of office disclosed in the table above were paid in April 2017.

Note 2 - Joanne Rowlands started on the 15th August 2016 as Lead Director Regeneration, Planning & Housing. This post was previously covered by Kathleen Corbett

Note 3 - This is a Shared Services role and is split on the following basis 46% (LBHF): 33% (WCC): 21% (RBKC)

Note 4 - Veronica Barella started on 3rd October 2016. This was role previously a Shared Services role held by Ed Garcez but since October 2016 this is solely a LBHF post. This post reports directly to the Chief Executive.

Note 5 - Juliemma McLoughlin left February 2017. This post reported directly to the Chief Executive, and since February has been covered by Lead Director. Regeneration, Planning & Housing

Note 6 - This is a Shared Services role and is split on the following basis: 50% (LBHF): 50% (RBKC).

Note 7 - 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.

Note 8 - The following Senior Officers are employed by RBKC, on a Shared Services basis:-

- The Shared Services Executive Director of Children's Services (Andrew Christie) left on the 31st May 2016 and was replaced on an interim basis by Clare Chamberlain. This post 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).

Information regarding their remuneration can be found on RBKC's website www.rbkc.gov.uk

Note 9 - The Director of Public Health Dr Mike Robinson is employed on a Shared Services basis. This role is shared on the following basis: 29% (LBHF): 31% (RBKC): 40% (WCC).

This Officer is a Westminster City Council employee and information regarding their remuneration can be found on WCC's website www.westminster.gov.uk.

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

25. 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)

Excluding Redundancies

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

(These numbers do not include senior employees shown in the previous table)

Remuneration Band	Including Redundancies		Excluding Redundancies	
	2016/17 Number of Employees	2015/16 Number of Employees	2016/17 Number of Employees	2015/16 Number of Employees
£145,000 - £149,999	-	-	-	-
£140,000 - £144,999	-	-	-	-
£135,000 - £139,999	-	-	-	-
£130,000 - £134,999	-	-	-	-
£125,000 - £129,999	1	-	1	-
£120,000 - £124,999	1	-	1	-
£115,000 - £119,999	2	2	2	2
£110,000 - £114,999	3	2	2	2
£105,000 - £109,999	5	5	5	4
£100,000 - £104,999	-	-	-	-
£95,000 - £99,999	5	2	5	2
£90,000 - £94,999	5	4	5	4
£85,000 - £89,999	5	11	5	10
£80,000 - £84,999	21	14	21	14
£75,000 - £79,999	15	22	13	20
£70,000 - £74,999	7	12	7	12
£65,000 - £69,999	17	18	15	16
£60,000 - £64,999	23	31	23	29
£55,000 - £59,999	57	51	56	51
£50,000 - £54,999	104	106	104	106
Total	271	280	265	272

Of the 271 employees listed above in 2016/17, 86 (32%) were employees where pay decisions rest with the School Governing Body and not the Council. The corresponding figure for 2015/16 was 114 (41%).

Of the 265 employees listed above in 2016/17, 83 (31%) were employees where pay decisions rest with the School Governing Body and not the Council. The corresponding figure for 2015/16 was 114 (42%).

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	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
£0 - £20,000	45	19	32	9	77	28	572,089	289,709
£20,001 - £40,000	7	3	12	2	19	5	508,291	121,906
£40,001 - £60,000	-	4	2	2	2	6	105,642	273,062
£60,001 - £80,000	-	-	1	2	1	2	65,174	129,303
£80,001 - £100,000	-	-	1	1	1	1	86,727	87,765
Over £100,001	-	-	-	-	-	-	-	-
Total	52	26	48	16	100	42	1,337,923	901,745

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. 2016/17 figures include settlement agreements.

2015/16 figures have been amended to reflect the correct timing of when Exit Packages are recognised in the accounts

26. 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 2016/17, the Council paid £4.07 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.5% of pensionable pay. The figures for 2015/16 were £4.21 million and 15.5%. 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 2016/17 the costs arising from additional benefits amounted to £335.4k (2015/16: £338.6k).

27. 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.

27. Defined Benefit Schemes (cont'd)

	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme	
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Comprehensive Income and Expenditure Statement				
<i>Cost of Services:</i>				
• current service costs	19,812	23,561	154	209
• past service costs including curtailments	647	754	-	20
• (gain)/ loss from settlements	(849)	(2,654)	-	-
• administration expenses	614	625	52	64
<i>Financing and Investment Income and Expenditure:</i>				
• net interest expense	17,111	16,654	177	202
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	37,335	38,940	383	495
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>				
<i>Remeasurement of the net defined benefit liability comprising:</i>				
• Return on plan assets (excluding the amount included in the net interest expense)	(103,821)	35,236	(6,681)	1,559
• Actuarial gains and losses arising on changes in demographic assumptions	13,404	-	(1,206)	-
• Actuarial gains and losses arising on changes in financial assumptions	304,498	(84,542)	7,240	(3,162)
• Experience loss/ (gain) on defined benefit obligation	(20,719)	482	(2,982)	(25)
• Other actuarial gains/ (losses)	(5,476)	-	27	-
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	225,221	(9,884)	(3,219)	(1,133)
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	17,866	17,767	146	162
<i>Actual amount charged against the General Fund Balance for pensions in the year:</i>				
• employers' contributions payable to scheme	17,949	17,767	151	162
• retirement benefits payable to pensioners (unfunded pension payments)	2,389	2,436	33	33

27. 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		LPFA Local Government	
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Opening balance 1 April	1,215,591	1,267,928	45,317	49,165
Current service cost	19,812	23,561	154	209
Interest cost	43,204	41,304	1,454	1,441
Remeasurement (gains) and losses:				
- Change in financial assumptions	304,498	(84,542)	7,240	(3,162)
- Change in demographic assumptions	13,404	-	(1,206)	-
- Experience loss/(gain) on defined benefit obligation	(20,719)	482	(2,982)	(25)
Liabilities assumed/ (extinguished) on settlements	(1,050)	(3,413)	-	-
Estimated benefits paid net of transfers in	(33,852)	(33,329)	(2,508)	(2,338)
Past service costs, including curtailments	647	754	-	20
Contributions by Scheme participants	5,349	5,282	22	40
Unfunded pension payments	(2,389)	(2,436)	(33)	(33)
Closing balance at 31 March	1,544,495	1,215,591	47,458	45,317

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

	LBHF Local Government		LPFA Local Government	
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Opening balance 1 April	730,133	752,382	39,844	42,364
Interest on assets	26,093	24,650	1,277	1,239
Remeasurement gain/ (loss):				
- Return on assets less interest	103,821	(35,236)	6,681	(1,559)
- Other actual gains/ (losses)	5,476	-	(27)	-
Administration expenses	(614)	(625)	(52)	(64)
Contributions by employer including unfunded	20,338	20,203	184	195
Contributions by scheme participants	5,349	5,282	22	40
Estimated benefits paid plus unfunded net of transfers in	(36,241)	(35,764)	(2,541)	(2,371)
Settlement prices received/ (paid)	(201)	(759)	-	-
Closing balance at 31 March	854,154	730,133	45,388	39,844

Pension Assets and Liabilities Recognised in the Balance Sheet

	31 March 2017 £000	31 March 2016 £000
<i>Present Value of Liabilities</i>		
LBHF Local Government Pension Scheme (Funded)	1,507,531	1,181,539
LBHF Local Government Pension Scheme (Unfunded)	36,964	34,052
LPFA Local Government Pension Scheme (Funded)	47,205	45,060
LPFA Local Government Pension Scheme (Unfunded)	253	257
<i>Fair Value of Assets</i>		
LBHF Local Government Pension Scheme	(854,154)	(730,133)
LPFA Local Government Pension Scheme	(45,388)	(39,844)
<i>Net liability arising from defined benefit obligation</i>		
LBHF Local Government Pension Scheme	690,341	485,458
LPFA Local Government Pension Scheme	2,070	5,473
Total	692,411	490,931

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 £692.4m 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.

27. 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 2017 is estimated to be 18% for LBHF Local Government Pension Scheme and 21% 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 2017		31 March 2016	
		£000	%	£000	%
Equities	UK	195,926	23%	186,654	26%
	Overseas	247,261	29%	207,476	28%
Gilts	UK	-	0%	13,705	2%
	Overseas	-	0%	15,148	2%
Absolute Return Portfolio		-	0%	61,948	8%
Cash Plus Funds		272,497	32%	-	0%
Commodities		-	0%	2,669	1%
Cash		11,666	1%	53,630	7%
Property		47,090	6%	38,765	5%
Secure Income Funds		-	0%	83,854	12%
Inflation Opportunity Funds		79,714	9%	66,284	9%
Total		854,154	100%	730,133	100%

		LPFA Local Government Pensions Scheme			
		31 March 2017		31 March 2016	
		£000	%	£000	%
Equities		26,893	60%	18,509	47%
LDI/Cashflow matching		-	0%	4,039	10%
Target Return Portfolio		9,591	21%	8,475	21%
Infrastructure		2,390	5%	2,183	5%
Commodities		-	0%	178	0%
Property		2,314	5%	1,422	4%
Cash		4,200	9%	5,038	13%
Total		45,388	100%	39,844	100%

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 2016.

The principal assumptions used by the actuary have been:

	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme	
	2016/17	2015/16	2016/17	2015/16
Mortality Assumptions				
Life expectancy from age 65 - retiring today				
Men	24.4	22.9	20.8	21.4
Women	26.0	25.3	24.0	24.7
Life expectancy from age 65 - retiring in 20 years				
Men	26.6	25.2	23.1	23.8
Women	28.3	27.7	26.2	27.0
Financial Assumptions				
Rate of Inflation - RPI	3.6%	3.2%	3.3%	2.9%
Rate of Inflation - CPI	2.7%	2.3%	2.4%	2.0%
Rate of Increase in Salaries	4.2%	4.1%	3.9%	3.8%
Rate of Increase in Pensions	2.7%	2.3%	2.4%	2.0%
Discount Rate	2.7%	3.6%	2.3%	3.3%

These assumptions are set with reference to market conditions at 31 March 2017.

27. Defined Benefit Schemes (cont'd)

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 2017/18 are £30,481k (LBHF) and £186k (LPFA).

	Impact on the Projected Service Cost of the Scheme			
	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme	
	Increase in Assumption	Decrease in Assumption	Increase in Assumption	Decrease in Assumption
	£000	£000	£000	£000
Adjustment to:				
Discount Rate (+/- 0.1%)	29,778	31,201	183	189
Long term salary increase (+/- 0.1%)	30,481	30,481	186	186
Pension increases and deferred revaluation* (+/- 0.1%)	31,201	29,777	189	183
Mortality age rating assumption (+/- 1 year)	31,259	29,722	192	180

*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 2018 are £19.377m to the LBHF Local Government Pension Scheme. The council has been paying additional contributions to the LPFA Local Government Pension Scheme from 2015 and this means no employer contributions will be required to be made in 2017/18. The position for 2018/19 onwards is under review and will be finalised shortly.

The actuary's estimate of the duration of the Employer's liabilities is 19 years for LBHF Local Government Pension Scheme and 13 years for LPFA Local Government Pension Scheme.

28. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts,

	2016/17 £000	2015/16 £000
Fees payable to the External Auditor with regard to external audit services carried out by the appointed auditor for the year	164	164
Fees payable to External Audit for the certification of grant claims and returns for the year	31	31
Non-Audit Services	7	-
Total	202	195

29. 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 ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the schools budget funded by DSG receivable for 2016/2017 are as follows:

	Central Expenditure	Individual Schools Budget	Total 2016/17	Total 2015/16
	£000	£000	£000	£000
Final DSG for 2016/17 before Academy Recoupment			131,820	132,057
Academy figure recouped for 2016/17			-56,031	-48,415
Total DSG after Academy recoupment for 2016/17			75,789	83,642
Plus: Brought forward from 2015/16			1,010	5,281
Less: Carry-forward to 2017/18 agreed in advance			-	-3,797
Agreed initial budgeted distribution in 2016/17	9,455	66,334	75,789	85,126
In year adjustments	16		16	-
Final budgeted distribution for 2016/17	9,471	66,334	75,805	85,126
Less: Actual central expenditure	-11,038		-11,038	-11,022
Less: Actual ISB deployed to schools		-67,942	-67,942	-76,891
Plus Local authority contribution for 2016/17	-	-	-	-
(Drawdown from)/Contribution to DSG Reserve	-1,567	-1,608	-3,175	-4,271
Carry Forward to 2016/17			-2,165	1,010

30. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016/17:

	2016/17 £000	2015/16 £000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	(38,453)	(47,791)
New Homes Bonus	(7,961)	(4,105)
Section 106 Non-ringfenced	(1,687)	(2,246)
Housing Benefit and Council Tax Support Admin Subsidy	(1,661)	(1,750)
S31 Grant - Business Rates Retention Scheme Relief	(1,266)	(1,697)
Education Services	(1,159)	(1,371)
Independent Living Grant	(850)	(671)
Care Act Implementation and Early Assessments Grants	-	(627)
Council Tax Freeze	-	(621)
Other Non-ringfenced government grants	(784)	(1,396)
Capital grants and contributions	(14,191)	(19,362)
Total	(68,012)	(81,638)
Credited to Services		
Housing & Council Tax Benefit Subsidy	(139,738)	(144,868)
Dedicated Schools Grant	(78,980)	(87,823)
Public Health Grant	(22,750)	(21,414)
Sixth Form Grant	(5,503)	(5,985)
Pupil Premium Grant	(4,603)	(5,539)
Adult Learning	(3,034)	(2,839)
Section 106	(2,734)	(2,825)
PFI Grants	(1,429)	(1,429)
Infant Free School Meals	(1,160)	(1,248)
Transport for London / Surface Transport	(1,074)	(1,394)
Troubled Families	(902)	(904)
Children's Social Care Innovation Grant	(922)	-
DfE Capital Grants	(697)	(4,108)
NDR and BRS Cost of Collection Allowance	(570)	(586)
Disabled Facilities Grant	(508)	-
Other grants and contributions	(4,679)	(7,047)
Total	(269,283)	(288,009)

30. Grant Income (cont'd)

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:

	2016/17 £000	2015/16 £000
Grants and Contributions Receipts in Advance (Current)		
Public Health Grant	(4,448)	(4,295)
New Homes Bonus Grant	(1,259)	(1,564)
Dedicated Schools Grant	2,165	(1,010)
Learning & Skills Council - revenue	(538)	(856)
Other grants - revenue	(788)	(642)
Total	(4,868)	(8,367)

	2016/17 £000	2015/16 £000
Grants and Contributions Receipts in Advance (Non-Current)		
Developer contributions (inc. section 106)	(12,788)	(13,298)
TfL	(2,096)	(2,192)
Social Care Grant	(949)	(511)
Winterbourne Grant	(300)	(300)
Other capital grants	(144)	(211)
Total	(16,277)	(16,512)

31. 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 30.

Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2016/17 is shown in Note 24.

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 2016/17, the Council engaged in various transactions with related parties - per information provided by Councillors and Chief Officers to the value of £1,509k. 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 £1,085k at the year end. The Council incurred costs of £240k 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 32.

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.

32. 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 following table summarises the position for 2016/17:

	2016/17 £000's	2015/16 £000's
Contributions to the Pooled Budget:		
London Borough of Hammersmith & Fulham	(8,261)	(8,900)
Hammersmith and Fulham Clinical Commissioning Group	(33,037)	(30,813)
Total Contributions	(41,298)	(39,713)
Expenditure Met by the Pooled Budget:		
Costs relating to the reablement of residents	9,028	7,248
Costs relating to supporting residents to remain in their own homes	74	-
Costs relating to care provided in residential settings or in community settings	31,201	30,401
Support Services and programme management relating to the BCF	1,736	1,473
Total Expenditure	42,039	39,122
Net (surplus)/deficit arising on the pooled budget in the year	741	(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)	212	-25
Share of the net (surplus)/deficit due to the Hammersmith & Fulham Clinical Commissioning Group	530	-566

33. 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 2016/17. The latest audited accounts available, those relating to 2015/16, show net assets of £10,324k (£9,840k in 2014/15) and a profit on its activities in that year of £249k (£1,857k in 2014/15). 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 2016/17. The charity's latest audited accounts available, those relating to 2015/16 show net assets worth £62k, (£61k in 2014/15). A net gain of £0.405k has been reported for 2015/16 (net deficit £3k in 2014/15). 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 has ended on the 31 October 2016. HFBP has provided IT services to the Council and provides significant capital investment in a range of projects.

The management accounts for the year 2016/17 showed total net assets of £2,262k (£598k net assets in 2015/16 audited accounts) with a profit before tax of £1,664k (profit before tax £179k in 2015/16 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 in 27 March 2014.

HFS Development 2 LLP is a joint venture between the Council (50%) and Stanhope Plc (50%) which was incorporated on 19 July 2016.

(v) LBHF Ventures Limited

LBHF Ventures Limited is a company wholly owned by the Council which has incorporated 9 June 2016. The Council invested £95,000, by way of share capital in LBHF Ventures Limited.

34. 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 480 units with an estimated valuation of £225m. This represents a potential asset to the Council of £109m 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 2017 but their outcome is not yet determined.

Total Litigations and claims

2016/17
£'000 (Est)
10,000

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.

35. 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:

	2016/17	2015/16
	£000	£000
Balance at 1st April	(5,254)	(5,314)
Income	(699)	(679)
Sub total	(5,953)	(5,992)
Less:		
Expenditure and Transfers	736	738
Balance at 31 March	(5,217)	(5,254)

36. 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 2017 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
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 2017/18 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 (£130.4million) would result in a reduction of the Revaluation Reserve of £21.8 million and a £108.6 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 £1.725 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 £2.3m 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 38.	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 27.

37. Events after the Reporting Period

The Statement of Accounts have been prepared up to 31 March 2017. They were authorised for issue by the Strategic Finance Director on 20 September 2017. There are no material adjusting events after the balance sheet date to report.

38. 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 2016/17 (the Code) and the Service Reporting Code of Practice 2016/17 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017.

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 services as agreed in the annual budget.

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.

38. Statement of Accounting Policies (cont'd)

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.

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.

38. Statement of Accounting Policies (cont'd)

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.

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.

38. Statement of Accounting Policies (cont'd)

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.

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.

38. Statement of Accounting Policies (cont'd)

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.

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).

38. Statement of Accounting Policies (cont'd)

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

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

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property - applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of 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.

38. Statement of Accounting Policies (cont'd)

xii. PRIVATE FINANCE INITIATIVE (PFI) AND SIMILAR CONTRACTS

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

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

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

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

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

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

xiii. INTANGIBLE ASSETS

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

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

An asset is tested for impairment whenever there is an indication that the asset might be impaired - any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the authority's cash management.

38. Statement of Accounting Policies (cont'd)

Cash and Cash Equivalents are held to meet the daily cash flow needs of the Council. These are distinct from investments that are held for the purposes of capital protection or appreciation and/or earning a return.

xvi. FINANCIAL INSTRUMENTS

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- **loans and receivables** – assets that have fixed or determinable payments but are not quoted in an active market; and
- **available-for-sale assets** – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value and are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for that particular instrument. For most of the loans which the Council has made, the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement in the year is the amount which the loan agreement identified as receivable.

When material soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the borrower, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

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.

38. Statement of Accounting Policies (cont'd)

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).

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.

38. Statement of Accounting Policies (cont'd)

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 2.7% (3.6% in 2015/16). The discount rate is the annualised yield at the 19 year point on the Merrill Lynch AA-rated corporate bond yield curve which is consistent with the approach used in 2015/16.

- The assets of the Funds attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities - current bid price
- unquoted securities - professional estimate
- unitised securities - current bid price
- property - market value.

- The change in the net pensions liability is analysed into the **following components**:

Service Cost comprising:

- **current service cost**: the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

- **past service cost**: the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier year - debited to the Surplus or Deficit on the Provision of Services line in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

- **net interest on the net defined benefit liability (asset)**: i.e. net interest expense for the authority - the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period - taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurement comprising:

- **Re-measurement of the return on plan assets** - excluding amounts included in net interest on the net defined benefit liability (asset) - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

- **Actuarial gains and losses** (changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions) debited to the Pensions Reserve.

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.

38. Statement of Accounting Policies (cont'd)

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

xviii. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where:

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

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

Contingent Assets

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

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

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.

38. Statement of Accounting Policies (cont'd)

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 2016/17. 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.

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.

39. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 38, 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.

Accounting for Schools - 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.

The Code of Practice on Local Authority Accounting in the UK confirms that the balance of control for local authority maintained schools (ie those categories of school identified in the Schools Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore schools' transactions, cashflows and balances are recognised in each of the financial statements of the authority as if they were the transactions, cash flows and balances of the authority.

Accounting for Schools - Transfer of Schools to Academy Status

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

Accounting for Schools - Transfer of Capital Grants

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

Capital Charges associated with HRA Non-Dwelling Assets

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

Investment Properties

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

Group Accounts

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

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.

	2016/17			2015/16			Notes
	Business Rates £000	Council Tax £000	Total £000	Business Rates £000	Council Tax £000	Total £000	
Income							
Council Tax Collectable	-	(77,111)	(77,111)	-	(77,040)	(77,040)	1
Business Rates Collectable	(181,509)	-	(181,509)	(189,724)	-	(189,724)	2
Business Rate Supplement Collectable	(5,791)	-	(5,791)	(5,822)	-	(5,822)	
Transitional Protection Payment	1,540	-	1,540	261	-	261	
Total Income	(185,760)	(77,111)	(262,871)	(195,285)	(77,040)	(272,325)	
Expenditure							
<i>Precepts and Demands:</i>							
Central Government (CLG)	93,426	-	93,426	94,029	-	94,029	
LB Hammersmith & Fulham	56,056	53,888	109,944	56,417	52,390	108,807	
Greater London Authority	37,371	20,435	57,806	37,611	21,235	58,846	
<i>Business Rate Supplement</i>							
Payment to the Greater London Authority	5,777	-	5,777	5,805	-	5,805	2
Cost of collection	14	-	14	17	-	17	
<i>Charges to Collection Fund</i>							
Write-offs of uncollectable amounts	2,249	929	3,178	1,323	1,607	2,930	
Increase/ (Decrease) in Allowance for Doubtful Debts	(1,747)	(744)	(2,491)	1,680	380	2,060	
Increase/ (Decrease) in Provision for Appeals	(18,090)	-	(18,090)	(24,449)	-	(24,449)	
Distribution/(Recovery) of prior year surplus/(deficit)	9,667	1,600	11,267	260	2,562	2,822	
Cost of collection	556	-	556	569	-	569	
Total Expenditure	185,279	76,108	261,387	173,262	78,174	251,436	
Movement on Fund balance	(481)	(1,003)	(1,484)	(22,023)	1,134	(20,889)	
(Surplus)/Deficit as at 1 April	(14,757)	(3,028)	(17,785)	7,266	(4,162)	3,104	
(Surplus)/Deficit as at 31 March	(15,238)	(4,031)	(19,269)	(14,757)	(3,028)	(17,785)	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 2016/17 it was calculated as follows:

Band	Number of Dwellings 2016/17	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 2016/17	Band D equivalents 2015/16
A	3,790	2,875	6/9	1,917	19	(582)	1,354	1,332
B	5,744	4,799	7/9	3,732	66	(1,264)	2,534	2,427
C	14,166	11,947	8/9	10,620	(31)	(2,848)	7,741	7,548
D	24,384	21,541	1	21,541	(80)	(3,723)	17,738	17,408
E	15,177	13,822	11/9	16,893	(33)	(2,254)	14,606	14,167
F	9,096	8,405	13/9	12,141	(24)	(1,021)	11,096	10,784
G	10,828	10,224	15/9	17,040	67	(533)	16,574	16,114
H	2,225	2,152	18/9	4,304	10	(16)	4,298	4,049
Total	85,410	75,765		88,188	(6)	(12,241)	75,941	73,829

The 2016/17 Council Tax Base after allowing for adjustments for non collection was 74,042.

The Council set a 2016/17 Band D charge of £727.81 (no change from 2015/16), the GLA's Band D charge for 2016/17 was £276.00 making a total Band D Council Tax charge for 2016/17 of £1,003.81.

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 2017 was £428.674m (£434.637m as at 31 March 2016). The standard NNDR multiplier for 2016/17 was 49.7 pence (49.3 pence in 2015/16). The Small Business Rate Relief multiplier for 2016/17 was 48.4 pence (48.0 pence in 2015/16).

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.

	2016/17			2015/16		
	Business Rates £000	Council Tax £000	Total £000	Business Rates £000	Council Tax £000	Total £000
London Borough of Hammersmith and Fulham	(4,572)	(2,915)	(7,487)	(4,427)	(2,174)	(6,602)
Greater London Authority	(3,047)	(1,116)	(4,163)	(2,951)	(854)	(3,806)
Central Government (CLG)	(7,619)	-	(7,619)	(7,379)	-	(7,379)
	(15,238)	(4,031)	(19,269)	(14,757)	(3,028)	(17,785)

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

			Restated (See Note 9)
	Notes	2016/17 £000	2015/16 £000
Income			
Dwelling Rents		(68,230)	(69,706)
Non-dwelling rents		(2,334)	(1,570)
Charges for services and facilities		(9,707)	(10,324)
Contributions towards expenditure		(2,342)	(546)
Reimbursement of Costs		-	(19)
		(82,613)	(82,165)
Expenditure			
Repairs and maintenance and management			
Repairs and maintenance		15,751	14,056
Supervision and management		29,999	25,708
Rents, rates, taxes and other charges		433	121
Depreciation and impairment of non-current assets		21,755	20,211
Depreciation and impairment of non-current assets - dwelling revaluation	6	15,131	(24,113)
Debt management costs		72	95
Movement in the allowance for bad debts		1,246	757
Revenue Expenditure Funded from Capital Under Statute		-	-
		84,387	36,835
		1,774	(45,330)
Net Cost of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement			
HRA services' share of Corporate and Democratic Core		297	297
HRA services' share of Non Distributed Costs		(206)	(395)
Net (Income)/Cost for HRA Services		1,865	(45,428)
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		(8,962)	(13,379)
Income and expenditure in relation to investment properties and changes in their fair value		153	(779)
Interest payable and similar charges		9,551	10,490
Interest and investment income		(76)	(484)
Net interest on the net defined benefit liability (asset)		1,781	1,771
Capital grants and contributions		(58)	(972)
Other Operating Income		-	-
(Surplus)/deficit for the year on HRA services		4,254	(48,781)
<u>Movement on the HRA Statement</u>			
Balance on the HRA at the end of the previous year		(18,520)	(13,166)
(Surplus)/deficit for the year on the HRA Income and Expenditure Statement		4,254	(48,781)
Adjustments between accounting basis and funding basis under statute	1	(8,392)	35,422
Net (increase)/decrease before transfers to/(from) reserves		(4,138)	(13,359)
Transfers to/(from) reserves			
Major Repairs Reserve		-	-
Earmarked Reserves*		2,530	8,005
(Increase)/decrease in year on the HRA		(1,608)	(5,354)
Balance on the HRA at the end of the current year		(20,128)	(18,520)

* 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

	2016/17 £000	2015/16 £000
Charges for depreciation of non-dwellings	(257)	(294)
Charges for depreciation of dwellings	21,498	19,917
Reversal of Major Repairs Allowance credited to the HRA	(25,377)	(22,743)
Impairment/Revaluation gains, losses (charged to the I&E)	(15,131)	24,113
Revenue expenditure funded from capital under statute (REFCUS)	(141)	(163)
Capital Funding	4,078	3,272
Gain or loss on sale of HRA non-current assets	8,803	13,379
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)
HRA share of contributions (to)/from the Pensions Reserve	(1,779)	(1,973)
	(8,392)	35,422

Restated (See Note 9)

2. Housing Stock

The Council has overall responsibility for managing the housing stock. The average number of dwellings during 2016/17 was 12,317. 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 2016	12,344	90	13	12,447
Adjustment to opening balance	-	-	-	-
Additions	2	-	-	2
Sales	(56)	-	-	(56)
Number at 31 March 2017	12,290	90	13	12,393

3. Stock Valuation

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

	31 March 2017 £000	31 March 2016 £000
Operational Assets		
Housing Dwellings	1,304,063	1,295,997
Other Land and Buildings	10,317	10,143
Vehicles, Plant, Equipment	-	25
Intangible Assets	64	99
Non Operational Assets		
Surplus Assets	871	871
Investment Properties	50,166	50,474
	1,365,481	1,357,609

Restated (See Note 9 to Main Accounts)

The open market, vacant possession fair value of houses and flats within the HRA as at 31 March 2017 was £5.2 billion. This compares to the balance sheet value of £1.3 billion for the Council's dwelling stock and hostels as at 31 March 2017. This is an indication of the economic and social cost of providing Council housing at less than full market rents.

4. Capital Expenditure Financing

	2016/17 £000	2015/16 £000
Major Repairs Reserve	17,618	16,685
Other Grants and Contributions	4,689	3,370
Capital Receipts	21,908	45,561
Total	44,215	65,616

5. Capital Receipts

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

	2016/17 £000	2015/16 £000
Dwelling & Hostels	(12,446)	(15,748)
Non-Dwellings	(2,176)	(6,171)
Total	(14,622)	(21,919)

6. Depreciation and Impairment

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

	2016/17 £000	2015/16 £000
Operational Assets		
Depreciation		
Dwellings	21,498	19,917
Other Land and Buildings	185	206
Vehicles, Plant, Equipment and Intangible Assets	59	88
Revaluation (Gain) / Loss	15,131	(24,112)
Total	36,873	(3,901)

Restated (See
Note 9)

7. Rent Arrears and Allowance for Doubtful Debts

Gross rent arrears were as follows:

	2016/17 £000	2015/16 £000
Main Council Stock	5,420	6,676
Hostels	593	539
Total	6,013	7,215

Allowances for Doubtful Debts at 31 March were:

	2016/17 £000	2015/16 £000
Main Council Stock	(4,936)	(4,954)
Hostels	(562)	(519)
Total	(5,498)	(5,473)

PENSION FUND ACCOUNTS

Fund Account

Net Assets Statement

Notes to the Pension Fund

Fund Account

	Note	2016/17		2015/16	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the scheme					
Contributions					
From Employers	6	22,494		22,412	
From Members	6	6,937	29,431	6,795	29,207
Individual Transfers In from other Pension Funds			2,090		1,375
Other Income			753		35
Benefits					
Pensions	7	(30,002)		(29,076)	
Commutation & Lump Sum Retirement Benefits	7	(5,685)	(35,687)	(5,536)	(34,612)
Payments to and on account of leavers					
Individual Transfers Out to other Pension Funds			(5,046)		(3,230)
Refunds to members leaving service			(37)		(16)
Net Additions (Withdrawals) from dealings with members			(8,496)		(7,241)
Management expenses					
	8		(3,404)		(7,762)
Returns on Investments					
Investment Income	9		12,822		12,771
Taxes on Income (Irrecoverable Withholding Tax)			(23)		(140)
Profit and losses on disposal of investments and changes in value of investments					
Realised	11		78,865		129,570
Unrealised	11		66,749		(139,354)
Net Returns on Investments			158,413		2,847
Net Increase (Decrease) in the net assets available for benefits during the year			146,513		(12,156)
Opening Net Assets of the Scheme			856,319		868,475
Closing Net Assets of the Scheme			1,002,832		856,319

Net Assets Statement

	Note	31 March 2017 £000	31 March 2016 £000
Investment Assets			
Index Linked Securities	14	-	36,771
Equities	14	112,475	136,937
Pooled Investment Vehicles	14	881,865	671,300
Commodities	14	-	1,976
Derivative contracts - forward foreign exchange	14	-	104
Cash Deposits	14	7,856	7,544
Other Investment Balances			
Amounts Outstanding on Sale of Investments	14	76	278
Investment Income Due	14	521	1,242
Investment Liabilities			
Derivative contracts - forward foreign exchange	14	-	(472)
Amounts Outstanding on Purchase of Investments	14	(111)	(16)
Net Investment Assets	14	1,002,682	855,664
Current Assets	20	1,539	677
Current Liabilities	21	(4,223)	(1,187)
Cash Balances (held directly by Fund)		2,834	1,165
Net assets of the Fund available to fund benefits at the period end		1,002,832	856,319

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 (LGPS) 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 LGPS Regulations 2013 (as amended), the LGPS (transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2016.

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.

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 2017	31 March 2016
4,383	4,092
4,800	4,628
5,787	6,504

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 2016/17 and its position at year-end as at 31st March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (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(1)(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 £144.2m. A 0.2% increase in the pay inflation assumption would increase the value of liabilities by £6.1m, and a one-year increase in assumed life expectancy would increase liabilities by £49.6m.

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 £8.08m.

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 £60.9m.

NOTE 5. EVENTS AFTER THE BALANCE SHEET

There have been no material events after the balance sheet date.

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		2016/17 £000	2015/16 £000
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000		
Administering Authority	9,809	9,676	8,101	8,101	5,380	5,249
Scheduled Bodies	1,526	1,310	890	742	815	643
Admitted Bodies*	2,115	2,478	53	105	742	903
Total	13,450	13,464	9,044	8,948	6,937	6,795
TOTALS			22,494	22,412	6,937	6,795

* There were no augmentation contributions included within Deficit contributions received during the year (£51k in 2015/16).

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	
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
	Administering Authority	(28,466)	(27,850)	(4,372)	(4,565)	(515)
Scheduled Bodies	(1,358)	(142)	(542)	(14)	(77)	0
Admitted Bodies	(178)	(1,084)	(179)	(124)		(192)
Total	(30,002)	(29,076)	(5,093)	(4,703)	(592)	(833)
TOTALS	(30,002)	(29,076)			(5,685)	(5,536)

NOTE 8. MANAGEMENT EXPENSES

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

	2016/17 £000	2015/16 £000
Administrative costs	(744)	(606)
Investment management expenses	(574)	(6,888)
Oversight and governance costs	(43)	(268)
Total	(3,404)	(7,762)

Investment management expenses have fallen significantly during the year, as a result of there being no Majedie performance fees, reductions gained both by joining London CIV and those negotiated with Legal & General

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

	2016/17 £000	2015/16 £000
Management fees	(2,181)	(4,774)
Performance fees	-	(1,646)
Transaction costs*	(382)	(395)
Custody fees	(54)	(73)
Total	(2,617)	(6,888)

*Transaction costs incurred on segregated assets only

NOTE 9. INVESTMENT INCOME

The table below shows a breakdown of investment income.

	2016/17	2015/16
	£000	£000
Dividends from Equities	9,975	10,079
Income from Index-Linked Securities	35	1,327
Interest on Cash Deposits	16	55
Private Equity/Other	2,796	1,310
Total	12,822	12,771

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 2017/18.

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

	31 March 2017		31 March 2016	
	Market Value	Total	Market Value	Total
	£000	%	£000	%
Majedie Asset Management	224,141	22.40	215,374	25.17
MFS International (UK) Ltd	-	-	319	0.04
LGIM Passive equities	294,433	30.39	207,706	24.27
Ruffer LLP	101,628	10.10	89,898	10.51
Insight	89,121	8.90	64,848	7.58
LGIM Liquidity fund	10,827	0.01	41,451	4.84
Partners Group MAC fund	52,593	5.20	52,178	6.10
Partners Group Infrastructure fund	8,743	0.90	1,439	0.17
Oak Hill Advisers	70,334	7.00	47,555	5.56
M & G	94,998	9.50	81,552	9.53
Standard Life	47,037	4.70	43,925	5.13
Invesco Private Equity	5,366	0.50	5,728	0.67
Unigestion Private Equity	2,945	0.30	3,541	0.41
London LGPS CIV Ltd	516	0.10	150	0.02
	1,002,682	100.0	855,664	100.0

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 2016/17

Fund Manager	Value at 1 April 2016	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 2017
	£000	£000	£000	£000	£000
Majedie Asset Management	212,050	45,135	(79,963)	40,030	217,252
Ruffer LLP	85,045	186,946	(181,183)	10,408	101,216
Insight Investment	64,848	22,000		2,273	89,121
Legal & General Inv Mngt	207,605	783,117	(764,858)	68,569	294,433
Legal & General Inv Mngt Liquidity Fund	41,451		(30,758)	135	10,828
Partners Group Multi Asset Credit	52,171		(19)	435	52,587
Partners Group Infrastructure	1,439	12,488	(6,161)	541	8,307
Oak Hill Advisers	47,555	16,000		6,780	70,335
M & G Investments	81,552	1,898		11,547	94,997
Standard Life	43,925			3,111	47,036
Invesco Private Equity	5,301		(1,403)	1,235	5,133
Unigestion Private Equity	3,524	17	(1,003)	407	2,945
London CIV	150		(5)	5	150
Sub-total	846,616	1,067,601	(1,065,353)	145,476	994,340
Cash Deposits	7,544			181	7,856
<u>Other Investment Balances</u>					
Investment Income due	1,242				521
Spot FX	-			(42)	-
Pending trade purchases	(16)				(111)
Pending trade sales	278			(1)	76
Totals	855,664	1,067,601	(1,065,353)	145,614	1,002,682

The equivalent analysis for 2015/16 is provided below:

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

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 2017			31st March 2016		
	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		
Overseas Public Sector	-			19,656		
Equities						
UK	98,241			95,736		
UK unquoted				150		
Overseas	14,234			41,051		
Pooled Investment Vehicles						
Global Passive Funds				207,604		
UK Equity Funds	665,907			102,685		
LDI Bespoke Funds	-			-		
Absolute Return Bond Funds	89,121			64,848		
Multi Asset Credit Funds				47,555		
Multi Asset Credit Funds (unquoted)	52,587			52,170		
Sterling Liquidity Funds	10,827			41,451		
Inflation Opportunity Funds				81,552		
Property Funds	47,037			43,925		
Private Equity (unquoted)				8,826		
Infrastructure Funds (unquoted)	16,386			1,439		
Other Managed Funds				19,245		
Commodities				1,976		
Derivative contracts - forward foreign exchange	-			104		
Investment Income due	521			1,242		
Pending Trade Sales	76			278		
Cash deposits with managers		7,856			7,544	
Debtors		1,539			677	
Cash Balances		2,834			1,165	
	994,937	12,229	-	848,608	9,386	-
FINANCIAL LIABILITIES						
Derivative contracts - forward foreign exchange	-			(472)		
Pending Trade Purchases	(111)			(16)		
Creditors			(4,223)			(1,187)
	(111)	-	(4,223)	(488)	-	(1,187)
GRAND TOTALS	994,826	12,229	(4,223)	848,120	9,386	(1,187)
			1,002,832			856,319

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.

	2016/17 £000	2015/16 £000
Financial Assets		
Designated at fair value through profit and loss	146,148	(6,146)
Loans and receivables	181	(108)
Financial Liabilities		
Designated at fair value through profit and loss	(751)	(3,530)
	145,578	(9,784)

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 2017			31st March 2016		
	Quoted Market Price	Using observable inputs	With significant unobservable inputs	Quoted Market Price	Using observable inputs	With significant unobservable inputs
	Level 1 £000	Level 2 £000	Level 3 £000	Level 1 £000	Level 2 £000	Level 3 £000
Financial Assets						
Designated at fair value through profit and loss	612,379	212,369	170,190	603,084	174,823	70,701
Loans and receivables	12,229	-	-	9,386	-	-
Total Financial Assets	624,607	212,369	170,190	612,470	174,823	70,701
Financial Liabilities						
Designated at fair value through profit and loss	(111)	-	-	(16)	(472)	-
Financial Liabilities at amortised cost	(4,223)	-	-	(1,187)	-	-
Total Financial Liabilities	(4,334)	-	-	(1,203)	(472)	-
Net Financial Assets	620,273	212,369	170,190	611,267	174,351	70,701
		1,002,832			856,319	

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 2017	994,340	1,093,774	894,906
At 31st March 2016	846,835	931,518	762,151

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 2017	210,364	212,468	208,261
At 31st March 2016	300,436	303,440	297,432

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 2017	360,756	396,831	324,680
At 31st March 2016	252,627	277,890	227,365

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 12.1% of the Fund's Net Assets at 31st March 2017 (12.4% at 31st March 2016). The remaining investments can be liquidated within a matter of days.

Manager	Portfolio	Value at 31 March 2017 £000	Value at 31 March 2016 £000
Partners Group	Multi Asset Credit	52,587	52,171
Partners Group	Infrastructure	16,386	1,439
Standard Life	Property	43,925	43,925
Invesco	Private Equity	5,301	5,302
Unigestion	Private Equity	3,524	3,525
		<u>121,723</u>	<u>106,362</u>

NOTE 16. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

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

	31st March 2017 £000	31st March 2016 £000
Invesco Partnership Fund V L.P.	451	1,212
Unicapital Investments V	-	46
Partners Group Direct Infrastructure Fund 2015	38,553	41,844
	39,004	43,102

The outstanding commitments for Invesco and Unicapital are expected to be paid over the next twelve months. 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 28 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 2016 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 2017. 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 2017	31st March 2016
	£000	£000
Present Value of Promised Retirement Benefits*	1,656,377	1,357,358
Fair Value of Scheme Assets (bid value)	(1,000,383)	(856,319)
Net Liability	655,994	501,039

*Present Value of Promised Retirement Benefits comprises of £1,613,367k (£1,311,744k at 31 March 2016) and £43,010k (£45,614k at 31 March 2016) in respect of vested benefits and non-vested benefits respectively as at 31 March 2017.

The assumptions applied by the actuary are set out below:

Financial Assumptions

	31st March 2017	31st March 2016
RPI Increases	3.6%	3.3%
CPI Increases	2.7%	2.4%
Salary increases	4.2%	4.2%
Pension increases	2.7%	2.4%
Discount Rate	2.7%	3.7%

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 2017	31st March 2016
Retiring today	Males	24.4	22.9
	Females	26	25.3
Retiring in 20 years	Males	26.6	25.2
	Females	28.3	27.7

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 2017	31st March 2016
Debtors	£000	£000
Contributions due - employers	334	337
Contributions due - employees	113	105
London Borough of Hammersmith and Fulham	1,085	174
Sundry debtors	7	61
	1,539	677

	31st March 2017	31st March 2016
Analysis of debtors	£000	£000
Local authorities	1,117	211
Other entities and individuals	422	466
	1,539	677

NOTE 21. CURRENT LIABILITIES

	31st March 2017	31st March 2016
Creditors	£000	£000
Unpaid Benefits	(2,439)	(80)
Management Expenses	(1,062)	(598)
HM Revenue and Customs	(655)	(476)
Sundry creditors	(67)	(33)
	(4,223)	(1,187)

	31st March 2017	31st March 2016
Analysis of creditors	£000	£000
Local authorities	(67)	(162)
Central government bodies	(655)	(476)
Other entities and individuals	(3,501)	(549)
	(4,223)	(1,187)

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.

	31st March 2017	31st March 2016
Zurich Assurance		
Market Value at 31st March	£1,171,958	£1,134,250
Contributions during the year	£20,916	£33,101
Number of members at 31st March	41	48
Equitable Life Assurance		
Market Value at 31st March	£192,670	£192,259
Contributions during the year	£0	£0
Number of members at 31st March	30	32

In accordance with Regulation 4(1) (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 £240,246 in 2016/17 (£412,812 in 2015/16) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses.

In the year the Council contributed £17,910k in employer contributions to the Fund (2015/16 £17,777k).

As a result of the day to day administration, at 31st March 2017 the Council owed the Pension Fund a net amount of £1,085,666 (£174,042 at 31st March 2016).

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 2017 reimbursement was outstanding. This amounted to £200k and is included in Note 23 Related Parties.

	2016/17	2015/16
	£000	£000
Payments on behalf of London Borough of Hammersmith and Fulham	2,588	2,433
	<u>2,588</u>	<u>2,433</u>

ANNUAL GOVERNANCE STATEMENT

ANNUAL GOVERNANCE STATEMENT 2016 – 2017

Scope of responsibility

The London Borough of Hammersmith and Fulham is responsible for ensuring a sound system of governance and that its business is conducted in accordance with the law and proper standards, that public money is safeguarded, 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 Regulations 2015, regulation 6(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 2017 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

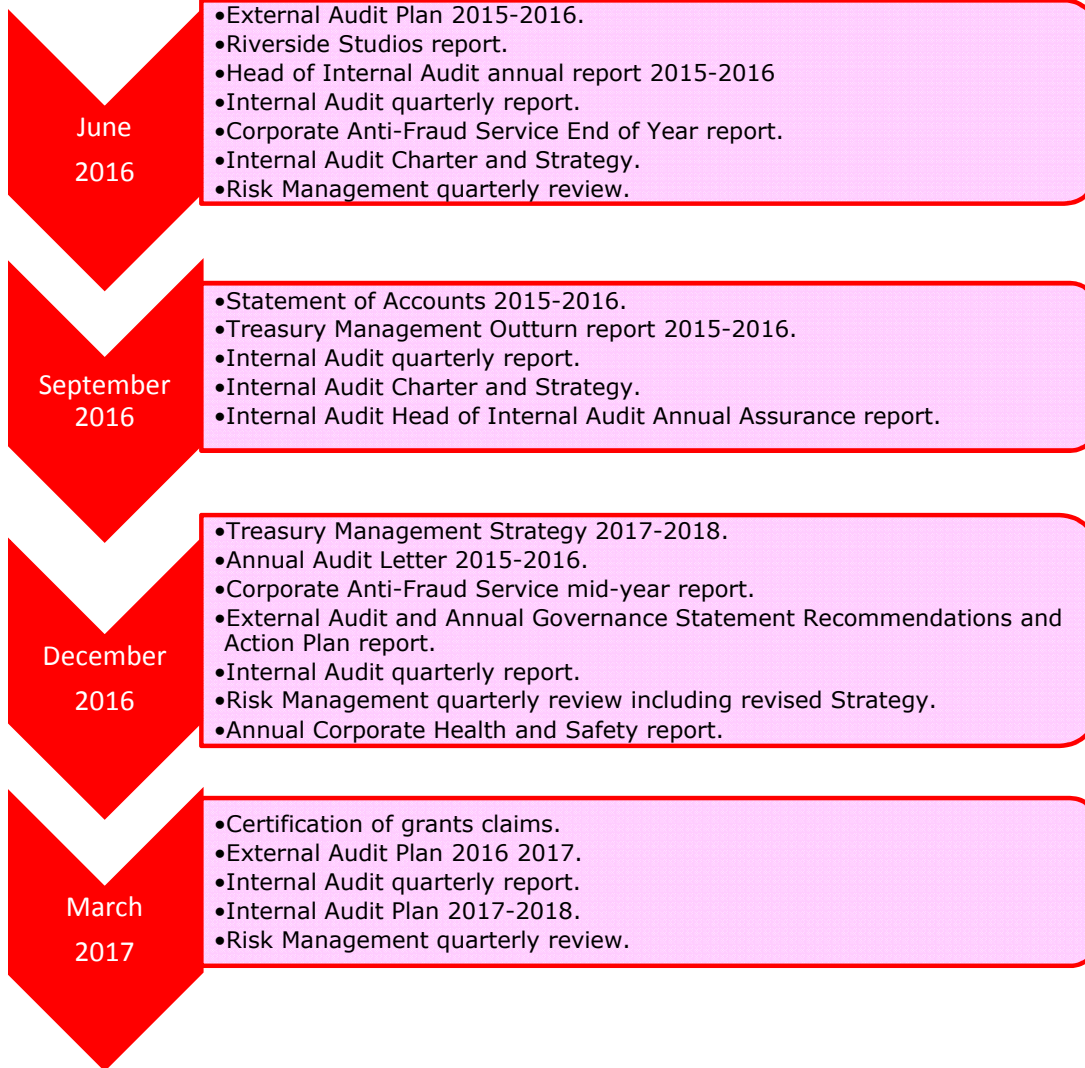
To monitor the effectiveness of the Council's corporate governance systems, a review is undertaken each year of the key elements of the governance framework, the basis of which is shown in the diagram below.

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 2016/2017 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 2016/17 was developed and this is the culmination of the Council's strategic delivery targets and actions. The plan is monitored quarterly at the chief officers' Business Delivery Team chaired by a senior Director 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 Delivery Team whilst the Director of Delivery and Value monitors progress against strategic priorities.

Performance, and Finance 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 Strategic Leadership Team 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 and managed five resident-led commissions to help to inform policy and practice. The Air Quality Commission looked into the problem of air pollution across the borough and reported to the Council in November 2016. The Poverty and Worklessness Commission has examined ways to tackle unemployment and deprivation and will launch its report in the Spring. The Business Commission has focussed on economic development policies for the borough, especially with regard to start-up businesses, and launched its report in March 2017. A new Disabled People's Commission was launched in September 2016 and will report towards the end of 2017. A Biodiversity Commission was set up in January 2017 and will report at the end of the year or early in 2018.

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 Strategic Leadership Team, are also required in Services. Annual reviews of risk management compliance are undertaken at the Council. An internal audit review was undertaken in February 2017 to provide assurance to the Council's Chief Executive 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 2016/17, the Director of Audit's opinion on the Council's control environment, governance arrangements and risk management arrangements is that they are satisfactory.

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 Strategic 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.

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 Service 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 was undertaken in 2016/17 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 Pension and Standards 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 2016/17 (in respect of financial year 2015/16) were the External Audit Report (ISA260 Report to those Charged with Governance) which asserted unqualified opinions for both the authority's financial statements and Value for Money arrangements, the Annual Audit Letter and the certification of grant claims and returns

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. They are aligned to the Cabinet Portfolios.

Role of the Policy and Accountability Committees (Scrutiny); At Hammersmith & Fulham, there were five main scrutiny committees during 2016/17:

- * 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.

The Policy and Accountability Committees (PAC) were established as part of the Council's commitment to public engagement and working with residents in developing policy and strengthening the council's decision-making process. They work hand-in-hand with residents to shape the future of the borough. They feedback their views to the Cabinet and individual Cabinet Members, Officers, external partners and service providers. A large number of non-executive Members participate in scrutinising Cabinet business, external organisations such as the NHS, the Police and other statutory bodies.

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 Monitoring Officer; The Council is required to appoint a Monitoring Officer who monitors and reviews the operation of the Constitution and ensures the aims and principles of the Constitution are achieved. The Monitoring Officer advises on compliance with the Constitution and ensures that decision making is lawful and advises whether decisions of the Executive are within the agreed budget and policy framework. The Director of Law is the Monitoring Officer and has been involved in preparing this statement. The Monitoring Officer is satisfied that the arrangements in place are working effectively and that no matters of significance have been omitted from this Statement.

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 and satisfactorily resolved.

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, Pensions and Standards 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. A satisfactory level of Assurance has been achieved following the conclusion of the review.

Significant governance issues

Matters reported below in the 2015-16 Annual Governance Statement, with the exception of those related to the Managed Services Programme, have been addressed during 2016-17 and are considered resolved.

Funding reductions

Money received by Hammersmith and Fulham Council from central government is reducing significantly every year. Government funding reduced by £74m from 2010/11 to 2016/17. The 2017/18 funding reduction from 2016/17 is £8.9m and is forecast to further reduce by £19m from 2017/18 to 2020/21. In addition, Government has imposed £0.65m of unfunded new burdens on the Council for 2017/18. As part of the provisional Local Government Finance Settlement the government announced that authorities can charge a social care precept of up to 3% (and a total of 6% over 3 years). This would raise £1.65m for Hammersmith and Fulham. A 2% social care precept assumption is included in Government projections of the Council's spending power. The Government also included an assumed further 2% increase in council tax in the Council's spending power projection, meaning a total council tax increase of 4% 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 2017/18 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 have been enhanced to support the delivery of the Council's key objectives.

Contract Management and Procurement

The Commercial Director has been working across the Council since December 2015 to strengthen both procurement and contract management. A new robust arrangement with regard to the letting of tenders commenced on 1 July 2016 with changes to Contract Standing Orders and the Cabinet effectively taking on the role of Procurement Gateway 1. A gateway process in procurement is a mechanism to review procurement projects at critical points in their development, before key decisions are made; the processes within each gateway enable procurement officers to progress through their various stages. The purpose of the process is to introduce a series of 'health checks' into the procurement project timetable, which is designed to ensure that the project is soundly based, well planned, involves all appropriate stakeholders and achieves its objectives. It also helps ensure a consistency of approach across all procurement activity. The Cabinet is now required to agree individual Procurement Strategies prior to the commencement of any procurement or re-procurement exercise where the estimated value exceeds the Key Decision threshold (currently £100,000). The Procurement Gateway 2 role, the award of a contract, is now delegated to the appropriate Cabinet Member providing the tendered sum is below £5,000,000 (otherwise it reverts to the Cabinet).

The Commercial Director is continuing with a review of procurement, 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, concluding in 2017, from the International Association of Commercial and Contract Management (IACCM) a not for profit organisation.

The Council's Strategic Leadership Team and Business Delivery Team are proactively engaged in all commercial and procurement activity. Both receive regular updates in terms of the status of the Contracts Register and the planned forward programme of procurements above the Key Decision threshold.

BT Managed Services Contract Delivery

The Managed Services Framework Agreement 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, each under their own contract. The programme overran its original delivery date of 1 April 2014 but commenced provision of a limited number of activities in April 2015. Since this point BT have continued to deliver some staged improvements to their solution, however they are yet to deliver to the required contracted standard. It is therefore the focus to ensure that BT deliver an acceptable level of service to enable finance, HR and payroll to function effectively.

Officers and members from the Council have 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 the Council to resolve the issues as soon as possible.

To provide the Council with some assurance over their key financial and HR systems, a number of internal audits have been undertaken during 2016/17 including:

- * Accounts Receivable, Satisfactory Assurance;
- * General Ledger, Audit Work in progress;
- * VAT, Satisfactory Assurance and
- * Budgetary Control, Satisfactory Assurance.

Sample testing has also been undertaken on key areas of the Accounts Payable, where a satisfactory assurance audit report was issued, and Payroll process where limited assurance was attained. Actions required to address the audit findings are being monitored by the Council's Intelligent Client Function and will be followed up as part of the 2017/18 payroll audit.

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 our next annual review.

Signed

Leader of the Council, Councillor Stephen Cowan

Signed:

Interim Chief Executive, Kim Dero

Date:

On behalf of the London Borough of Hammersmith and Fulham

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 made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments.

BALANCES

The amount of money left over at the end of the financial year after allowing for all expenditure and income that has taken place. These are also known as financial reserves. They comprise of the General Fund balance, the Collection Fund balance, the Housing Revenue Account balance and the Education Establishment Account balance.

BUDGET

A forecast of the Council's planned expenditure and income, either over a set period or for a specific project.

CAPITAL ADJUSTMENT ACCOUNT

An account recording financing transactions relating to capital expenditure. This account is not available for general use to fund capital expenditure.

CAPITAL EXPENDITURE

Expenditure on the purchase, construction and enhancement of Council assets such as houses, offices, schools and roads. Expenditure can only be treated as 'capital' if it meets the statutory definitions and is in accordance with accounting practice and regulations.

CAPITAL FINANCING

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

CAPITAL FINANCING REQUIREMENT (CFR)

The authority's total liabilities in respect of capital expenditure financed by credit less the provision made to meet these liabilities.

CAPITALISATION

Costs are capitalised to the extent that they create or improve any fixed asset with a useful economic life greater than one year.

CAPITAL RECEIPTS

Monies received from the sale of the Council's assets such as land and buildings. These receipts are used to pay for additional capital expenditure.

CIPFA

The Chartered Institute of Public Finance and Accountancy is the accountancy body which represents at national level the interests of local government and public service finance. The Institute produces advice, codes of practice and guidance to local authorities on best practice.

COLLECTION FUND

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

COMMUNITY ASSETS

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

CONTINGENT ASSET

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

CONTINGENT LIABILITIES

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

CREDITORS

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

CURRENT SERVICE COST (PENSIONS)

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

DEBTORS

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

DEFERRED CREDITS

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

DEFERRED LIABILITIES

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

DEPRECIATION

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

EARMARKED RESERVES

These are reserves set aside for a specific purpose or a particular service, or type of expenditure.

EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

FAIR VALUE

The fair value of a fixed asset is the price at which an asset could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

FINANCE & OPERATING LEASES

A finance lease is one that transfers a substantial proportion of the risks and rewards of a fixed asset to the lessee. With a finance lease the present value of the lease payments equates to substantially all of the value placed on the leased asset. For an operating lease a rental payment is payable to the lessor for the use of the asset and the ownership reverts to the owner when the lease is terminated.

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

The adjustment account is used to equalise the impact of financial reporting standards for financial instruments on council tax over the life of financial instruments concerned.

FINANCIAL INSTRUMENT

A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

FIXED ASSETS

These are tangible and intangible assets that yield benefit to the Council and the services it provides for a period of more than a year.

GENERAL FUND

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

GOVERNMENT GRANTS

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

GROSS EXPENDITURE, GROSS INCOME AND NET EXPENDITURE

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

HISTORIC COST

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

HOUSING REVENUE ACCOUNT

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

IAS19 (FORMERLY FRS17)

This International Accounting Standard is based on the principle that an organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future.

IMPAIRMENT

A reduction in the value of a fixed asset below its carrying amount on the Balance Sheet.

INFRASTRUCTURE ASSETS

Fixed assets that are inalienable, expenditure on which is recoverable only by a continued use of the asset created. Examples of infrastructure assets include highways and footpaths.

INTANGIBLE ASSET

Fixed assets that do not have physical substance but are identified and controlled by the Council, for example, purchased software licences.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Accounting standards adopted by the International Accounting Standards Board (IASB). Local Authorities are required to produce full accounts using IFRS from 2010/11.

INVESTMENT PROPERTIES

Interest in land and/or buildings in respect of which construction work and development have been completed and which is held for its investment potential, with any rental income being negotiated at arm's length.

LEVIES

Payments to London-wide bodies such as the London Pension Fund Authority. The cost of these bodies is borne by local authorities in the area concerned, based on their Council Tax base and is met from the General Fund.

MINIMUM REVENUE PROVISION (MRP)

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

NON-DOMESTIC RATES (NDR)

The rates paid by businesses. The amount paid is based on the rateable value set by the Valuation Office multiplied by a rate in the £ set by the government which is the same throughout the country. The rates are collected by local authorities and shared between central and local government. The rates collected within Hammersmith and Fulham are shared as follows: Department for Communities and Local Government (50%), The London Borough of Hammersmith and Fulham (30%) and the Greater London Authority (20%).

NET BOOK VALUE

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

NET REALISABLE VALUE

The open market value of the asset less the expenses to be incurred in realising the asset.

OPERATIONAL ASSETS

Fixed assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility of for the service or strategic objectives of the authority.

OUTTURN

Actual income and expenditure in a financial year.

PAST SERVICE COST

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvements to, retirement benefits.

PRIVATE FINANCE INITIATIVE (PFI)

A contract between a public body, in our case the Council, and a private company. The private sector makes a capital investment in the assets required to deliver improved services.

POOLING ARRANGEMENTS (CAPITAL RECEIPTS)

Since 1st April 2004, 75% of 'Right to Buy' capital receipts have to be paid to the DCLG; the remaining element can be used to finance capital expenditure. A proportion of other housing receipts must also be paid over unless it is intended to use the receipts for affordable housing or regeneration projects. Changes introduced in 2013 mean an authority can retain an RTB receipt in its entirety when it can be demonstrated that it will be reinvested in a replacement home (known as the 1-4-1 scheme)

POST BALANCE SHEET EVENTS

Events arising after the balance sheet date should be reflected in the statement of accounts if they provide additional evidence of conditions that existed at the balance sheet date and materially affect the amounts to be included.

PRECEPT

A precept is a charge raised by another Authority to meet its net expenditure. The precepting Authority for this Council is the Greater London Authority (GLA). The GLA calculates its total spending needs for the year and sets its own council tax in the same way as a London Borough. Each Billing authority then collects the tax for them.

PRIOR PERIOD ADJUSTMENTS

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.

PROVISIONS

A provision is an amount set aside in the accounts for liabilities anticipated in the future which cannot always be accurately quantified. IAS37 defines a provision as a present obligation as the result of a past event; where it is probable that the transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of that obligation.

PUBLIC SECTOR AUDIT APPOINTMENTS LTD (PSAA)

The PSAA responsible for the appointment of local government external auditors and will continue in this role for the 2017/18 audit of accounts.

PUBLIC WORKS LOAN BOARD (PWLB)

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

RELATED PARTIES

Related Parties are those individuals and entities that the Council either has the ability to influence, or to be influenced by. Related parties include the Government, subsidiary and associated companies, the Pension Fund, Councillors and senior officers.

RESERVES

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

REVENUE CONTRIBUTIONS TO CAPITAL OUTLAY (RCCO)

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

REVENUE EXPENDITURE

Expenditure on day to day items such as salaries, wages and running costs. These items are paid for from service income, Revenue Support Grant, NNDR and Council Tax. Under the Local Government Finance Act all expenditure is deemed to be revenue unless it is specifically classified as capital.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

Expenditure that is treated by the regulations as capital expenditure but which does not meet the definition of capital expenditure in the Statement of Recommended Practice.

REVENUE SUPPORT GRANT (RSG)

The main grant payable to support local authorities' revenue expenditure. A local authority's RSG entitlement is intended to make up the difference between expenditure and income from the NNDR pool and Council Tax. Revenue Support Grant is distributed as part of Formula Grant.

RIGHT TO BUY

The council is legally required to sell council homes to tenants, at a discount, where the tenant wishes to buy their home. The money received from the sale is a capital receipt of which only 25% can be spent on capital expenditure. The remaining 75% must be paid over to the DCLG under pooling arrangements.

SERVICE REPORTING CODE OF PRACTICE (SERCOP)

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

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

STOCKS

The amount of unused or unconsumed stocks held in expectation of future use.

SUPPORTED CAPITAL EXPENDITURE

This is capital expenditure funded by government, either as a one-off capital grant or as part of the annual RSG settlement to cover the financing costs of monies borrowed.

TRANSFER PAYMENTS

A payment to a person or organisation that does not result in a reciprocal benefit or service being provided to the council. The main examples are housing and council tax benefit. In most cases the cost of transfer payments is either fully or partially reimbursed by Central Government.

USEFUL LIFE

The period over which the Council will derive benefits from the use of a fixed asset.

WRITE-OFFS

Income is recorded in the Council's accounts on the basis of amounts due. When money owing to the Council cannot be collected the income is already showing in the accounts and has to be reduced or written off.

Summary of Reserves

Usable Reserves

The Council's usable reserves are explained below:

1. **General Fund Balances** - The General Fund includes any surplus after meeting net expenditure on Council Services.
2. **School Balances** - This balance is comprised of unspent balances of schools and other educational establishments at the year end, which may be applied in the following year. The balances can only be used by the schools or establishments and are not available to the Council for general use.
3. **Earmarked Reserves** - Note 8 describes each Earmarked Reserve in detail.
4. **Capital Grants Unapplied** - These are capital grants with no payback conditions and have had no associated expenditure in the reporting financial year.
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 revenue backed capital sums to support future capital expenditure.

Unusable Reserves

The Council's unusable reserves are explained below:

1. **Revaluation Reserve** - The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2. **Capital Adjustment Account** - The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

3. **Deferred Capital Receipts Reserve** - The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

4. **Pensions Reserve** - The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

5. **Financial Instruments Adjustment Account** - The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

6. **Available for Sale Financial Instruments Reserves** - The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

7. **Collection Fund Adjustment Account** - The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

8. **Accumulated Absences Account** - The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.



External Audit Report 2016/17

London Borough of Hammersmith and Fulham

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12 September 2017

Content

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This report is addressed to the London Borough of Hammersmith and Fulham (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. PSAA 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 PSAA'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, Andrew Sayers (0207 694 8981, andrew.sayers@kpmg.co.uk). 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.

Important notice

This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to the London Borough of Hammersmith and Fulham (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Authority. External auditors do not act as a substitute for the Authority'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.

Basis of preparation: We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

Purpose of this report: This Report is made to the Authority's Audit, Pensions and Standards Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this report or for the opinions we have formed in respect of this report.

Limitations on work performed: This report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit: Our audit is not yet complete and matters communicated in this report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Audit, Pensions and Standards Committee meeting. The following work is ongoing:

- **Financial statements audit:** Finalisation of our work on exit packages, pension fund membership data testing, pension fund journals, investment levelling review and the management expenses note.
- **Whole of Government accounts pack:** Work ongoing.
- **Pension Fund: Administering Authority:** Within our audit opinion on the financial statements, we are required to give an opinion on the consistency of the pension fund information included in the Pension Fund Annual Report with the pension fund accounts included in the financial statements. We have still to finalise our review of the pension fund annual report.

Financial statements audit – see section 2 for further details

Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Authority's financial statements by the 30 September 2017 following the Audit, Pensions and Standards Committee adopting them, receipt of the management representations letter and finalisation of our completion procedures including post balance sheet event review.

We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements, within the deadline of 30 September 2017.

Subject to the matters noted on page 3 we have completed our audit of the financial statements. We have read the Narrative Report and reviewed the Annual Governance Statement (AGS). Our key findings are:

- There are no unadjusted audit differences. There are three adjusted differences. These are explained in section 2 and appendix 3.
- We agreed presentational changes to the accounts with the finance team. These related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 together with minor changes focussed on streamlining and refining the existing notes to the financial statements. These are set out in Appendix 3.
- The requests we are seeking through management representations are explained in section 2.
- We will report that your AGS complies with delivering Good Governance guidance issued by CIPFA / SOLACE in April 2016.
- We reviewed the Narrative Report and have no matters to raise with you.
- We have not received a formal elector objection.

We intend to issue our 2016/17 Annual Audit Letter in November 2017.

Value for money – see section 3 for further details

Based on the findings of our work, we have concluded that the Authority has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion aligned to the timeline for financial statements outlined above.

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 other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2016/17 financial statements.

We are satisfied that the Authority has made steps towards addressing the four recommendations raised in our ISA260 report in 2015/16, although two recommendations have been identified as not fully implemented. We have made five recommendations as a result of our 2016/17 work.

We undertake work on the Housing Benefits grant claim under the PSAA arrangements, this work will be undertaken in September/October and completed by the 30 November 2017 deadline. We also undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. The status of our grants and claim work that does not fall under the PSAA arrangements is summarised below:

- Teachers Pensions: The reporting accountant assurance deadline is the 30 November 2017. We will complete the fieldwork in relation to this in October 2017; and
- Pooling of Housing Receipts: The reporting accountant assurance deadline is the 30 November 2017. We will complete the fieldwork in relation to this in October 2017.

The fees for this work are explained in section two.

Section Two

Financial statements audit

We audit your financial statements by undertaking the following:

Work Performed	Accounts production stage		
	Before	During	After
1. Business understanding: review your operations	✓	✓	–
2. Controls: assess the control framework	✓	–	–
3. Prepared by Client Request (PBC): issue our prepared by client request	✓	–	–
4. Accounting standards: agree the impact of any new accounting standards	✓	✓	–
5. Accounts production: review the accounts production process	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures	–	✓	✓
7. Representations and opinions: seek and provide representations before issuing our opinions	✓	✓	✓

We have completed the first six stages and report our key findings below:

1. Business understanding	In our 2016/17 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section.
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work. We have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with the Chief Accountant and this was issued as a final document to the finance team. We are pleased to report that this has resulted in good-quality working papers with clear audit trails maintained on the KPMG sharepoint database.

Section Two

Financial statements audit

4. Accounting standards	<p>We work with you to understand changes to accounting standards and other technical issues. For 2016/17 these changes related to:</p> <ul style="list-style-type: none">• Updates to the presentation of the Comprehensive Income and Expenditure Statement (CIES) to better reflect local reporting and the Authorities own Directorate structure, changes to the presentation of the Movements in Reserves Statement (MIRS) and the introduction of the new Expenditure and Funding Analysis (EFA). The changes to the EFA are aimed at demonstrating to stakeholders how the funding available to the Authority for the year has been used in providing services, in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices;• Amended guidance on the Annual Governance Statement (AGS) based on the changes to the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; and• Changes in the format of the Pension Fund accounts which includes updates to the format of the Fund Account and the Net Asset Statement to be consistent with the new 2015 Pensions SORP and recommendations for a new disclosure on investment management transaction costs (Note 8) <p>No issues were noted with regards to the above.</p>
5. Accounts Production	<p>We received complete draft accounts by 2 June 2017 with minor changes made prior to publication on the 30 June 2017 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We will debrief with Corporate Finance to share views on the final accounts audit which hopefully will lead to further efficiencies in the 2017/18 audit process.</p> <p>We would note that the timetable for the year ended 31 March 2018, formally comes forward to 31 July 2018. We will work with the council to ensure that all elements of both the financial statement and pension fund audit are refined to this deadline to be achieved for both the financial statements and the Pension Fund and associated Pension Fund annual report.</p> <p>We thank Corporate Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.</p>
6. Testing	<p>We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. There are no unadjusted audit difference (explained in section 2 and appendix 3). The remaining items identified related to presentational issues which have been adjusted.</p>
7. Representations	<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 Director of Finance on 11 September 2017. We draw 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 not seeking any specific management representations.</p>

Section Two

Financial statements audit

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, opening balances, public interest reporting, questions/objections, etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2016/17 financial statements.

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over the valuation of property, plant and equipment (Authority), significant changes in the pension liability due to LGPS triennial valuation (Authority) , valuation of pension fund assets (Pension Fund) and conditional grant income (Authority) which were identified as significant risks within our audit plan;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

Section Two

Financial statements audit

Significant audit risk	Account balances effected	Summary of findings
<p>Valuation of Property, Plant, and Equipment (PPE)</p> <p>As at 31 March 2017 the value of the Authority's PPE was £1,746 million. Local authorities exercise judgement in determining the current value of different classes of assets held and the methods used to ensure the carrying values recorded each year reflect those current values. The Authority 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 have assessed that the inherent uncertainty in valuation and high value of assets held by the Authority creates a significant risk to the financial statements for 2016/17.</p>	<p>Note 13: PPE</p> <p>£1,746 million</p> <p>PY £1,778 million (NBV)</p>	<p>We have:</p> <ul style="list-style-type: none"> • 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 2015/16 for consistency; • completed testing over new capital additions in year to confirm these are appropriately capitalised and that Authority ownership is evidenced; and • reviewed disposals made in year and confirm appropriate removal from the PPE balance in 2016/17. <p>There are no issues that we need to bring to your attention.</p>
<p>Conditional Grant Income</p> <p>The Authority receives grants containing certain conditions. Each grant is awarded on the basis that it will be drawn down at a service level once the specific conditions of the grant have been met. The grant cannot be credited to the comprehensive income & expenditure account until the conditions attached to the grant have been satisfied.</p>	<p>Note 11: Grant Income</p> <p>£269 million</p> <p>PY £288 million</p>	<p>We have:</p> <ul style="list-style-type: none"> • reviewed the controls in place to ensure that grants are recognised only when there is reasonable assurance that the Authority will comply with any conditions attached to the grant; • ensured for a sample of grants, that they have been applied over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis; and • ensured that the accounting policy adopted for grants, including method of balance sheet presentation, nature and extent of grants recognised in the financial statements and any unfulfilled conditions and contingencies attached to recognised grants has been disclosed within the accounts. <p>There are no issues that we need to bring to your attention.</p>

Section Two

Financial statements audit

Significant audit risk	Account balances effected	Summary of findings
<p>Managed Services</p> <ul style="list-style-type: none"> ■ 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 since 1 April 2015, which, whilst progress has been made, have not yet been fully resolved. This continues to give rise to a risk in relation to the completeness and accuracy of the balances in the financial statements. ■ Moving into 2016/17, the service provision and associated controls within the managed service program have become more embedded. From an external audit perspective, this allows us to reflect the increased effectiveness of control at the service organisation, within our annual audit approach. In 2016/17 we undertook an additional on-site audit at the service organisation, considering IT and transactional finance controls. The objective of this review was to provide additional assurance over the balances included within the financial statements 	<p>n/a</p>	<ul style="list-style-type: none"> ■ Our onsite review aimed to provide assurance over the financial controls and processes in place at the service organisation, reflecting the significant financial throughput of the service organisation; and acknowledge the interdependency between the local controls at the Authority and the operational transactional system at the service organisation. ■ Specific processes and controls considered included, bank reconciliations, journal controls (including cross entity journals), payroll and pensions controls, debtors and creditors reconciliations, income and debt management, non pay expenditure controls together with systems controls for super users, disaster recovery and back up. ■ On a sample basis, we tested the design and implementation of the controls surrounding the key financial systems, including payroll, debtors, creditors and cash. We also tested the operation of key IT controls, for example system access controls together with those controls surrounding the set up/removal of users to the system. ■ We assessed the design of controls in place at the service organisation to support the production of accurate and timely underlying financial records and tested the operation of key controls over the financial systems. We also documented and tested the General IT Controls (GITC) in place which support the safe storage and access to/from financial records. (Recommendation 3 and 4) ■ Whilst there are a number of bespoke work arounds and additional local compensating controls in place, we did not identify significant areas of weakness following our work which would impact on the material accuracy of the financial statements.

Section Two

Financial statements audit

Significant audit risk	Account balances effected	Summary of findings
<p>Pension liability including assumptions and having regard to the potential for significant changes arising from the LGPS Triennial Valuation</p> <p>In accordance with the Code, the Authority is required to include a liability within the net assets on its balance sheet in respect of the Hammersmith and Fulham and LPFA Pension Funds. This shows an increase in the liability of £155 million to a net total liability of £722 million. The associated costs have been included within the CIES. The impact of this has been mitigated by a net transfer from the Pensions Reserve.</p> <p>During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.</p> <p>The pension numbers to be included in the financial statements for 2016/17 are based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017-18 and 2018-19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There are significant judgments made in relation to the assumptions to be adopted when calculating the pension liability.</p>	<p>Balance sheet:</p> <p>Long Term Liabilities: £701 million, £692 million relates to the Pension Fund Liability.</p> <p>PY: Long Term Liabilities: £499 million, £490 million related to the Pension Fund liability.</p>	<p>As part of our audit of the Pension Fund Liability, we have undertaken work on a test basis to agree the data provided to the actuary back to the systems and reports from which it was derived and to understand the controls in place to ensure the accuracy of this data. This work focussed on the data relating to the Authority itself as largest member of the Pension Fund.</p> <p>We also reviewed the assumptions adopted in calculating the pension liability using the work of independent experts engaged by the NAO, together with a review by the KPMG Pensions team.</p> <p>There are no issues that we need to bring to your attention.</p>

Section Two

Financial statements audit

Significant audit risk	Account balances effected	Summary of findings
<p>Valuation of Pension Fund Assets (Pension Fund)</p> <p>At 31 March 2017 the Pension Fund had investment assets totalling £1,002 million. The investment portfolio includes contracts which can be complex to value, those being level 1 (£620 million) assets, level 2 (£212 million) and level 3 (£170M) assets. Given the size and potential for complexity in the investment portfolio we consider this to be a significant audit risk for 2016/17.</p>	<p>Pension Fund Net Asset Statement</p> <p>Net Assets: £1,002 million</p> <p>PY: £856 million</p>	<p>We have:</p> <ul style="list-style-type: none"> • undertaken detailed testing of investments including assessing the design and operation of controls in place; • obtained independent confirmations from the Custodian (and Fund Managers as necessary) to verify year end balances; • undertaken substantive testing over sales and purchases made in the year, reviewing year on year movements, and comparing performance to known benchmarks. <p>There are no issues that we need to bring to your attention.</p>

Section Two

Financial statements audit

Other areas of audit focus

We identified seven other areas of audit focus. These are not considered to be significant risks as they are less likely to give rise to a material error. Nonetheless these are areas of importance where we carry out audit procedures to ensure that there is no material misstatement.

Other areas of audit focus	Account balances effected	Summary of findings
Disclosures associated with restatement of CIES, EFA and MiRS	N/A	<p>We have:</p> <ul style="list-style-type: none"> assessed how the Authority has actioned the revised disclosure requirements for the CIES, MiRS and the new EFA statement as required by the Code; and checked the restated numbers and associated disclosures for accuracy, correct presentation and compliance with applicable Accounting Standards and Code guidance. <p>There are no issues that we need to bring to your attention.</p>
Note 28: Payroll	<p>£175 million</p> <p>PY £178 million</p>	<p>We have:</p> <ul style="list-style-type: none"> tested reconciliations for gross pay and deductions (e.g. pensions, tax and national insurance); and Substantively tested the payroll balance using statistical sampling. We tested 38 items (35 positive values and 3 negative values), with a value of £6,825k and £6k respectively. Additionally, we tested a sample of schools payroll journal entries. <p>No issues were noted as a result of these procedures.</p>
Note 19: Cash & cash equivalents	<p>£53 million</p> <p>PY £101 million</p>	<p>We have:</p> <ul style="list-style-type: none"> reviewed the year end bank reconciliation; confirmed cash balances with external third parties; and reviewed, on a sample basis, school cash balances held by the Authority. <p>No issues were noted as a result of these procedures.</p>

Section Two

Financial statements audit

Other areas of audit focus	Account balances effected	Summary of findings
Note 28: Non-Payroll Expenditure	£693 million PY: £649 million	We have: <ul style="list-style-type: none"> agreed a statistical sample of non pay expenditure to third party documentation to confirm classification per the Code; undertaken cut-off testing, whereby we test a sample of transactions in the period between the 31 March 2017 and the ledger close to ensure these are recorded in the correct period; and statistically selected a sample of short term creditors and confirmed classification to source documentation.
Note 22: Creditors	£162 million PY: £175 million	<p>We have raised a recommendation regarding the calculation of accruals. (Recommendation 2)</p>
Note 21: NNDR appeals provision	£4.7 million PY: £10.1 million	The Authority use an independent body to calculate the appeals provision. We have: <ul style="list-style-type: none"> gained an understanding over controls related to business rates income and specifically the appeals process; reviewed the methodology applied in determining the appeal provision including whether this reflects a balanced, cautious or optimistic assessment; and ensured the report is complete by agreeing the total on the summary tab to the VOA data submitted by the Authority. <p>There are no issues that we need to bring to your attention.</p>
HRA: Rental Income	£71 million PY £71 million	We have: <ul style="list-style-type: none"> gained an understanding over controls related to HRA rental income; tested the operating effectiveness of relevant controls; and completed substantive analytical review of dwelling rent income and reconciled HRA amounts to the Authority's CIES. <p>There are no issues that we need to bring to your attention.</p>

Section Two

Financial statements audit

Other areas of audit focus	Account balances effected	Summary of findings
HRA: Repairs and Maintenance and Management Expenditure & Supervision and Management	R&M £16 million PY £14 million S&M: £30 million £26 million	We have: <ul style="list-style-type: none">• gained an understanding over controls related to HRA expenditure; and• completed substantive analytical review of expenditures. We have also linked our work to that over payroll and non-payroll expenditure. There are no issues that we need to bring to your attention.

Section Two

Financial statements audit

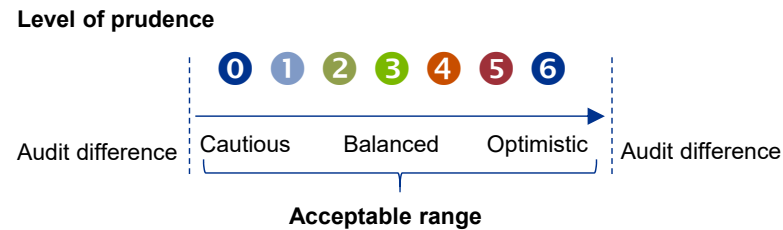
Significant risks that ISAs require us to assess in all cases	Why	Our findings from the audit
<p>Fraud risk from revenue recognition</p>	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>We do not consider this to be a significant risk for the majority of the Authority's and pension fund income as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk for council tax, business rates, housing rents, annual central government grants, social services income and pension fund contributions and do not incorporate specific work into our audit plan in these areas over and above our standard fraud procedures. However, we do consider it for income relating to s106 monies that span financial years and often have to be used on specific projects.</p>	<p>For other income, we obtained a breakdown of Cost of Services and removed Grant income credited to services. We removed the conditional grant element and tested this as below:</p> <ul style="list-style-type: none"> We classified conditional grant income as a significant audit risk for 2016/17 and have outlined above the audit work we undertook which also fulfilled our responsibilities for this objective. Other income was tested as an other account within our audit work. Other areas of income, for example taxation and precepts were tested for completeness. <p>There are no matters arising from this work that we need to bring to your attention.</p>
<p>Fraud risk from management override of controls</p>	<p>Management is typically in a powerful position to perpetrate fraud owing to 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.</p> <p>In line with our methodology, we carry 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.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<p>Our procedures, including testing of journal entries, accounting estimates and significant transactions outside the normal course of business, no instances of fraud were identified.</p> <p>We have performed specific procedures to:</p> <ul style="list-style-type: none"> review accounting judgements which are impacting the reported outturn position; review of controls associated with, and undertaken, sample testing of manual journals; reconciled the year end performance to in year financial report to ensure that divergence in performance can be understood and justified; and reviewed the year end cut off process to ensure that revenue and expenditure items have been reflected within the correct period. <p>There are no matters arising from this work that we need to bring to your attention. We note at the time of writing we are completing our work on the pension fund journals.</p>

Section Two

Financial statements audit

Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements. We summarise our view below using the following scale:



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Assessment of subjective areas				
Asset / liability class	Current year	Prior year	Balance	KPMG comment
Note 20: NDR provisions	3	3	£10.1 million (PY:£4.7. million)	<p>In 2013/14, local authority funding arrangements meant that the Authority is now responsible for a proportion of successful rateable value appeals. The Authority has provided for a fixed percentage of outstanding appeals in accounting for the potential liability, based on historical appeals success rates.</p> <p>Based on the above work, we believe the Authority has represented a balanced view of provisions, within the acceptable range of estimates.</p>

Section Two

Financial statements audit

Assessment of subjective areas				
Asset / liability class	Current year	Prior year	Balance	KPMG comment
Note 9 PPE: HRA assets	3	3	£1,304 million (PY: £1,296 million)	<p>The Authority continues its use of the beacon methodology in line with the DCLG's <i>Stock Valuation for Resource Accounting</i> published in November 2016. The Authority has utilised their external valuation expert to provide valuation estimates. Our KPMG valuation specialist had discussed the valuation process with the Authority specialist and reviewed the valuation approach. We deem that the valuation exercise is in line with the instructions.</p> <p>Overall we have concluded the Authority has made a balanced estimate and that the judgements represent a valid assessment of asset usage.</p>
Note 9 PPE: asset lives	3	3	n/a	<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 2015/16 for consistency.</p> <p>Overall we have concluded the Authority has made a balanced estimate and that the judgements represent a valid assessment of asset usage.</p>
Note 38: Accounting policies	3	3	n/a	<p>We have reviewed the Authority's accounting policies contained in the financial statements 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, with prior year accounting policies, and are consistent with our understanding of the Authority's application of them.</p>
Note 4: Earmarked Reserves	3	3	GF: £83.0 million PY 90.1 million HRA: £25.3 million PY £22.8 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.</p> <p>We believe the Authority's judgement to be balanced.</p>

Section Two

Financial statements audit

Narrative report of the Authority

We have reviewed the Authority's narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Pension fund audit

The audit of the pension fund and the Pension Fund Annual Report was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

Pension fund annual report

We reviewed the consistency of the Fund's financial statements in the Fund's Annual Report and the financial statements included in the London Borough of Hammersmith and Fulham's financial statements. We confirm that the Fund's financial statements are consistent with the pension fund financial statements included in the accounts of London Borough of Hammersmith and Fulham. We read the information in the Fund's Annual Report to identify material inconsistencies with the Fund's financial statements. The pension fund annual report is not required to be published by December 2017.

Queries from local electors

We did not receive any questions or formal objections from members of the public this year at the time this report was issued.

Audit certificate

In order for us to issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. As we have not received any objections to the accounts from local electors, therefore we expect to issue our audit certificate in September 2017 following completion of the final audit procedures.

Section Two

Financial statements audit

Other grants and claims work

We undertake other grants and claims work for the Authority. The status of our grants and claim work is presented below:

- Housing Benefit grant claim: This work will commence in September 2017 to ensure sign off via the 30 November 2017;
- Teacher pensions contribution return: This work will commence in October 2017 to ensure sign off via the 30 November 2017; and
- Pooled housing capital receipts: This work will commence in October 2017 to ensure sign off via the 30 November 2017.

Audit fees

Our fee for the audit was £163,950 excluding VAT (£163,950 excluding VAT in 2015/16). This fee was in line with that highlighted in our audit plan approved by the Audit, Pensions and Standards Committee on 21 March 2017.

Our work on the certification of Housing Benefits (BEN01) is planned for September 2017. The planned scale fee for this is £23,790 excluding VAT (£23,756) excluding VAT in 2015/16). Planned fees for other grants and claims which do not fall under the PSAA arrangements is £7,000 excluding VAT (£7,000 excluding VAT in 2015/16). There was one piece of non audit work related to the audit of the controls in place at BT Managed services which totals £7,000.

We have included in appendix 4 confirmation of the safeguards that have been put in place to preserve our independence.

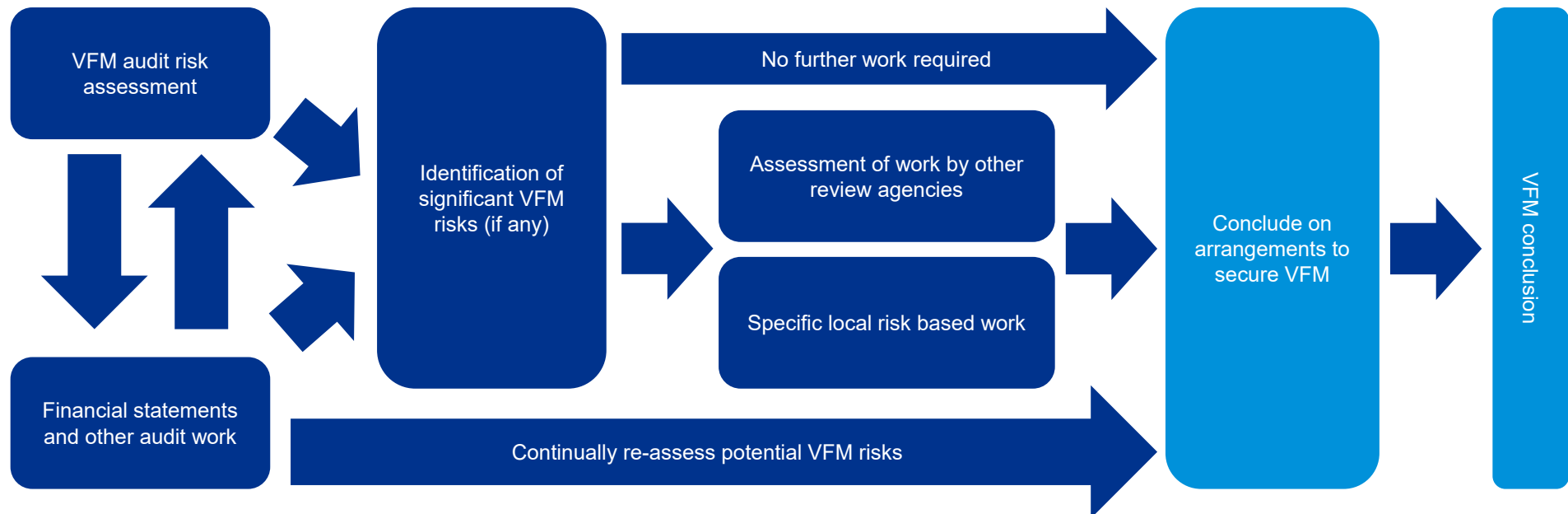
Section Three

Value for money

For 2016/17 our value for money (VfM) work follows the NAO's guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below. Per our audit plan, we have not identified any significant VfM risks. The risk assessment process is dynamic, and we are alert throughout the audit to the possibility that risks may have emerged. Those areas on which our VfM work focussed are detailed below.

We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.

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Section Three

Value for money

VFM: other area of audit focus	Our audit response and findings
<p>Working with partners and third parties: Procurement and Contract Management</p> <p>Procurement and contracting are a key mechanism through which improved services are delivered by the authority. Contracts are managed by the Procurement team, which, during 2016/17 has sought to embed improved consistency in the application of procurement and contracting controls.</p>	<ul style="list-style-type: none"> ■ We considered the process for managing contracts entered into by the Authority to ensure that performance objectives are being achieved and any delivery issues are being managed in accordance with agreed governance requirements. ■ We reviewed the Contract Standing Orders 2016, effective as of 1 July 2016, which set out the Authority governance requirements surrounding the procurement, agreement and management of contracts. ■ We met with key officers to understand the key development in the procurements process implemented during 2016/17. ■ We selected two contracts and reviewed them against both the requirements of the contract standing orders and also against wider contract management best practice. The contracts considered were with Pertemps for the provision of Agency Staff (annual contract value of £12 million) together with the BT Managed services contract. ■ For the BT Managed services contracts we also completed a review of the Strategic Framework Board minutes, the principle forum through which the contract is managed and ongoing issues resolved. <p>There are no matters arising from this work that we need to bring to your attention.</p>
<p>Sustainable resource deployment: Medium Term Financial Planning</p> <p>The Authority faces an increasingly challenging financial outlook. In 2016/17 there has been a freeze in the authority element of the council tax charge, this has been despite government funding cuts.</p> <p>The Authority delivered a general fund under spend of £0.2 million against its revenue budget. This was against a backdrop of reduced funding and increased savings requirements. General fund and earmarked reserves totalled £83 million as at 31 March 2017.</p> <p>The capital expenditure outturn for 2016/17 is £70.6 million. The Council plan to spend over £253 million on capital projects over the next five years.</p>	<ul style="list-style-type: none"> ■ We have reviewed the controls and governance surrounding the budget setting and in year monitoring. ■ We selected a sample of 5 cost savings measures and reviewed these to ensure that proper arrangements have been implemented to ensure that resources are deployed to achieve planned and sustainable outcomes. We considered how the plans were originally identified, who owned the plans, the extent to which delivery was routinely monitored throughout the year and the effectiveness of corrective action (where required). For the schemes selected, we also considered the extent to which these were identified as a recurring saving and/or whether additional plans had been identified to deliver future financial savings. ■ The approach for monitoring the performance of savings plans in the MTFs is generally via the in-month budgetary control processes, where the performance on each cost centre is monitored, rather than the performance of the individual savings plans. Due to the size of savings plans in 2016/17, this level of monitoring was appropriate. However, many of the savings plans for 2017/18 are of a much larger size and strong performance in one saving plan could heavily distort the reporting of others meaning poor performance of certain savings plans is not identified. ■ As savings plans increase in size (£14.5 million in 2017/18 accompanied by a council tax freeze), reporting should be developed such that there is a more granular approach to monitoring savings plans. This would allow performance of individual savings plans to be more closely monitored and expedient mitigating actions taken where under performance identified. (Recommendation 5) <p>There are no other matters arising from this work that we need to bring to your attention.</p>

Section Three

Value for money

VFM: other area of audit focus	Our audit response and findings
<p>Informed decision making, sustainable resource deployment, and working with partners and third parties: Managed Services</p> <ul style="list-style-type: none"> ■ 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. 	<ul style="list-style-type: none"> ■ We have considered the control environment surrounding the monitoring and management of the managed services contract to ensure that informed decisions have been taken to support the delivery of planned and sustainable outcomes. ■ We considered the ongoing controls surrounding the managed services implementation, including the operation of the Intelligent Client Function (ICF), review and consideration of issue resolution actions, reviewed the Operational Framework Board (OFB) and Managed Services Sponsors meetings to track progress against targets. <p>There are no matters arising from this work that we need to bring to your attention.</p>

Appendix 1

Recommendations raised and followed up

Recommendations raised as a result of our work in the current year are as follows:

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
		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
		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.

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
1	2	<p>Approval of Exit Payments</p> <p>During our testing, we identified two individuals for which the documentation of the adjudication panel approving their redundancy could not be located. Moreover, receiving redundancy letters for a number of individuals proved difficult as there was no central co-ordination and storage of key documents.</p> <p>There is a risk currently that the Authority is unable to demonstrate that the controls surrounding the approval of exit payments are operating effectively.</p> <p>Recommendation: A central storage of important documents relating to exit packages and other sensitive matters should be developed and the importance of using this central storage should be reaffirmed to key officers. The monitoring officer could act in an oversight role for this.</p>	<p>Agreed</p> <p>We will review our arrangements for filing and storing important documents relating to exit packages and other sensitive matters. We will ensure that the correct procedure is reaffirmed to key officers.</p> <p>Officer: Interim Director for HR</p> <p>By when: December 2017</p>

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
2	2	<p>Accruals identification/calculation</p> <p>During our testing of creditor accruals, we identified two accruals which had been made even though the expense had not yet been incurred by the Authority. The values in question were not material to the financial statements</p> <p>Moreover, the backing for accruals submitted by the services was not always accompanied by detailed supporting evidence of working, making obtaining audit evidence together with the internal scrutiny of the corporate finance team, challenging.</p> <p>Recommendation: Detailed guidance should be issued to the services regarding what expenditure should be accrued and the level of evidence required to support these accruals.</p>	<p>Agreed</p> <p>Existing guidance for raising accruals will be reviewed, updated as necessary and re-issued to the services. This guidance will specify the level of evidence required to support accruals. Corporate Finance will monitor compliance by the services with this guidance.</p> <p>Officer: Strategic Finance Director</p> <p>By when: December 2017</p>
3	2	<p>IT Control Deficiencies- Leavers and User Access</p> <p>During our audit of the IT environment at BT Managed Services, we identified a large number of leavers who had not been removed from the IT system promptly after the leaving date. Similarly, the majority of new users, who are not on temporary contracts, to the system are entered with an expiry date of 2099, rather than a fixed end date, meaning many user access rights will continue indefinitely.</p> <p>Whilst further testing identified that none of these individuals accessed the ledger inappropriately after their leaving date, there is a risk to the Authority that leavers can inappropriately access the ledger after they have left the Authority. The lack of end date means that there is no fixed process whereby BT is encouraged to monitor user access regularly.</p> <p>Recommendation: The importance of removing leavers from the IT system should be reaffirmed to BT Managed Services and a routine check is developed to identify any leavers who might still inappropriately have access to Agresso. New users should be given an expiry date after 12 months so that user access does not continue indefinitely where this is not appropriate.</p>	<p>Agreed</p> <p>The shortfall in required practices will be notified to BT and supported by the issue of the appropriate contract warning notices. The Council will work with BT to increase the performance monitoring in this area, and will introduce checks and controls to confirm resolution by BT.</p> <p>Officer: Interim Director for HR</p> <p>By when: March 2018</p>

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
4	3	<p>IT Control Deficiency- Change Documentation</p> <p>During our testing of changes to the IT environment, we identified that there was one instance where the relevant change request and approval minutes could not be located. The reason for this is that the change was relatively old and the contractor who processed it had left BT’s employment.</p> <p>Whilst a description of the change did not indicate that the change to the IT environment was inappropriate, there is a risk that the council cannot gain comfort over the appropriateness of its change control procedure if sufficient documentation is not held.</p> <p>Recommendation: Storage of change documents related to IT change requests should be reinforced to key officers.</p>	<p>Agreed</p> <p>The shortfall in required practices will be notified to BT and supported by the issue of the appropriate contract warning notices. The Council will work with BT to increase the performance monitoring in this area, and will introduce checks and controls to confirm resolution by BT.</p> <p>Officer: Strategic Finance Director</p> <p>By when: March 2018</p>
Value for Money			
5	3	<p>Monitoring of Savings Plans</p> <p>The approach for monitoring the performance of savings plans in the MTFS is generally via the in-month budgetary control processes, where the performance on each cost centre is monitored, rather than the performance of the individual savings plans.</p> <p>Due to the size of savings plans in 2016/17, this level of monitoring was appropriate. However, many of the savings plans for 2017/18 are of a much larger size and strong performance in one saving plan could heavily distort the reporting of others meaning poor performance of certain savings plans is not identified.</p> <p>Recommendation: As savings plans increase in size, reporting should be developed such that there is a more granular approach to monitoring savings plans. This would allow performance of individual savings plans to be more closely monitored and expedient mitigating actions taken where under performance identified.</p>	<p>Agreed</p> <p>In 2016/17 departments provided a monthly summary of performance against their savings performance with exception reporting on those that were ‘red’ rated. This was captured as part of the monthly Corporate Revenue Monitoring reports. For 2017/18 a separate report has been produced which focuses on the delivery of each individual saving.</p> <p>Officer: Strategic Finance Director</p> <p>By when: Completed</p>

Appendix 1

Recommendations raised and followed up

We have followed up the recommendations from the prior year's audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
4	2	2

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at September 2017
Financial statements				
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>Original Management Response</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>	<p>Partially Implemented</p> <p>There is still no segregation of duties of transactions initiated at BT. However, Internal Audit have undertaken a series of reviews at BT Managed Services and have raised a number of recommendations to management. In order to gain more assurance also the KPMG audit team has also conducted a visit of the managed service provider to gain an understanding of the control environment at BT.</p>

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at September 2017
Financial statements				
2	1	<p>Pension Fund membership data</p> <p>Pension fund data integrity has been impacted by both the transfer of administering responsibilities from Capita to Surrey County Council (SCC), and through the introduction of a new financial ledger through the managed services program.</p> <p>We undertake a number of analytical procedures within the pension fund audit. As part of this, we need to gain assurance over the pension fund membership data through detailed sample testing.</p> <p>During our initial testing of membership data on contributions and pension benefits, we found a number of issues which required us to expand our sample in order to be able to reach an opinion on the financial statements</p> <p>The Council is aware of the issues encountered with the handover of data from Capita to SCC both in terms of technical difficulties and completeness/accuracy of data held; and also the lack of a direct interface between BT managed services systems and SCCs pensions administration systems. Consequently, there is a comprehensive plan to ensure all membership data is complete and accurate within the next 6-12 months.</p> <p>Recommendation</p> <p>Once the cleansing of membership data is complete and all parties are agreed that this is the case, LBH&F should ensure that a detailed assurance exercise is undertaken. This exercise will need to be more detailed than an audit and could be externally procured or completed by Internal Audit.</p> <p>LBH&F should also ensure that it is able to routinely reconcile appropriate information between BT managed services systems and SCCs pensions administration systems. This would provide assurance throughout the year that all contributions are being collected by LBH&F and passed to the Pension Fund.</p>	<p>Original Management Response</p> <p>The Council will ensure that a detailed assurance exercise is put in place to tackle the historical casework backlog inherited from Capita as well as the proposals for cleansing inherited data on the pensions administration system where required. The aim will be to complete the work within a one year period starting on 1 October 2016, although it is recognised that some aspects could take longer if any complicating factors arise.</p> <p>The Council agrees that the reconciliation of pension contributions between BT Managed Services and the Pension Fund needs to be more robust and transparent. The Pensions and Treasury Service is leading on the review of the current processes and will put satisfactory arrangements in place before the end of the current financial year.</p> <p>The Council will commence a reconciliation of appropriate scheme member information between BT Managed Services and Surrey County Council before the end of the current financial year.</p> <p>Responsible Officer: Debbie Morris, Bi-Borough Director of HR</p> <p>Due dates: Reconciliation processes will be place by 31 March 2017 with the majority of the casework to be cleared by 30 September 2017”</p>	<p>Ongoing</p> <p>The data cleanse process of information inherited from Surrey County Council is still ongoing and is expected to be completed in September 2017.</p> <p>There are still delays in receiving timely information from BT, including a delay in receiving the membership data for the year end accounts which has still not been received. Management at Surrey County Council are continuing to work with BT to develop a live interface between the Altair System used at Surrey and Agresso but the live interface is not yet fully operational.</p>

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at September 2017
Financial statements				
3	2	<p>Cross-Entity Journal Entries</p> <p>During our test work 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 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>Original Management Response</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>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>	<p>Implemented</p> <p>Cross-entity journals do still occur and there have been instances during the year. However, management and BT have developed a more robust process of addressing them. BT send a daily trial balance update which will identify any cross-entity transactions. Cross-entity transactions which do occur are tracked and their cause monitored with the view of creating a lasting solution to stop the same instance re-occurring.</p>
4	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 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>Original Management Response</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>	<p>Implemented</p> <p>During the production of the year end financial statements, there was a detailed review of debtors and creditors to identify transactions that should or should not net against each other.</p> <p>During our testing of debtors and creditors, we did not identify any transactions which inappropriately netted off against one another.</p>

Appendix 2

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

- 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; and
- 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 2016/17, presented to you in March 2017.

Materiality for the Authority's accounts was set at £12 million which equates to around 1.8% of gross expenditure.

Materiality for the Pension Fund was set at £17 million which equates to around 2% of gross assets.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to Audit, Pensions 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, Pensions 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 both the Authority and the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £600K.

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, Pensions and Standards Committee to assist it in fulfilling its governance responsibilities.

Appendix 3

Audit differences

Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit, Pensions and Standards Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. There are no unadjusted differences in relation to the Authority or Pension Fund financial statements.

Appendix 3

Audit differences

Authority

Adjusted audit differences

To assist the Audit, Pensions and Standards Committee in fulfilling its governance responsibilities we have detailed below a summary of adjusted audit differences identified during the course of our audit.

Income and Expenditure

During our testing, we identified that £ 3.3 million of expenditure was incorrectly netted off against income, resulting in both gross income and gross expenditure being understated. However, due to the nature of the adjustment, there is no change in outturn. The adjustment is identified below:

- Gross Expenditure Dr £3,239k
- Gross Income Cr £3,239k

Senior Office Remuneration

During our testing we identified that the information used for school staff who were paid over £50k was incorrect as it included the FTE salary rather than the amounts actually paid to these individuals during the year. There were also a series of amounts which were incorrectly disclosed due to apparent inaccuracies in the information provided. The net result was that ten fewer staff were disclosed as earning more than £50k.

Leases

There were a series of errors in the lease disclosure. These errors were partially that there were duplicate properties which were counted twice. There was also a series of properties which were incorrectly missed from the leases schedule. The disclosure was fully reviewed by management and the net change was an increase in the value of leases payments receivable by £1.35m. There was also a increase to lease payments payable by £7k which was also adjusted. The impact of this correction is disclosure only.

Understatement of Exit Costs

The initial working paper provided to us by the client did not include the cost of exit costs from schools. This meant that the disclosure was understated by 30 individuals and £196,887.

The disclosure also did not include those resulting from settlement agreements, meaning the exit costs disclosure was understated by £208k and by 8 individuals. Note that this is a politically sensitive disclosure so has a materiality of £1.

Appendix 3

Audit differences

Presentational improvements

Presentational adjustments have been made as follows: These differences related solely to disclosure notes within the accounts, and therefore these adjustments have no effect on the net assets of the Authority. The improvements below have been included in the financial statements.

- **Note 28: Audit Fees:** The fee for the Managed Service Visit has been moved from Audit Fees to Non Audit Fee.
- **Note 5: Material Transactions:** A note has been added to explain the link between note 5 and note 6.
- **Note 2: Expenditure and Income Analysed by Nature:** A note added to explain the link between this note and the CIES and the movement of items between income and expenditure, please see income and expenditure adjustment.
- **Note 25: Senior Officer Remuneration:** - The narrative supporting the chief executive backdated salary and bonus is to be updated.

There have also been minor amendments to the Narrative Report and the Annual Governance Statement.

Pension Fund

We are pleased to report that there are no uncorrected audit differences to the pension fund as at the date of this report. Corrected differences are detailed below.

Corrected Audit Differences

Pension Fund Levelling

Information from Investment Managers has confirmed that some of the Investment Levels disclosed in the draft financial accounts were not correct. The net change is that Level Three Investments have decreased by £101million whilst Level Two Investments have increased by the same amount

Presentational Improvements

- Note 12: Miscalculation in the percentage holding of certain key investment holdings.
- Note 19: Typographical error in the value of scheme assets, missing a zero from the disclosure.

Appendix 4

Audit independence

This appendix communicates all significant facts and matters that bear on KPMG LLP's independence and objectivity and informs you of the requirements of *ISA 260 (UK and Ireland) Communication of Audit Matters to Those Charged with Governance*.

Integrity, objectivity and independence

We are required to communicate to you 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 KPMG LLP's independence and the objectivity of the Engagement Lead and audit team. We have considered the fees paid to us by the Authority for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies all KPMG LLP audit partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings. Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews. We would be happy to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed.

Audit matters

We are required to comply with *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* when carrying out the audit. ISA 260 requires that we consider the following audit matters and formally communicate them to those charged with governance:

- Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement lead and audit staff;
- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements;
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Authority's financial statements;
- The potential effect on the accounts of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the Authority's financial statements;
- Material uncertainties related to events and conditions that may cast significant doubt on the Authority's ability to continue as a going concern;
- Disagreements with Management about matters that, individually or in aggregate, could be significant to the Authority's financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter;
- Expected modifications to the auditor's report;

Appendix 4

Audit independence

- Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management; and
- Any other matters agreed upon in the terms of the audit engagement.

We continue to discharge these responsibilities through our attendance at Audit, Pensions and Standards Committees, commentary and reporting and, in the case of uncorrected misstatements, through our request for management representations.

Auditor declaration

In relation to the audit of the financial statements of the London Borough of Hammersmith and Fulham and the London Borough of Hammersmith and Fulham Pension Fund for the financial year ending 31 March 2017 we confirm that there were no relationships between KPMG LLP and the London Borough of Hammersmith and Fulham and the London Borough of Hammersmith and Fulham Pension Fund, their directors and senior management and their affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We summarise overleaf the non-audit services that we have provided, the fee, the potential threats to auditor independence and the associated safeguards in place.

Appendix 4

Audit independence

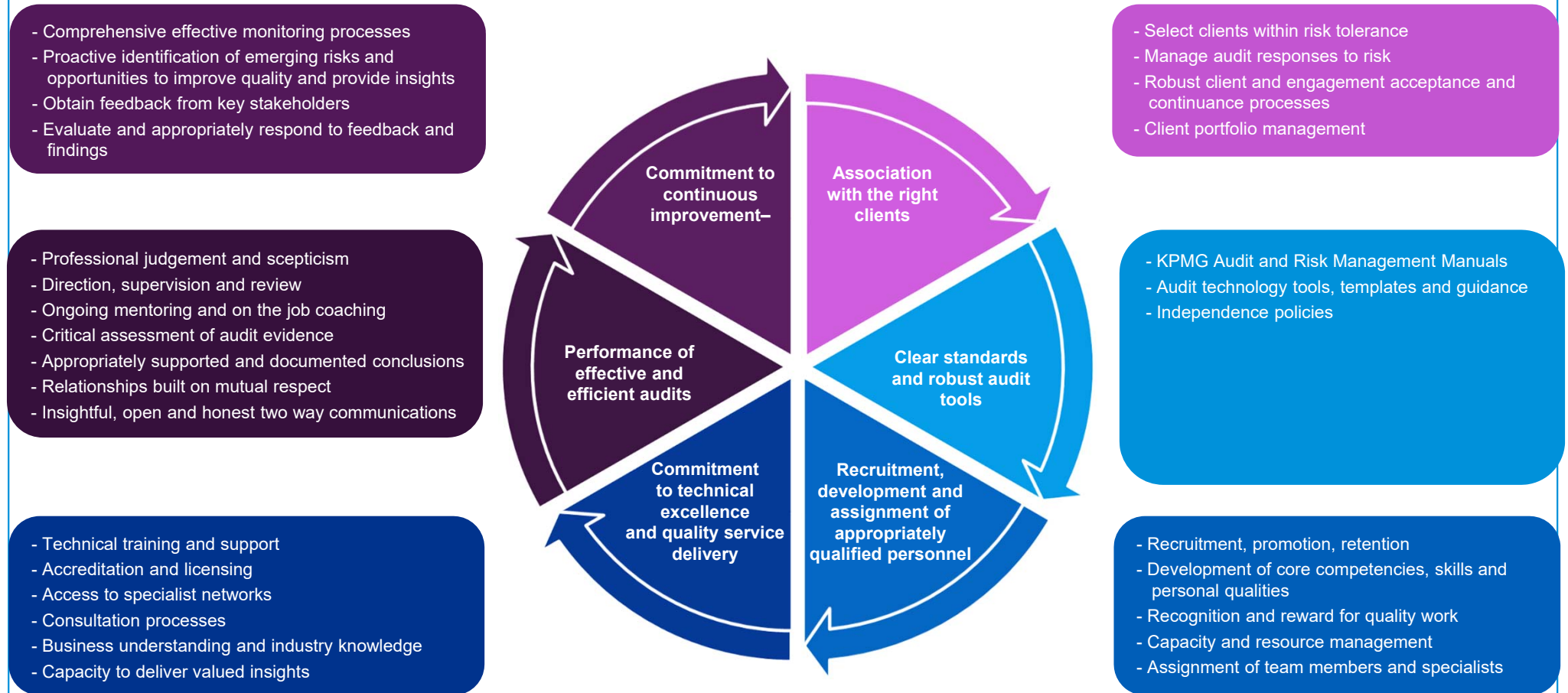
Description of non audit services	2016/17 fees	Potential threat to auditor independence	Associated safeguards in place
Non PSAA grant claims	£7,000 excluding VAT	No threats to auditor independence arise	This is a service typically performed by external auditors, no specific safeguards are necessary.
Managed services review	£7,000 excluding VAT	No threats to auditor independence arise, the work being aligned to the audit	
Total fees	£14,000 excluding VAT		
Total fees as a % of the external audit fees	8.5%		

We have considered the ratio of audit to non-audit fees and as required by the APB Ethical Standards. The principal threat which arises from fees from non-audit services which are large in absolute terms relative to the audit fee is the perception of self-interest and advocacy. In this regard, we do not consider that the above ratio creates such a self-interest or advocacy threat since the absolute level of non-audit fees is not significant to our firm as a whole and neither the audit partner nor members of the audit team are incentivised on, or rewarded in respect of, the provision of non-audit services to you. We believe that the question of perception is best addressed through appropriate disclosure as to use of the auditor for the provision of non-audit services in the Authority's annual report and accounts.

Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

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KPMG LLP
Andrew Sayers
National Markets,
Public Sector and Health
8th Floor, 15 Canada Square
London E14 5GL

20 September 2017

Dear Andrew,

This representation letter is provided in connection with your audit of the financial statements of the London Borough of Hammersmith and Fulham (“the Authority”), for the year ended 31 March 2017, 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 2017 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 2017 and the amount and disposition of the Fund’s assets and liabilities as at 31 March 2017, 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 2016/17.

These financial statements comprise the Authority Expenditure and Funding Analysis, the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority 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 2017 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 2017 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2017, 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 2016/17.

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.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. There are no uncorrected misstatements.

Information provided

5. 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.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. 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.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with 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.
10. 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*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

11. 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.
12. 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 agreed at the meeting of the Audit, Pensions and Standards Committee on 20 September 2017.

Yours faithfully,

Cllr Cassidy, Chair of the Audit, Pensions and Standards Committee
Hitesh Jolapara, Strategic Finance Director

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 and the Expenditure and Funding Analysis.

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 2016/17.

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).
 - viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting 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 and Fulham



Pension Fund Annual Report and Accounts
for the year ended 31 March 2017

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Section 1

Preface and Introduction

Report from Chair of the Pensions Sub-Committee

WELCOME TO THE ANNUAL REPORT OF HAMMERMSITH AND FULHAM PENSION FUND.

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 2016-17.

During the year, the value of the Fund increased by over £147m to £1,003m reflecting the continued recovery in the global economy since last year. The Sub-Committee continues to monitor the Fund closely at every meeting and challenges the investment advisers as necessary to ensure the Fund's investments are being managed effectively.

During 2016/17 the triennial revaluation of the Pension Fund was carried out by the Fund actuaries, Barnett Waddingham, using data as at 31 March 2016. The actuaries reported that the Fund has assets to cover 88% of the liabilities and an overall deficit of £114m. This is an improvement in the funding level at the previous valuation in 2013 of 83%.

The Council has been active in the transfer of assets under management to the London Collective Investment Vehicle (CIV) to gain efficiencies and fee reductions. The £88.8m Ruffer portfolio transferred to CIV in June 2016. The Fund has also benefitted from lower fees negotiated by the CIV on its Legal and General Passive Equities Portfolio. Work was also undertaken to transfer the Majedie portfolio to the

CIV, with a further £127m being transferred in May 2017. This pooling will continue over the coming years to improve the efficiency of the Fund.

During the year there have been on-going issues with data quality and transfer of information between parties that administer the Fund. Further details are in the Administration Management Performance section of the Annual Report. A plan of action is in place to address these issues during the summer, which the Pension Fund Committee will be actively monitoring to ensure service improvements are achieved.

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 2016-17.



Councillor Iain Cassidy
Chairman of the Audit, Pensions & Standards
Committee & Pensions Sub-Committee

Introduction

The London Borough of Hammersmith and Fulham Pension Fund is part of the national Local Government Pension Scheme (LGPS) and is administered locally by Hammersmith and Fulham Council. It is a contributory defined benefit pension scheme established under 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.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and returns 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 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.

Benefits payable from the Fund are set out in the Local Government Pension Scheme regulations 2013, as amended, and in summary consist of:

- A pension based on career average earnings (revalued in line with the Consumer Prices Index)
- Pensionable pay to include non-contractual overtime and additional hours

- Flexibility for member to pay 50% contributions for 50% of the pension benefit
- Normal pension age to equal the individual member's State Pension Age
- Option to trade £1 of pension for a £12 tax-free lump sum at retirement
- Death in service lump sum of three times pensionable pay and survivor benefits
- Early payment of pensions in the event of ill health

The Fund is governed by the Public Service Pensions Act 2013 and the LGPS Regulations 2013 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2016. The content and format of this annual report is prescribed by the LGPS Regulations 2013.

Publication of this report gives the Council the opportunity to demonstrate the high standard of governance and financial management applied to the Fund. It brings together a number of separate reporting strands into one comprehensive document that enables both the public and employees to see how the Fund is managed and how well it is performing.

It is in the interest of both employees and the public that the Fund is well managed and continues to provide high returns and excellent value for money.

Introduction (continued)

This annual report comprises the following sections:

- **Management and Financial Performance** which explains the governance and management arrangements for the Fund, as well as summarising the financial position and the approach to risk management.
- **Investment Policy and Performance** detailing the Fund's investment strategy, arrangements and performance.
- **Scheme Administration** which sets out how the Scheme's benefits and membership are administered.
- The funding position of the Fund with a statement from the Fund's actuary.
- **The Fund's annual accounts** for the year ended 31 March 2017
- **List of contacts** and a glossary of some of the more technical terms
- **Appendices** setting out the various regulatory policy statements of the Fund:
 - Governance Compliance Statement
 - Statement of Investment Principles
 - Communication Policy
 - Funding Strategy Statement
 - Pension Board annual report
 - 2017/18 Investment Strategy Statement
- Further information about the Local Government Pension Scheme can be found at www.lbhfpensionfund.org



Section 2

Management and Financial Performance

Governance Arrangements

PENSION FUND COMMITTEE

The London Borough of Hammersmith & Fulham Council has delegated responsibility for pension matters to the **Audit, Pensions and Standards Committee** (the Committee). The Committee comprises 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. In order to manage the workload of the committee, it has delegated decisions in relation to all pensions matters to the Pensions Sub-committee.

The Sub-Committee obtains and considers advice from the Tri-Borough Director of Pensions and Treasury, the Section 151 Officer and, as necessary, from the Fund’s appointed actuary, advisors and investment managers.

Terms of Reference for the Sub-Committee are:

- To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the Investment Consultant.
- To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable.

- To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Actuary, Custodians and Fund Advisers.
- 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.
- To approve the final statement of accounts of the Pension Fund and to approve the Annual Report.
- To receive actuarial valuations of the Pension Fund regarding the level of employers’ contributions necessary to balance the Pension Fund.
- To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of the Council for the payment of pensions, and allowances to beneficiaries.
- To make and review an admission policy relating to admission agreements generally with any admission body.
- To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
- To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
- To receive and consider the Auditor’s report on the governance of the Pension Fund.
- 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 current membership of the Pensions Sub-Committee is set out below. All members served for the full year in 2016/17.

Councillor	Committee Attendance 2016/17
Iain Cassidy (Chair)	4/4
Michael Adam (Vice Chair)	4/4
Nicholas Botterill	3/4
PJ Murphy	3/4
Guy Vincent	3/4

Councillors may be contacted at Hammersmith Town Hall, King Street, London, W6 9JU

LOCAL PENSION 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 purpose of the Pensions Board is to provide oversight of 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.

Terms of Reference for the Local Pension Board can be found on the Pension Fund website at

<http://democracy.lbhf.gov.uk/documents/s67497/Background%20and%20Role%20of%20the%20Board.pdf>

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 member representatives from the Council or an admitted or scheduled body.

The current membership of the Pensions Board is set out below. All members served for the full year 2016/17.

Board Member	Employer/Employee	Attendance 2016/17
Cllr Ali Hashem (Chair)	Employer	2/2
Cllr Rory Vaughan	Employer	2/2
Richard Gregg	Employer	2/2
Eric Kersey	Employee	2/2
Orin Miller	Employee	1/2
Neil Newton	Employee	2/2

MEMBER AND OFFICER TRAINING

During 2016-17 knowledge was gained at various meetings with investment managers in addition to individual attendance at conferences and seminars.

Further relevant training is planned for 2017-18 based on self-assessments completed by Sub-Committee and board members in accordance with the policy.

CONFLICTS OF INTEREST

The Pension Fund is governed by elected members acting as trustees and the Code of Conduct for elected members' sets out how any conflicts of interests should be addressed. The Members Code of Conduct is in Part 5 of the Council Constitution at

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

The Code includes general provisions on ethics and standards of behaviour which require elected members to treat others with respect and not to bully, intimidate or do anything to compromise the impartiality of those who work for or on behalf of the Council. The Code also contains rules about "disclosable pecuniary interests" and sets out the action an elected member must take when they have such an interest in Council business, for instance withdrawing from the room or chamber when the matter is discussed and decided in committee, unless dispensation has been obtained from the Council's Monitoring Officer.

GOVERNANCE COMPLIANCE STATEMENT

The LGPS Regulations 2013 require Pension Funds to prepare, publish and maintain a governance compliance statement; and to measure the governance arrangements in place 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 Governance Compliance statement was updated in June 2015 can be found at Appendix 1.

Scheme Management and Advisors

EXTERNAL PARTIES

Investment Adviser	Deloitte	
Investment Managers	Equities (Active) London LGPS CIV Ltd - Majedie Asset Management Equities (Passive) Legal and General Investment Management Absolute Return Bonds Insight Investment Management Inflation Opportunities M & G Investments Dynamic Asset Allocation London LGPS CIV Ltd - Ruffer LLP	Multi-Asset Credit Oak Hill Advisers Partners Group Long Lease Property Standard Life Investments Infrastructure Partners Group Private equity Invesco Unigestion
Custodian	Northern Trust	
Banker	Nat West Bank	
Actuary	Barnett Waddingham	
Auditor	KPMG UK LLP	
Legal Adviser	Eversheds Sutherland (formerly Eversheds)	
Scheme Administrators	Surrey County Council	
AVC Providers	Zurich Assurance	Equitable Life Assurance Society

OFFICERS

Strategic Finance Director (section 151) Officer	Hitesh Jolapara	
Tri-Borough Pensions Team	George Bruce to October 2016 Peter Carpenter from October 2016 Nikki Parsons Alex Robertson	Nicola Webb to November 2016 Peter Metcalfe to March 2017 Sue Hands from March 2017
Director of Human Resources	Debbie Morris	
Pensions Manager	Maria Bailey	

Contact details are provided in Section 7 of this report.

Risk Management

The Fund’s primary long-term risk is that its assets fall short of its liabilities such that there are insufficient assets to pay promised benefits to members. The investment objectives have been set with the aim of maximising investment returns over the long term within specified risk tolerances. This aims to optimise the likelihood that the promises made regarding members’ pensions and other benefits will be fulfilled.

Responsibility for the Fund’s risk management strategy rests with the Pensions Sub-Committee.

In order to manage risks a Pension Fund Risk Register is maintained and reviewed quarterly. Risks identified have been reduced through planned actions. The Risk Register is managed by the Tri-Borough Director of Pensions and Treasury and risks have been assigned to “Risk Owners”.

The key risks identified within the Pension Fund risk register are:

Objective area at risk	Risk	Risk rating	Responsible officer	Mitigating actions
Administration	3rd parties undertaking outsourced administration work are unable to facilitate timely and accurate updating of service records. Inaccuracies in service records may impact on actuarial valuations, calculations of pension benefits and on notifications to starters and leavers.	High	Director of Human Resources	Issue has been escalated by the Chief Executive for high level resolution with British Telecom Test files are currently with Surrey County Council Actuary undertakes data cleansing on service records as part of the triennial revaluation which should identify the extent of any inaccuracies
Administration	Loss of funds through fraud or misappropriation by 3rd parties could lead to negative impact on reputation of the Fund as well as financial loss.	High	Strategic Finance Director and Director of Human Resources	Third parties regulated by the FCA. Separation of duties and independent reconciliation procedures in place. Review of third party internal control reports. Regular reconciliations of pension payments undertaken by Pensions Finance Team. Periodic internal audits of Pensions Finance and HR teams.

Risk Management (continued)

Risks arising from financial instruments are outlined in the notes to the Pension Fund Accounts (Note 15).

The Funding Strategy Statement (at Appendix 4) sets out the key risks, including demographic, regulatory, governance, to not achieving full funding in line with the strategy. The actuary reports on these risks at each triennial valuation or more frequently if required.

Objective area at risk	Risk	Risk rating	Responsible officer	Mitigating actions
Regulation	Introduction of European Directive MiFID II results in a restriction of Fund's investment options and an increase in costs	Medium	Strategic Finance Director	Officers are engaging with Fund Managers to understand the position better Knowledge and Skills Policy in place for Officers and Members of the Committee Maintain links with central government and national bodies to keep abreast of national issues.
Funding	Scheme members live longer leading to higher than expected liabilities.	Medium	Strategic Finance Director	Review at each triennial valuation and challenge actuary as required.
Funding	Assumed levels of inflation and interest rates may be inaccurate leading to higher than expected liabilities.	Medium	Strategic Finance Director	Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises.
Funding	Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others	Medium	Strategic Finance Director and Director of Human Resources	Transferee admission bodies required to have bonds in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds
Investment	Fund managers fail to achieve the returns agreed in their management agreements.	Medium	Strategic Finance Director	Independent monitoring of fund manager performance against targets. Fund manager performance is reviewed quarterly.

Risk Management (continued)

THIRD PARTY RISKS

The Council has outsourced the following functions of the Fund:

- Investment management;
- Custodianship of assets;
- Pensions administration.

As these functions are outsourced, the Council is exposed to third party risk. A range of investment managers are used to diversify manager risk.

To mitigate the risks regarding investment management and custodianship of assets, the Council obtains independent internal controls assurance reports from the reporting accountants to the relevant service providers. These independent reports are prepared in accordance with international standards. Any weaknesses in internal control highlighted by the controls assurance reports are reviewed and reported as necessary to the Pension Committee.

The Council's internal audit service undertakes planned programmes of audits of all the Councils' financial systems on a phased basis, all payments and income/contributions are covered by this process as and when the audits take place.

The results of these reviews are summarised below and cover 99.5% of investment holdings at 31 March 2017.

Fund manager	Type of assurance	Control framework	Compliance with controls	Reporting accountant
Ruffer LLP	ISAE34022	Reasonable assurance	Reasonable assurance	Ernst Young LLP
Insight ¹	ISAE34022	Reasonable assurance	Reasonable assurance	KPMG LLP
Legal & General Investment Management ²	ISAE34022	Reasonable assurance	Reasonable assurance	PwC LLP
Oak Hill Advisers	SOC10	Reasonable assurance	Reasonable assurance	RSM US LLP
Partners Group	ISAE34020	Reasonable assurance	Reasonable assurance	PwC LLP
Majedie	ISAE34020	Reasonable assurance	Reasonable assurance	KPMG LLP
M & G Investments	SOC10	Reasonable assurance	Reasonable assurance	Ernst Young LLP
Unigestion	ISAE34020	Reasonable assurance	Reasonable assurance	KPMG LLP
Standard Life	ISAE34022	Reasonable assurance	Reasonable assurance	PwC LLP
Custodian				
Northern Trust	SOC10	Reasonable assurance	Reasonable assurance	KPMG LLP

Periods covered by the above reports are typically not aligned with the Pension Fund's financial year. Bridging statements have been provided for the remainder of the year.

Financial Performance

The Fund asset value increased by £147m to £1,003m as at 31 March 2017 due to the recovery in global markets since the uncertainty of 2015/16.

The triennial revaluation was completed in 2016/17 showing an improvement in the overall funding level to 88% compared to 83% in 2013. However, funding levels for different employers vary significantly. To improve funding levels, the Council's medium-term financial plan already assumes an increase in employer contributions, which in combination with other employers, will improve the overall funding level over the next three years.

The new valuation report will be used to determine contribution rates for the period 2017/18 to 2019/20.

ANALYTICAL REVIEW

	2013/14	2014/15	2015/16	2016/17
Fund Account	£'000	£'000	£'000	£'000
Dealings with members				
Contributions	(32,356)	(30,082)	(30,617)	(32,274)
Pensions	35,094	33,982	37,858	40,770
Net (additions)/withdrawals from dealings with members	2,738	3,900	7,241	8,496
Management expense	5,548	7,216	7,762	3,404
Net investment returns	(9,510)	(11,167)	(12,631)	(12,799)
Change in market value	(37,519)	(105,595)	9,784	(145,614)
Net (increase)/decrease in the Fund	(38,743)	(105,646)	12,156	(146,513)

Over the four-year period, pensions paid have exceeded contributions by £22m in total. This reflects the maturity of the Fund membership in that there are fewer contributors than beneficiaries.

Net investment returns in 2016/17 have improved significantly in comparison to the previous years, reflecting the recovery of global equity markets after a period of instability at the beginning of 2016.

Both officers and the Pensions Sub-Committee monitor investment performance closely and refer to independent investment advisers as necessary to ensure the Fund's investments are being managed effectively.

Financial Performance (continued)

	2013/14	2014/15	2015/16	2016/17
Net Asset Statement	£'000	£'000	£'000	£'000
Bonds	26,286	31,923	36,771	0
Equities	320,772	371,885	136,937	112,475
Pooled investment vehicles	399,886	443,015	671,300	881,865
Commodities	1,890	2,540	1,976	0
Derivatives	164	(709)	(368)	0
Cash deposits	17,027	15,410	7,544	7,856
Other	(1,131)	717	1,504	486
Total Investment Assets	764,894	864,781	855,664	1,002,682
Current assets	(1,070)	4,840	1,842	4,373
Current Liabilities	(995)	(1,146)	(1,187)	(4,223)
Total Net Assets available to fund benefits	762,829	868,475	856,319	1,002,832

The points to note are:

- 2016/17 saw the implementation of the Fund's investment allocation strategy impact as the Fund disinvested from directly held bonds and reduced its equities, in favour of pooled investments which allow the Fund to pool the risk
- The overall value of pooled investment vehicles increased by £211m (31%) during the year

Further details are given in the Investment Policy and Performance Section.

Financial Performance (continued)

ANALYSIS OF DEALINGS WITH SCHEME MEMBERS

In common with many funds within the local government pension scheme, the fund is maturing. As a result, benefits payable have exceeded contributions receivable for the past few years. To meet this, the investment strategy provides for a mixture investment income and capital growth.

The key variances were due to the following:

- Lump sums rose by 15% due to more members retiring than in previous years.
- Transfers out were nearly 56% higher than in 2015/16 because of an upsurge in staff turnover.
- Transfers in were higher, reflecting the number of new starters joining the scheme and members choosing to transfer in benefits on commencement of employment.

	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000
Contributions receivable				
- Members	(6,306)	(6,658)	(6,795)	(6,937)
- Employers	(22,692)	(21,944)	(22,412)	(22,494)
- Transfers in	(3,324)	(1,445)	(1,375)	(2,090)
- Other	(34)	(35)	(35)	(753)
Total Income	(32,356)	(30,082)	(30,617)	(32,274)
Benefits/Expenses				
- Pensions	26,887	28,155	29,076	30,002
- Lump sum retirements and death benefits	4,882	4,955	5,536	5,685
- Transfers out	3,325	856	3,230	5,046
- Refunds	0	16	16	37
Total Expenditure	35,094	33,982	37,858	40,770
Net Dealings with Members	2,738	3,900	7,241	8,496

Financial Performance (continued)

ANALYSIS OF OPERATIONAL EXPENSES

The costs of running the pension fund are shown below.

	2015/16	2016/17
	£'000	£'000
Administration		
Employees	77	138
Supplies and services	527	381
Other costs	2	9
	606	528
Governance and Oversight		
Employees	74	103
Investment advisory services	100	66
Governance and compliance	54	101
External audit	21	24
Actuarial fees	19	31
	268	325
Investment Management		
Management fees	4,774	5,939
Performance fees	1,646	495
Transaction costs	73	-
Custodian fees	395	50
	6,888	6,484
Total	7,762	7,337

Costs as a percentage of total net assets were compared to all other local government pension funds in 2015/16. At 0.34% of net assets costs were well below the national average of 0.5%.

The key variances were due to the following:

- A reduction in supplies and services costs in 2016/17 as the new administration service with Surrey CC beds in following the one-off costs associated with the change to Surrey CC in September 2015.
- The reduction in investment management costs in 2016/17 reflects participation in the London CIV which has led to economies of scale through sharing management fees and transaction costs
- There has also been a reduction in investment management costs through investment in pooled equity and pooled property vehicles where costs incurred by sub-funds are not recorded in the Fund's financial statements although they do impact upon returns achieved.

Administration Management Performance

The administration of the Fund is managed by Hammersmith and Fulham Council, but undertaken by Surrey County Council under a not-for-profit contractual arrangement operational from 1 September 2014.

PERFORMANCE INDICATORS

The contract with Surrey County Council includes a number performance indicators included to ensure that service to members of the pension fund is effective. The targets are set out below, along with actual performance.

Performance Indicators	Target	Performance
		2016/17
Letter detailing transfer in quote	20 days	100%
Letter detailing transfer out quote	20 days	59%
Process refund and issue payment voucher	10 days	92%
Letter notifying estimate of retirement benefit	10 days	82%
Letter notifying actual retirement benefit	7 days	87%
Letter acknowledging death of member	5 days	100%
Letter notifying amount of dependant's benefits	10 days	100%
Calculate and notify deferred benefits	20 days	70%

Staff shortages, new legislative requirements, implementing new online pension systems and dealing with a backlog of inaccuracies in member records inherited from the previous administrator have all had a negative impact on the performance indicators shown above. Work is on-going to address the backlog issues, and performance has improved during the year. Members of the Sub-Committee receive regular reports on administration performance to monitor delivery of service improvements.

Looking forward, staffing issues have been addressed and new legislative requirements are now in place although they do involve more detailed and complex information to be provided to scheme members.

ORBIS

The ORBIS on-line pension system is now in operation with a secure portal which enables members to:

- Update personal details
- Check membership records and calculate pension projections
- View payslips and P60s
- Nominate beneficiaries

Scheme employers can use the new system to:

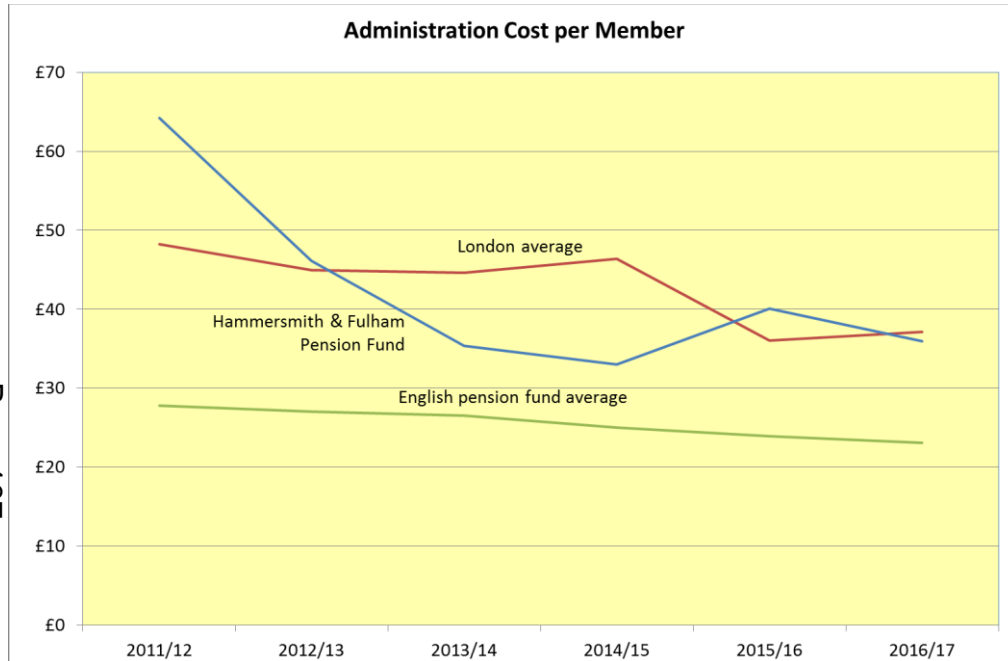
- Submit starter and leaver details and other changes online
- View and update employee details
- Run benefit calculations, e.g. early retirements

COMPLAINTS RECEIVED

The pension administrators occasionally deal with members of the fund who dispute an aspect of their pension benefits. These cases are dealt with by the Internal Dispute Resolution Procedure (see section 4)

No new complaints have been lodged with the Ombudsman in 2016/17.

Administration Management Performance (continued)



STAFFING INDICATORS

The administration of the Fund comprises:

- 3 full-time equivalent (fte) staff engaged by Surrey CC working directly on pension administration for Hammersmith and Fulham
- 1.8 fte Hammersmith and Fulham HR staff to deal with internal administration.
- 1.3 fte Westminster Finance staff, assigned to the oversight and governance of the Pension Fund.

The contract for administering the Fund was tendered in 2014 resulting in Surrey County Council being appointed from September 2015. Costs rose in 2015/16 as a result of the changeover of administrator, which incurred some one-off transition costs such as software licences. The new administration arrangements are bedding in and costs are reducing. At the same time Surrey are implementing the ORBIS online portal for pension scheme members and employees which should further enhance the service provided to members.

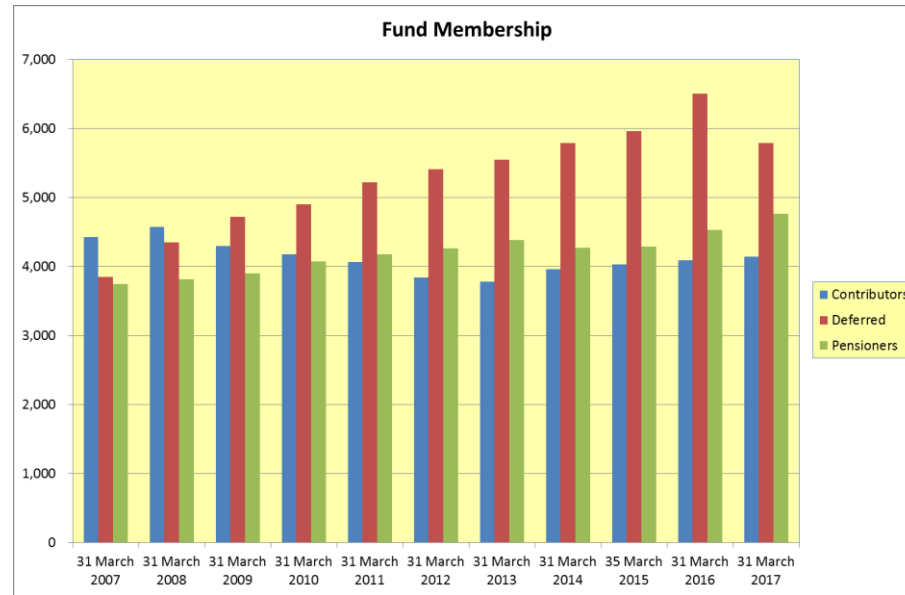
Although costs are close to the average for London borough pension funds as shown in the chart, the sub-committee is committed to keeping costs down and keeps costs under regular review.

Administration Management Performance (continued)

MEMBERSHIP NUMBERS AND TRENDS

Overall membership has increased by 22% over the past 11 years from 12,020 to 14,679.

However, over this period the number of contributing members to the Pension Fund has declined steadily from 2007/08 to 2012/13. The introduction of auto-enrolment in 2013 and the increase in employers admitted into the Scheme has started to reverse this trend. Nonetheless the number of pensioners and deferred members has continued to rise in common with other local government pension funds, reflecting the increasing maturity of the Fund.



Administration Management Performance (continued)

The total number of pensioners in receipt of enhanced benefits due to ill health or early retirement on the grounds of redundancy or efficiency of the service is given below as at each year on 31 March.

Reason for Leaving	2013/14	2014/15	2015/16	2016/17
Ill Health Retirement	11	10	10	10
Early Retirement	37	23	3	29
Total	48	33	46	39

Administration Management Performance (continued)

CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

Below is a list of the current active contributing employers and the contributions received for 2016/17 (Figures include early retirement and deficit funding contributions).

	Employees Contributions ²	Employers Contributions	Total Contributions
	£'000	£'000	£'000
Administering Authority Employers			
LONDON BOROUGH OF HAMMERSMITH AND FULHAM	4,512	14,531	19,043
Queensmill School	97	382	479
Addison Primary School	33	132	165
All Saints Primary School	10	42	52
Bayonne Nursery School	17	67	84
Brackenbury Primary School	33	130	163
Cambridge School (Special)	19	76	95
Fulham Primary School	15	61	76
Jack Tizard School (Special)	46	183	229
James Lee Nursery School	10	39	49
Larmerien & Sacred Heart Primary School	20	84	104
Melcombe Primary School	35	140	175
Normand Croft Community School for Early Years & Primary Education	18	73	91
Queens Manor Primary School	11	39	50

² Includes early retirement and deficit contributions

	Employees Contributions ²	Employers Contributions	Total Contributions
Randolph Beresford Early Years Centre Nursery School	46	168	214
Sir John Lillie Primary School	30	120	150
St Augustine's Primary School	13	50	63
St John XXIII Catholic Primary School (previously called Pope John)	22	90	112
St Johns CE Primary School	23	90	113
St Mary's Primary School	17	67	84
St Peter's Church of England Primary School	16	64	80
St. Thomas of Canterbury Primary School	12	48	60
The Good Shepherd Primary School	19	79	98
Vanessa Nursery School	17	64	81
William Morris Sixth Form School	53	200	253
Wood Lane High School	17	66	83
Wormholt Park Primary School	33	123	156
Kenmont Primary School	13	54	67
Flora Gardens Primary School	27	103	130
Miles Coverdale Primary School	26	104	130
Old Oak Primary School	24	98	122
St Paul's Primary School	23	91	114
Wendall Park Primary School	35	101	136
St Stephens CoE Primary School	32	128	160
Sullivan Primary School	6	23	29
Total Contributions from Administering Authority	5,380	17,910	23,290

Administration Management Performance (continued)

SCHEDULED BODIES

The Fund provides pensions not only for employees of Hammersmith and Fulham Council, but also for the employees of a number of scheduled and admitted bodies.

Scheduled bodies are organisations which have a statutory right to be a member of the Local Government Pension Scheme under the regulations e.g. academy schools.

	Employees Contribution ³	Employers' Contributions	Total Contributions
Scheduled Bodies			
Mortlake Crematorium Board	20	53	20
London Oratory School	64	136	64
Burlington Danes Academy	87	183	87
Hammersmith Academy	50	169	50
Sacred Heart Academy	51	161	51
Conway Academy	11	42	11
West London Free School	68	227	68
Bentworth Academy	11	49	11
Lady Margaret Academy	43	152	43
Swift ARK Academy	26	104	26
Fulham College Academy Trust (Girls)	44	150	44
Bridge Academy	71	254	71
Lena Gardens Academy	9	37	9

³ Includes early retirement and deficit contributions

	Employees Contribution ⁴	Employers' Contributions	Total Contributions
Scheduled Bodies			
Hurlingham and Chelsea Academy	28	101	28
Fulham Boys Free School	11	41	11
Fulham College Academy Trust (Boys)	45	161	45
Greenside Academy	18	69	18
Thomas' Academy	16	60	16
Langford Academy	10	38	10
Futures (Phoenix) Academy	20	76	20
Brightwells Academy	39	154	39
Total Contributions From Scheduled Bodies	742	2,417	742

⁴ Includes early retirement and deficit contributions

Administration Management Performance (continued)

ADMITTED BODIES

Admitted bodies participate in the pension scheme via an admission agreement made between the Council and the employing organisation. Examples of admitted bodies are not for profit organisations linked to the Council and contractors who

	Employees Contribution ⁵	Employers Contributions	Total Contributions
Admitted Bodies			
3BM	99	210	99
Disabilities Trust	1	2	1
Eden Food Services	44	146	44
ETDE Infrastructure	6	20	6
Family Mosaic Housing	18	56	18
FM Conway	13	39	13
Fulham Palace Trust	12	43	12
Glencross Cleaning Ltd	2	2	2
H & F Bridge Partnership	50	85	50
Medequip Assistive Technology Ltd	2	5	2
Pinnacle PSG Ltd - Estates Services	64	187	64
Pinnacle PSG Ltd - Housing Management	24	69	24
Quadron Services Ltd	63	190	63
Serco	191	422	191

have taken on delivery of services with Council staff also transferred to third parties.

⁵ Includes early retirement and deficit contributions

	Employees Contribution ⁶	Employers' Contributions	Total Contributions
Urban Partnership Group	16	63	16
Amey	100	301	100
Mitie	96	270	96
Civica	2	9	2
HATS	7	32	7
Innovate	2	8	2
Starbus	0	2	0
Hestia	1	2	1
Agilisys Ltd.	2	4	2
Total Contributions From Admitted Bodies	815	2,167	815
Grand Total	6,937	22,494	29,431

EMPLOYER ANALYSIS

The following table summarises the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities).

	Active	Ceased	Total
Administering Authority	1	-	1
Scheduled Body	21	-	21
Admitted Body	23	20	43
Total	45	20	65

⁶ Includes early retirement and deficit contributions

3.

Investment Policy and Performance



Investment Policy

The Pensions Sub-Committee has set out a broad statement of the principles it has employed in establishing its investment and funding strategy in the Statement of Investment Principles (SIP).

The SIP sets out responsibilities relating to the overall investment policy of the Fund including:

- asset allocations
- restrictions on investment types
- methods of investment management
- performance monitoring.

The SIP also sets out the Fund's approach to responsible investment and corporate governance issues, and how the Fund demonstrates compliance with the "Myners Principles". These Principles are a set of recommendations relating to the investment of pension funds originally prepared by Lord Myners in 2001 and subsequently endorsed by Government. The current version of the Myners Principles covers the following areas:

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

The Fund's SIP can be found at Appendix 2.

For 2017/18, the LGPS (Management and Investment of Funds) Regulations 2016, requires the Fund to publish an Investment Strategy Statement (ISS), which replaces the Statement of Investment Principles.

The ISS addresses each of the objectives included in the 2016 Regulations, namely:

- The administering requirement to invest fund money in a wide range of instruments
- The administering authority's assessment of the suitability of particular investments and types of investment
- The administering authority's approach to risk, including the ways in which risks are to be measured and managed
- The administering authority's approach to pooling investments, including the use of collective investment vehicles
- The administering authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

The full version of the document includes the following:

- Appendix A – Compliance with CIPFA Pensions Panel Principles
- Appendix B – Stewardship Code
- Appendix C – Risk Register
- Appendix D – Information on the London CIV

The ISS can be obtained from:

Pensions Fund Team, 5th Floor, City Hall,
5 The Strand, London WC2N 5HR

Email: pensionfund@lbhf.gov.uk

Asset Allocation

The strategic asset allocation is agreed by the Pensions Sub-Committee and the Fund's advisers. The allocation effective during the year ended 31 March 2017 was as follows:

Asset Class	Target Allocation (original)	Target Allocation (revised)
UK equities	22.5%	22.5%
Overseas Equities	22.5%	
Secure Income	20%	
Dynamic Asset Allocation	10%	
Absolute Return Bonds	10%	47.5%
Inflation Opportunities	10%	20%
Long Lease Property	5%	15%
TOTAL	100%	100%

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The Pensions Sub-Fund Committee holds Fund Managers accountable for decisions on asset allocation within the Fund mandate that they operate under. In order to follow the Myners' Committee recommendation, Fund Managers are challenged deliberately and formally about asset allocation proposals.

Investment portfolios are reviewed at each Committee meeting in discussion with the Investment Adviser and Officers, and Fund Managers are called to a Sub-Committee meeting if there are issues that need to be addressed. Officers meet Fund Managers regularly and advice is taken from the Investment

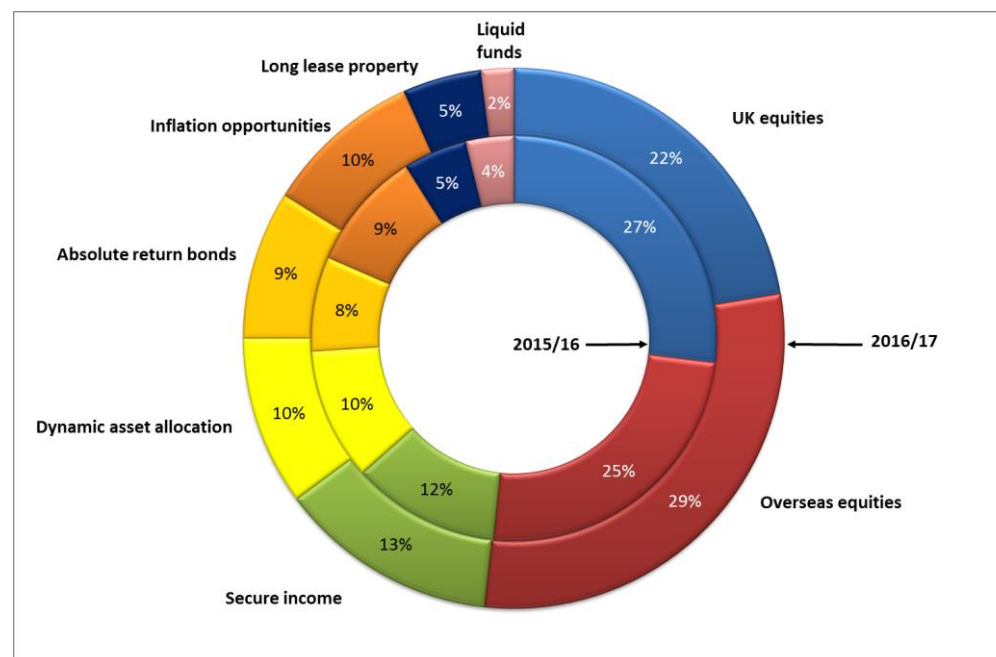
Adviser on matters relating to fund manager arrangement and performance.

Fund managers provide a rationale for asset allocation decisions based upon their research resource in an effort to ensure that they are not simply tracking the peer group or relevant benchmark index. The Fund's asset allocation strategy can be found in the SIP.

The asset allocation of the Pension Fund at the start and end of the financial year are set out below.

As funding levels have improved the Sub-Committee has sought to move away from equities and re-balance the portfolio in line with the target allocation in the SIP.

These figures are based on market value and reflect the relative performance of investment markets and the impact of tactical asset allocation decisions made by the Pensions Sub-Committee.

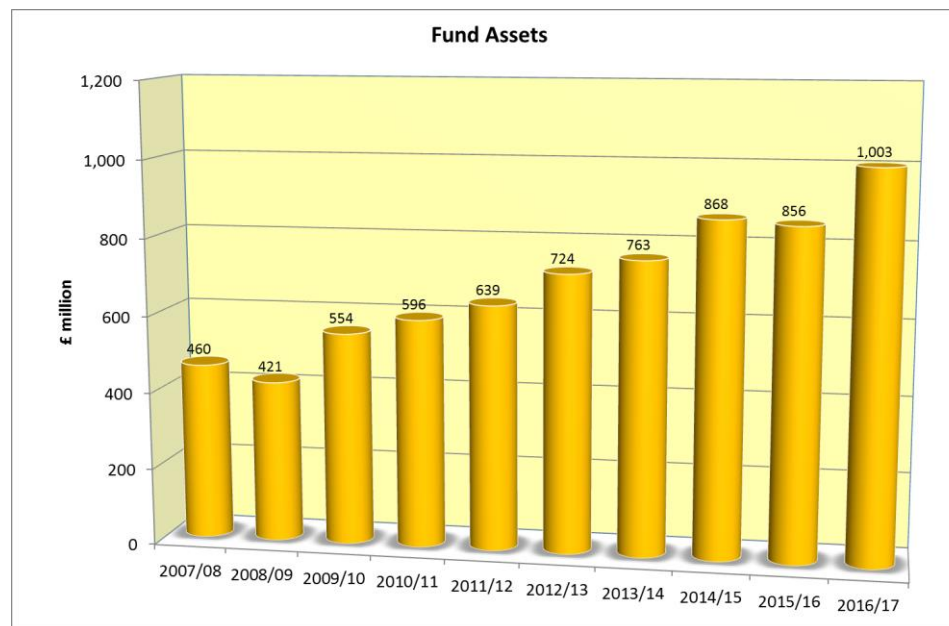


Asset Allocation (continued)

FUND VALUE

The value of the Fund has more than doubled over the past ten years. The slight fall in value in 2015/16 reflected uncertainty around the strength of the global economy and China in particular, but the Fund recovered well in 2016/17 with a 17% increase in the value of investments during the year.

The Fund is invested to meet liabilities over the medium to long-term and therefore its performance should be judged over a corresponding period. Annual returns can be volatile and do not necessarily indicate the underlying health of the Fund.

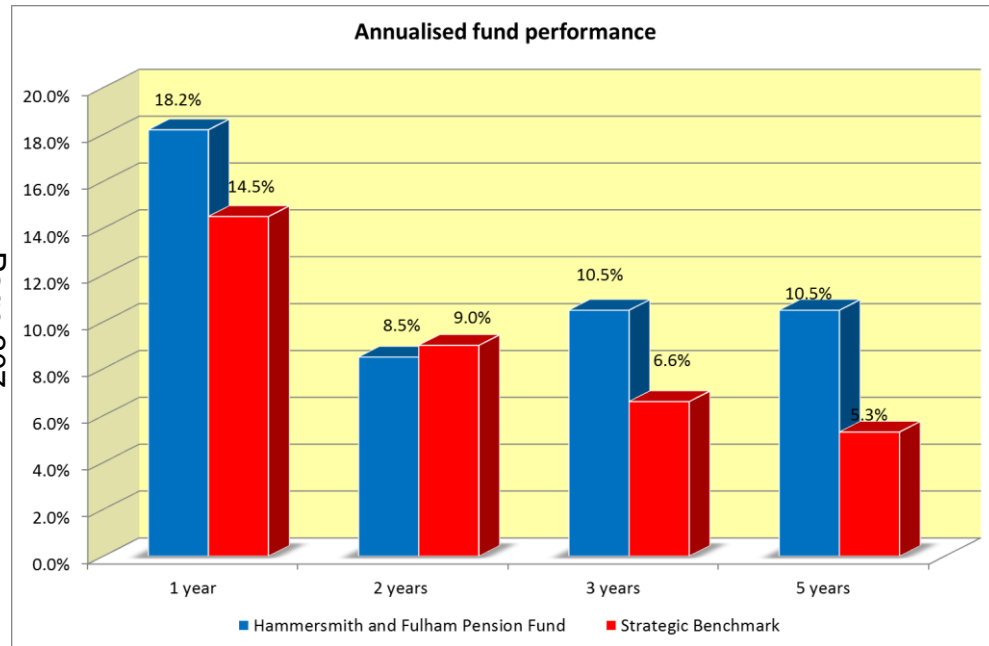


Investment Performance

The Fund's overall performance in 2016/17 exceeded the benchmark for the year as shown below.

Annualised performance has also exceeded the benchmark since inception, and over the past 3 and 5 years.

At 18.2%, investment returns for 2016/17 are slightly below the LGPS average of 20.2%.



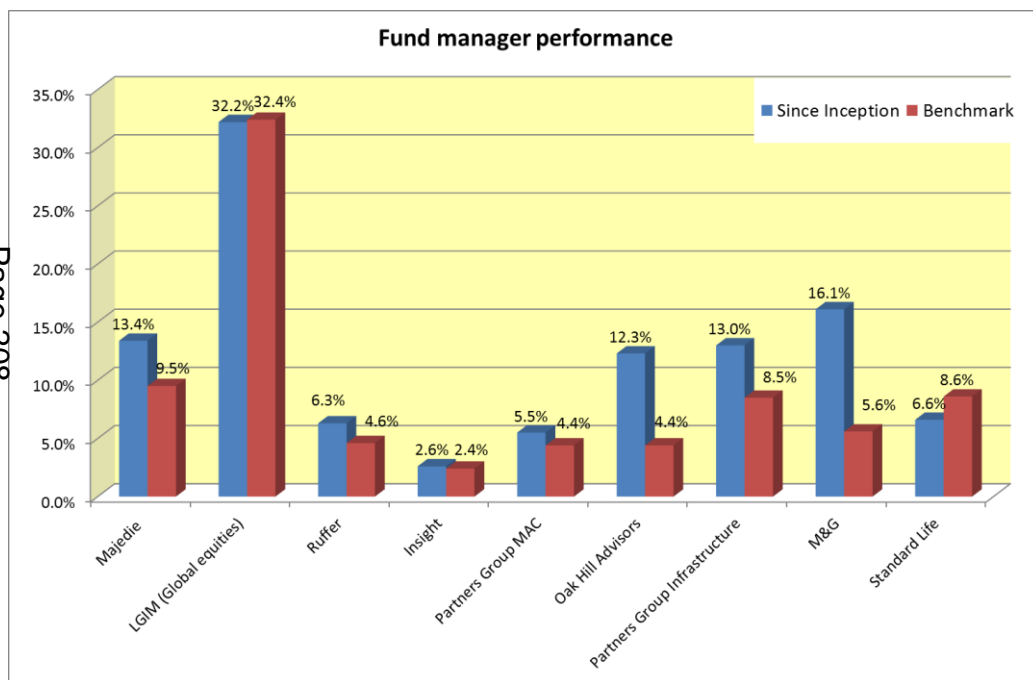
Performance of the Fund is measured against an overall strategic benchmark. Below this, each Fund Manager is given individual performance targets which are linked to index returns for the assets they manage. Details of these targets can be found in the Statement of Investment Principles.

Performance of Fund Managers is reviewed quarterly by the Pension Fund Committee which is supported by the Fund's independent investment advisor, Deloitte.

Investment Performance (continued)

The overall performance of each manager is measured over rolling three and five year periods, as inevitably there will be short-term fluctuations in performance.

Overall each Fund Manager has achieved their target since inception.



Note: The holdings with Majedie and Ruffer are measured over 5 years. The remainder of the holdings are measured over 1 year following a strategic re-alignment of the investment portfolio.

The portfolio is a mixture of active and passively managed asset classes:

- Targets for active fund mandates are set to out-perform the benchmark by a set percentage through active stock selection and asset allocation. Fund managers with active fund mandates are Majedie, Ruffer (CIV), Insight, Partners Group MAC (Multi Asset Credit), Oak Hill Advisors and Partners Group Infrastructure.
- Targets for passive funds are set to achieve the benchmark through investment in a stable portfolio. Fund managers with passive fund mandates are LGIM, M&G and Standard Life.

Corporate Governance

RESPONSIBLE INVESTMENT POLICY

The Council has a paramount fiduciary duty to obtain the best possible financial return on Fund investments without exposing assets to unnecessary risk. It believes that following good practice in terms of social, environmental and ethical issues is generally likely to have a favourable effect on the long-term financial performance of a company and will improve investment returns to its shareholders.

The Fund investment managers, acting in the best financial interests of the Fund, are expected to consider, amongst other factors, the effects of social, environmental and ethical issues on the performance of a company when undertaking the acquisition, retention or realisation of investments for the Fund.

In line with this policy the Fund has used infrastructure funds to invest in sustainable technologies such as solar and wind power.

The Council's investment managers have adopted socially responsible investment policies which are subject to regular review both by officers and by the Council's Pensions Sub-Committee.

PROFESSIONAL BODIES

The Council is a member of the CIPFA Pensions Network which provides a central coordination point for all LGPS funds and local authority members.

CIPFA staff and the network more generally are able to advise subscribers on all aspects of pensions and related legislation. Relevant training and seminars are also available to officers and members of participating funds.

While the Fund is a member of the Pensions Lifetime and Savings Association (formerly the National Association of Pension Funds), it does not subscribe to nor is it a member of the Local Authority Pension Fund Forum, UK Sustainable Investment & Finance Association or the Institutional Investors Group on Climate change or any other bodies.

VOTING

Majedie is the only manager continuing to manage investments on a segregated basis. They use Institutional Shareholder Services (ISS), a leading provider of corporate governance research, to provide advice about voting in line with good corporate governance principles. During 2016/17 they voted at 258 meetings on 3,074 resolutions – 97% in line with management's recommendations and 95% in line with ISS advice.

COLLABORATIVE VENTURES

The Fund has been working closely with other London LGPS funds in the London Collective Investment Vehicle set up to enable greater buying power, reduced fees and enhanced governance arrangements. The Hammersmith and Fulham Pension Fund is a shareholder in London LGPS CIV Limited.

Following FCA approval in 2016, the CIV has started to trade and the Hammersmith and Fulham Pension Fund transferred the Ruffer mandate (valued at £102m) into the CIV in June 2016.

Corporate Governance (continued)

SEPARATION OF RESPONSIBILITIES

The Fund has appointed a global custodian (Northern Trust), independent to the investment managers, to be responsible for the safekeeping of all of the Fund's investments. Northern Trust are also responsible for the settlement of all investment transactions and the collection of income.

The Fund's bank account is held with Lloyd's Bank. Funds not immediately required to pay benefits are held as interest bearing operational cash with Lloyds Bank.

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The actuary is responsible for assessing the long term financial position of the pension fund and issues a Rates and Adjustments statement following their triennial valuation of the Pension Fund, which sets out the minimum contributions which each employer in the Scheme is obliged to pay over the following three years.

FUNDING STRATEGY STATEMENT

The Funding Strategy Statement (Appendix 4) sets out the aims and purpose of the pension fund and the responsibilities of the administering authority as regards funding the scheme.

Its purpose is:

- To establish a clear and transparent fund-specific strategy to identify how employers' pension liabilities are best met going forward;
- To support the regulatory requirement to maintain as nearly constant employer contribution rates as possible;
- To take a prudent longer-term view of funding those liabilities.

STEWARDSHIP CODE

The Pensions Sub-Committee believes that investor stewardship is a key component of good governance, and is committed to exercising this responsibility with the support of its investment managers. In line with this approach, all of the Council's equity investment managers are signatories to the UK Stewardship Code.

The Pensions Sub-Committee believes that companies should be accountable to shareholders and should be structured with appropriate checks and balances so as to safeguard shareholders' interests, and deliver long-term returns.

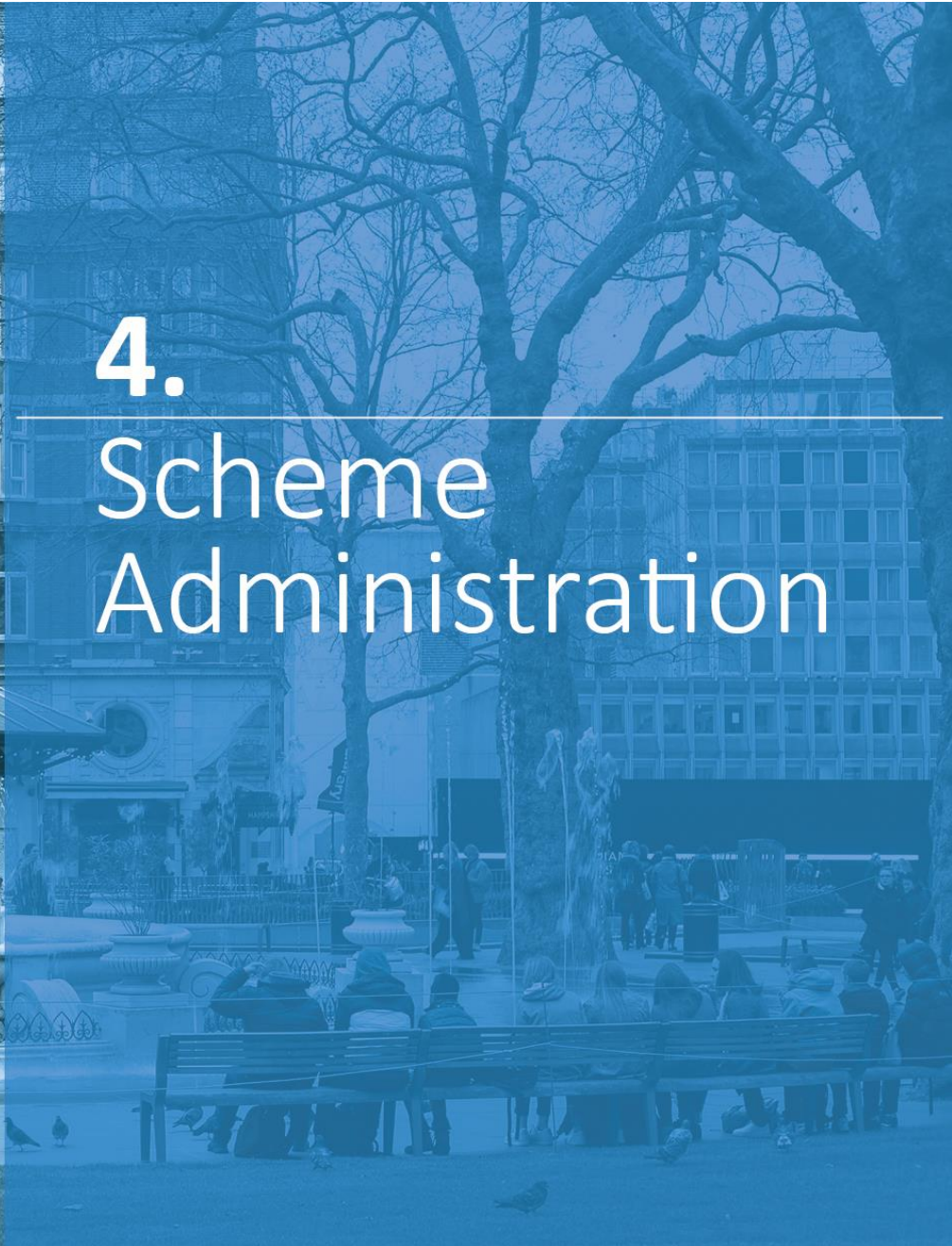
The Pensions Sub-Committee encourages Fund Managers to consider a range of factors before making investment decisions, such as the company's historical financial performance, governance structures, risk management approach, the degree to which strategic objectives have been met and environmental and social issues. Such considerations may also be linked to voting choices at company AGMs.

The Pensions Sub-Committee's role is not to micro-manage companies but provide perspective and share with boards and management our priorities for investment and approach to corporate governance. The ultimate aim is to work with management, shareholders and stakeholders to bring about changes that enhance long-term performance.



4.

Scheme Administration



Scheme Administration

SERVICE DELIVERY

Although the LGPS is a national scheme, it is administered locally. Hammersmith and Fulham Council 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.

The Council administers the scheme for 65 employers (a complete list of employers is provided in section 2) These employers include not only the Council, but also academy schools within the borough and a small number of organisations linked to the Council which have been “admitted” to the pension fund under agreement with the Council.

A not-for-profit contractual arrangement is in place with Surrey CC for the provision of pension administration services. Performance of this service against targets within the contract is reported on page 20. The Council’s Human Resources provide oversight of the administration service.

COMMUNICATION POLICY STATEMENT

The Local Government Pension Scheme Regulations 2013 require Pension Funds to prepare, publish and maintain a communication policy statement, which can be found on page 109. The Communication Policy details the overall strategy for involving stakeholders in the pension fund. A key part of this strategy is a dedicated pension fund website, which includes a great deal more information about the benefits of the pension fund and this can be accessed via the following link:

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 (IDRP) has been established. While any complaint is progressing, fund members are entitled to contact The Pensions Advisory Service (TPAS), who can provide free advice.

IDRP Stage 1 involves making a formal complaint in writing. This would normally be considered by the body that made the decision in question. In the event that the fund member is not satisfied with actions taken at Stage 1 the complaint will progress to Stage 2.

IDRP Stage 2 involves a referral to the administering authority, Hammersmith and Fulham Council to take an independent view.

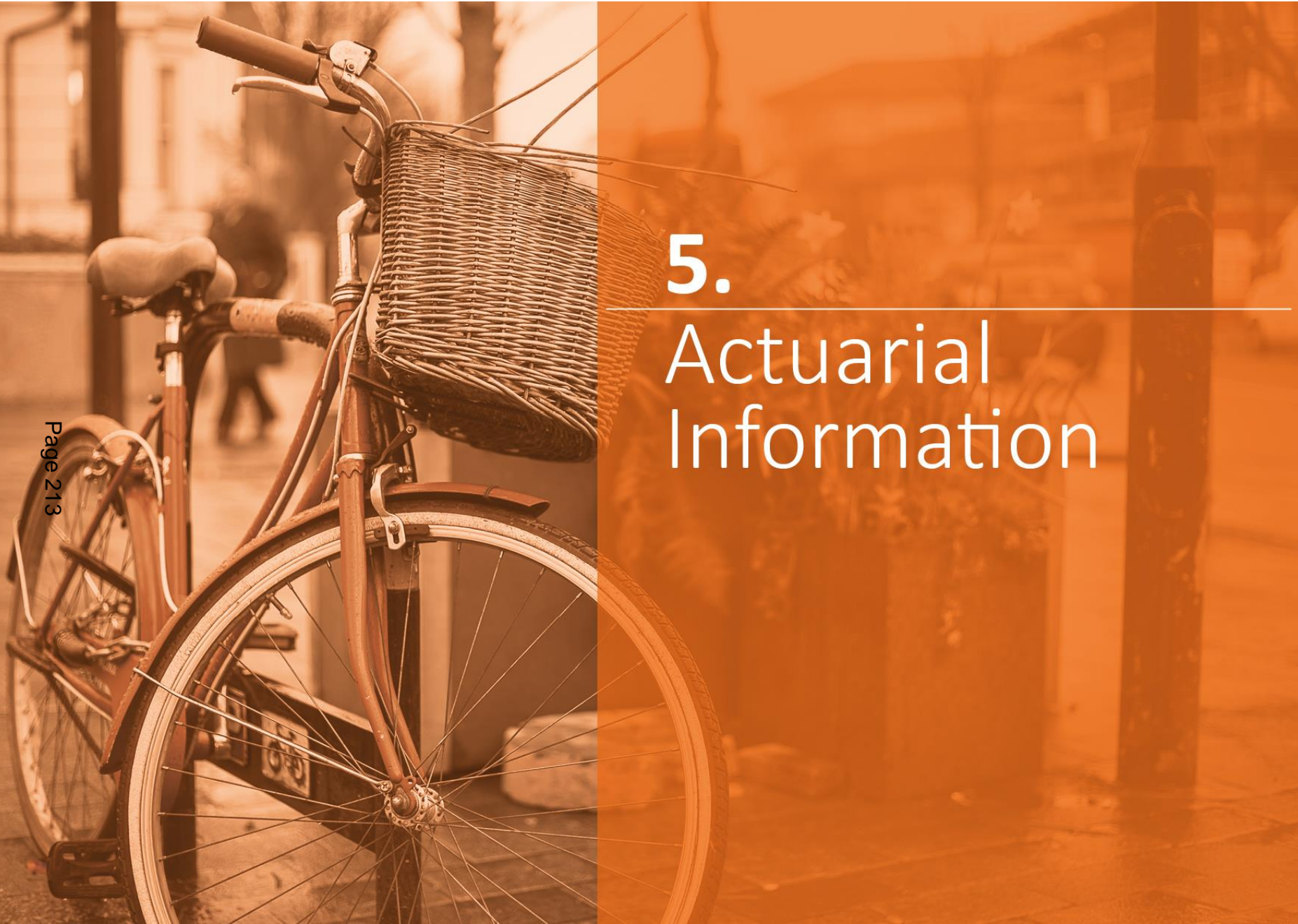
IDRP Stage 3 is a referral of the complaint to the Pension Ombudsman.

- one complaint was received in 2016/17 but resolved before reaching IDRP Stage 1
- one complaint went to IDRP Stage 1 but was then resolved

No complaints received in 2016/17 have been referred to the Pensions Ombudsman.

Both TPAS and the Pensions Ombudsman can be contacted at:

11 Belgrave Road
Pimlico
London
SW1V 1RB



5. Actuarial Information

Report by Actuary

INTRODUCTION

The last full triennial valuation of the Hammersmith and Fulham Pension Fund ("the Fund") was carried out as at 31 March 2016 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2017.

This statement gives an update on the funding position as at 31 March 2017 and comments on the main factors that have led to a change since the full valuation.

2016 VALUATION

The results for the Fund at 31 March 2016 were as follows:

- The Fund as a whole had a funding level of 88% i.e. the assets were 88% 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 £114m which is lower than the deficit at the previous valuation in 2013.
- To cover the cost of new benefits a total contribution rate of 15.5% 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.
- Full details of all the assumptions underlying the valuations are set out in our valuation report.

UPDATED POSITION

Using assumptions consistent with those adopted at the 2016 valuation, we estimate that the funding position at 31 March 2017 has improved compared with the position as at 31 March 2016.

The next formal valuation will be carried out as at 31 March 2019 with new contribution rates set from 1 April 2020.



Graeme Muir FFA

Partner, Barnett Waddingham LLP



6.

Pension Fund Accounts

Statement of Responsibilities

Responsibility for the Financial Statements, which form part of this Annual Report, is set out in the following declaration.

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 line with statute this is the Strategic Director of Finance;
- 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 DIRECTOR OF FINANCE

The Strategic Director of Finance is responsible for the preparation of the Pension Fund Statement of Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to present fairly the financial position of the Pension Fund at the accounting date and the income and expenditure for the year then ended.

In preparing these Statements of Accounts, the Strategic Director of Finance has:

- selected suitable accounting policies and then applied them consistently except where policy changes have been noted in these accounts;
- made judgments and estimates that were reasonable and prudent;
- complied with the Code.

The Strategic Director of Finance 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 DIRECTOR OF FINANCE

I certify that the Statement of Accounts (set out on pages 41 to 112) present a true and fair view of the financial position of the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2017 and income and expenditure for the year for the financial year 2016/17.

Hitesh Jolapara
Strategic Director of Finance, Section 151 Officer

Date: 30th June 2017

Commented [PJLW1]: Need Hitesh's signature

Independent Auditors Report

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

We have audited the pension fund financial statements of Hammersmith and Fulham Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited.

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

RESPECTIVE RESPONSIBILITIES OF THE STRATEGIC DIRECTOR OF FINANCE AND THE AUDITOR

As explained more fully in the Statement of the Strategic Finance Director's Responsibilities, the Strategic Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Independent Auditors Report (continued)

SCOPE OF THE AUDIT OF THE PENSION FUND FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director of Finance; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

OPINION ON THE PENSION FUND FINANCIAL STATEMENTS

In our opinion 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 2017 and of the amount and disposition at that date of the fund's assets and liabilities; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

OPINION ON OTHER MATTERS

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the pension fund financial statements.

Andrew Sayers

for and on behalf of KPMG LLP, Appointed Auditor

KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

xx August 2017

Pension Fund Accounts and Explanatory Notes

FUND ACCOUNT

2015/16		Notes	2016/17
£'000			£'000
Dealings with members, employers and others directly involved in the fund			
Contributions			
(22,412)	From Employers	6	(22,494)
(6,795)	From Members	6	(6,937)
(1,375)	Individual Transfers in from Other Pension Funds		(2,090)
(35)	Other income		(753)
(30,617)			(32,274)
Benefits			
29,076	Pensions	7	30,002
4,955	Commutation, Lump Sum Retirement and Death Benefits	7	5,685
Payments to and on Account of Leavers			
3,230	Individual Transfers Out to Other Pension Funds		5,046
16	Refunds to Members Leaving Service		37
37,277			40,770

Pension Fund Accounts and Explanatory Notes (continued)

2015/16		Notes	2016/17
£'000			£'000
7,241	Net (Additions)/Withdrawals from Dealings with Members		8,496
7,762	Management Expenses	8	3,404
Returns on Investments			
(12,771)	Investment Income	9	(12,822)
140	Taxes on Income (Irrecoverable Withholding Tax)		23
(Profit) and loss on disposal of investments and changes in the market value of investments			
(129,570)	Realised	11	(78,865)
139,354	Unrealised	11	(66,749)
(2,847)	Net return on investments		(158,413)
12,156	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		(146,513)
(868,475)	Opening Net Assets of the Scheme		(856,319)
(856,319)	Closing Net Assets of the Scheme		(1,002,832)

Net Assets Statement for the year ended 31 March 2017*

2015/16		Notes	2016/17
£'000			£'000
Investment assets			
36,771	Bonds	14	-
136,937	Equities	14	112,475
671,300	Pooled Investment Vehicles	14	881,865
1,976	Commodities	14	-
16	Derivative Contracts Forward foreign exchange	14	-
7,544	Cash Deposits	14	7,856
Other Investment Balances:			
278	Amounts outstanding on sale of investments	14	76
1,242	Investment income due	14	521
Investment Liabilities			
(472)	Derivative Contracts Forward foreign exchange:		-
(16)	Amounts outstanding on purchase of investments	14	(111)
855,664	Net investment assets	14	1,002,682

Net Assets Statement for the year ended 31 March 2017* (continued)

2015/16		Notes	2016/17
£'000			£'000
677	Current Assets	20	1,539
(1,187)	Current Liabilities	21	(4,223)
1,165	Cash Balances		2,834
856,319	Net Assets of the Fund Available to Fund Benefits at the Period End		1,002,832

* 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.

Note 1 Description of Hammersmith and Fulham Pension Fund

a) General

The Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Hammersmith and Fulham Council. It is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of Hammersmith and Fulham Council and the admitted and scheduled bodies in the Fund.

These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1st April 2014 are based on career average revalued 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 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 and the following secondary legislation:

- The LGPS Regulations 2013 (as amended)
- The LGPS (transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- The LGPS (Management and Investment of Funds) Regulations 2016.

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 for the financial year ending 31 March 2017. Employer contributions are set based on the triennial actuarial funding valuation, as detailed in Note 18.

7 Note 1 Description of Hammersmith and Fulham Pension Fund (continued)

b) Pensions Sub-Committee

The Council has delegated management of the Fund 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 meeting 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 Director of Finance, 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.

Note 1 Description of Hammersmith and Fulham Pension Fund (continued)

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 pension arrangements outside the scheme.

Organisations participating in the Hammersmith and Fulham Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table summarises the membership numbers of the scheme:

31 March 2016		31 March 2017
45	Number of employers with active members	45
4,092	Active members	4,383
4,628	Pensioners receiving benefits	4,800
6,504	Deferred Pensioners	5,787
15,224		14,970

Note 2 Basis of preparation of financial statements

The Statement of Accounts summarise the Fund's transactions for 2016/17 and its position at year end as at 31st March 2017. The accounts been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (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 employer, are accounted for on an accruals basis.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS 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.

Note 3 Summary of significant accounting policies (continued)

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.

Note 3 Summary of significant accounting policies (continued)

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 should be disclosed and based on 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 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 in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. 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 LGPS (Management and Investment of Funds) Regulations 2016 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs have 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 £144.2m. A 0.2% increase in the pay inflation assumption would increase the value of liabilities by £6.1m, and a one-year increase in assumed life expectancy would increase liabilities by £49.6m.

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 £8.08m.

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 £60.9m.

Note 5 Events after the Balance Sheet date

There were no material events arising after the Balance Sheet date.

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.

	Employer's Contributions				Employees' Contributions	
	Normal		Deficit Recovery			
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
	£'000	£'000	£'000	£'000	£'000	£'000
Administering Authority	9,809	9,676	8,101	8,101	5,380	5,249
Scheduled bodies	1,526	1,310	890	742	815	643
Admitted bodies*	2,115	2,478	53	105	742	903
	13,450	13,464	9,044	8,948	6,937	6,795

* There were no augmentation contributions included within Deficit contributions received during the year (£51k in 2015/16).

Note 7 Benefits payable

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

	Pensions		Lump Sum Retirement Benefits		Lump Sum Death Benefits	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
	£'000	£'000	£'000	£'000	£'000	£'000
Administering Authority	(28,466)	(27,850)	(4,372)	(4,565)	(515)	(641)
Scheduled bodies	(1,358)	(142)	(542)	(14)	(77)	0
Admitted bodies*	(178)	(1,084)	(179)	(124)		(192)
	(30,002)	(29,076)	(5,093)	(4,703)	(592)	(833)

Note 8 Management Expenses

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

2015/16		2016/17
£'000		£'000
606	Administration Expenses	744
268	Oversight and Governance	2,617
6,888	Investment Management Expenses	43
7,762		3,404

Investment management expenses are further analysed below in line with the CIPFA Guidance on Accounting for Management Costs in the LGPS.

2015/16		2016/17
£'000		£'000
4,774	Management fees	2,181
1,646	Performance fees	-
73	Custody fees	54
395	Transaction costs*	382
6,888		2,617

*Transaction costs incurred on segregated assets only.

Investment management expenses have fallen significantly during the year, as a result of there being no Majedie performance fees, reductions gained both by joining London CIV and those negotiated with Legal & General.

Note 9 Investment Income

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

2015/16		2016/17
£'000		£'000
1,327	Bonds	35
10,079	Equity dividends	9,975
55	Interest and cash deposits	16
1,310	Private Equity/Other	2,796
12,771	Total	12,822

Note 10 Investment Management Arrangements

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.

The market value and proportion of investments managed by each fund manager at 31 March 2016 was as follows:

31 March 2016 Market Value	%	Fund Manager	31 March 2017 Market Value	%
£'000			£'000	
215,374	25.17	Majedie Asset Management	224,141	22.40
319	0.04	MFS International (UK) Ltd	0	0.00
207,706	24.27	LGIM Passive equities	294,433	30.39
89,898	10.51	Ruffer LLP*	101,628	10.10
64,848	7.58	Insight Investments	89,121	8.90
41,451	4.84	LGIM Liquidity fund	10,827	0.01
52,178	6.10	Partners Group MAC fund	52,593	5.20
1,439	0.17	Partners Group Infrastructure fund	8,743	0.90
47,555	5.56	Oak Hill Advisers	70,334	7.00
81,552	9.53	M & G	94,998	9.50
43,925	5.13	Standard Life	47,037	4.70
5,728	0.67	Invesco Private Equity	5,366	0.50
3,541	0.41	Unigestion Private Equity	2,945	0.30
150	0.02	London LGPS CIV Ltd	516	0.10
855,664	100.00%	Total Investments at 31 March 2017	1,002,682	100.00%

Note 11 Reconciliation in movement in investments

2016/17	Market value 1 April 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2017
Fund Manager	£'000	£'000	£'000	£'000	£'000
Majedie Asset Management	212,050	45,135	(79,963)	40,030	217,252
Ruffer LLP	85,045	186,946	(181,183)	10,408	101,216
Insight Investment	64,848	22,000		2,273	89,121
Legal & General Inv Mngt	207,605	783,117	(764,858)	68,569	294,433
Legal & General Inv Mngt Liquidity Fund	41,451		(30,758)	135	10,828
Partners Group Multi Asset Credit	52,171		(19)	435	52,587
Partners Group Infrastructure	1,439	12,488	(6,161)	541	8,307
Oak Hill Advisers	47,555	16,000		6,780	70,335
M & G Investments	81,552	1,898		11,547	94,997
Standard Life	43,925			3,111	47,036
Invesco Private Equity	5,301		(1,403)	1,235	5,133
Unigestion Private Equity	3,524	17	(1,003)	407	2,945
London CIV	150		(5)	5	150
Total	846,616	1,067,601	(1,065,353)	145,476	994,340
Cash Deposits	7,544			181	7,856
Other Investment Balances:					
Investment Income due	1,242				521
Spot FX	0			(42)	0
Pending trade purchases	(16)				(111)
Pending trade sales	278			(1)	76
Net investment assets	855,664	1,067,601	(1,065,353)	145,614	1,002,682

Note 11 Reconciliation in Movement in Investments (continued)

15/16	Market value 1 April 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2016
Fund Manager	£'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
Total	848,654	861,678	(854,037)	(9,679)	846,616
Cash Deposits	15,410			(108)	7,544
Other Investment Balances					
Investment Income due	1,018				1,242
Pending trade purchases	(886)			1	(16)
Pending trade sales	585			2	278
Cash Deposits	15,410			(108)	7,544

15/16	Market value 1 April 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2016
Net investment assets	864,781	861,678	(854,037)	(9,784)	855,664

Note 12 Investments exceeding 5% of net assets

The table below shows the Fund's 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%.

31 March 2016		Holding	31 March 2017	
Market Value			Market Value	
£'000	% Holding		£'000	% Holding
192,377	22.50	Legal & General World ex UK Dev equity index fund	294,432	29.36
81,552	9.50	M & G Inflation Opportunities Fund V	94,998	9.47
64,848	7.60	Insight Investment Bonds Plus Fund	89,121	8.89
75,196	8.80	Majedie UK Focus Fund	77,950	7.77
47,555	5.60	Oak Hill Advisers Diversified Credit Strategies Fund	53,734	5.36
52,071	6.10	Partners Group Multi Asset Credit 2014 Fund	52,587	5.24
43,925	5.10	Standard Life Long Lease Property Fund	47,037	4.69
587,524	65.10	Total Top Holdings	709,859	70.78
856,319		Total Value of Investments	1,002,832	

Note 13 Analysis of Derivatives

OBJECTIVES AND POLICIES FOR HOLDING 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 2017 or 31 March 2016.

FORWARD CURRENCY CONTRACTS

Outstanding exchange traded forward currency contracts are as follows:

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value	Liability Value
		£'000		£'000	£'000	£'000
Up to one month	USD	51	GBP	(41)	0	0
One to three months	JPY	4,984	GBP	(36)	0	0
Net forward currency contracts at 31 March 2017					0	0
Prior year comparative:						
Open forward currency contracts at 31 March 2016					104	(472)
Net forward currency contracts at 31 March 2016						(368)

Note 14a Classification of Financial Instruments (continued)

31 March 2016			31 March 2017		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£'000	£'000	£'000	£'000	£'000	£'000
19,245					Other Managed Funds
1,976					Commodities
104					Derivative contracts – forward foreign exchange
1,242			521		Investment Income due
278			76		Pending Trade Sales
	7,544			7,856	Cash deposits with managers
	677			1,539	Debtors
	1,165			2,834	Cash balances
848,608	9,386	-	994,937	12,229	-
FINANCIAL LIABILITIES					
(472)					Derivative contracts – forward foreign exchange
(16)			(111)		Pending Trade Purchases
		(1,187)			Creditors
848,120	9,386	(1,187)	994,826	12,229	(4,223)
856,319		Grand Total		1,002,832	

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.

31 March 2016		31 March 2017
£'000		£'000
Financial Assets		
(6,146)	Designated at fair value through profit and loss	146,148
(108)	Loans and receivables	181
(6,254)		146,329
Financial Liabilities		
(3,530)	Designated at fair value through profit and loss	(751)
-	Financial liabilities at amortised cost	-
(3,530)		(751)
(9,784)	Total	145,578

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.

Level 1 – 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 – 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 – 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 tradable. The valuation is based on market prices where available for some underlying assets and on estimates of prices in secondary markets for others

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into the level at which fair value is observable.

31 March 2016			31 March 2017		
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					
603,084	174,823	70,701	612,379	212,369	170,190
9,386	-	-	12,229	-	-
612,470	174,823	70,701	624,607	212,369	170,190
Financial Liabilities					
(16)	(472)	-	(111)	-	-
(1,187)	-	-	(4,223)	-	-
(1,203)	(472)	-	(4,334)	-	-
611,267	174,351	70,701	620,273	212,369	170,190
856,319		Grand Total		1,002,832	

Note 15 Nature and extent of risks arising from Financial Instruments

RISK AND RISK MANAGEMENT

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.

b) 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.

Price Risk Assets exposed to price risk	Value	Value on 10% price increase	Value on 10% price decrease
	£'000	£'000	£'000
As at 31 March 2016	846,835	931,518	762,151
As at 31 March 2017	994,340	1,093,774	894,906

Note 15 Nature and extent of risks arising from Financial Instruments (continued)

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	Value on 1% price increase	Assets exposed to currency risk	Value	Value on 10% foreign exchange rate increase	Value on 10% foreign exchange rate decrease
	£'000	£'000	Value on 1% price increase	£'000	£'000	£'000
As at 31 March 2016	300,436	303,440	As at 31 March 2016	252,627	277,890	227,365
As at 31 March 2017	210,364	212,468	As at 31 March 2017	360,756	396,831	324,680

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 overleaf 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	Value on 10% foreign exchange rate increase	Value on 10% foreign exchange rate decrease
	£'000	£'000	£'000
As at 31 March 2016	252,627	277,890	227,365
As at 31 March 2017	360,756	396,831	324,680

Note 16 Nature and extent of risks arising from Financial Instruments (continued)

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 12.1% of the Fund's Net Assets at 31st March 2017 (12.6% at 31st March 2016). The remaining investments can all be liquidated within days.

Manager	Portfolio	Value at 31 March 2017	Value at 31 March 2016
		£'000	£'000
Partners Group	Multi Asset Credit	52,587	52,171
Partners Group	Infrastructure	16,386	1,439
Standard Life	Property	43,925	43,925
Invesco	Private Equity	5,301	5,302
Unigestion	Private Equity	3,524	3,525
		121,723	106,362

Note 16 Contingent liabilities and contractual commitments

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

	31 March 2017 £000	31 March 2016 returns £000
Invesco Partnership Fund V L.P.	451	1,212
Unicapital Investments V	0	46
Partners Group Direct Infrastructure Fund 2015	38,553	41,844
	39,004	43,102

Note 17 Stock Lending Arrangements

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 2016 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 pension's legislation.

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

ASSUMPTIONS

The assumptions applied by the actuary are set out below:

Financial Assumptions	31 March 2016 %	31 March 2017 %
RPI increases	3.3	3.6
CPI increases	2.4	2.7
Salary increases	4.2	4.2
Pension increases	2.4	2.7
Discount rate	3.7	2.7

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.

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 years		31 March 2016	31 March 2017
Retiring today	Males	22.9	24.4
	Females	25.3	26.0
Retiring in 20 years	Males	25.2	26.6
	Females	27.7	28.3

31 March 2016		31 March 2017	
£'000		£'000	
1,357,358	Present Value of Promised Retirement Benefits*	1,656,377	
(856,319)	Fair Value of Scheme Assets (bid value)	(1,000,383)	
501,039	Net Liability	655,994	

*Present Value of Promised Retirement Benefits comprises of £1,613,367k (£1,311,744k at 31 March 2016) and £43,010k (£45,614k at 31 March 2016) in respect of vested benefits and non-vested benefits respectively as at 31 March 2017.

Note 20 Current Assets

31 March 2016		31 March 2017
£'000		£'000
Debtors:		
337	Contributions due - employers	334
105	Contributions due - employees	113
174	London Borough of Hammersmith and Fulham	1,085
61	Sundry debtors	7
677	Total	1,539

ANALYSIS OF DEBTORS

31 March 2016		31 March 2017
£'000		£'000
211	Local authorities	1,117
466	Other entities and individuals	422
677	Total	1,539

Note 21 Current Liabilities

31 March 2016		31 March 2017
£'000		£'000
Creditors		
(80)	Unpaid benefits	(2,439)
(598)	Investment management expenses	(1,062)
(476)	HM Revenues and Customs	(655)
(33)	Sundry creditors	(67)
(1,187)	Total	(4,223)

ANALYSIS OF DEBTORS

31 March 2016		31 March 2017
£'000		£'000
(162)	Local authorities	(67)
(476)	Central government bodies	(655)
(549)	Other Entities and individuals	(3,501)
(1,187)	Total	(4,223)

Note 22 Additional Voluntary Contributions

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

31 March 2016 Market Value		31 March 2017 Market Value	
£'000		£'000	
Zurich Assurance			
£1,134,250	Market Value at 31 st March	£1,171,958	
£33,101	Contributions during the year	£20,916	
48	Number of members at 31 st March	41	
Equitable Life Assurance			
£187,842	Market Value at 31 st March	£192,670	
£66	Contributions during the year	£0	
32	Number of members at 31 st March	30	

In accordance with Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016, 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 Party Transactions

The Pension Fund is administered by the London Borough of Hammersmith and Fulham. The Council incurred costs of £240,246 in 2016/17 (£412,812 in 2015/16) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses.

In the year the Council contributed £17,910k in employer contributions to the Fund (2015/16 £17,777k).

As a result of the day to day administration, at 31st March 2017 the Council owed the Pension Fund a net amount of £1,085,666 (£174,042 at 31st March 2016).

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 Transactions

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 £196k and is included in Note 23 Related Parties.

2015/16		2016/17
£'000		£'000
2,433	Payments on behalf of London Borough of Hammersmith and Fulham	2,588
2,433		2,588



7.

Glossary and Contacts

Glossary of Terms

ACCOUNTING POLICIES

The rules and practices adopted by the authority that determine how the transactions and events are reflected in the accounts.

ACCRUALS

Amounts included in the accounts for income or expenditure in relation to the financial year but not received or paid as at 31 March.

ACTIVE MANAGEMENT

Active management or active fund management is where the fund manager makes specific investments with the aim of outperforming an investment benchmark.

ACTIVE MEMBER

Current employee who is contributing to a pension scheme.

ACTUARIAL GAINS AND LOSSES

These arise where actual events have not coincided with the actuarial assumptions made for the last valuations (known as experience gains and losses) or the actuarial assumptions have been changed.

ACTUARY

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

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

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

ADMITTED BODY

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

ASSET ALLOCATION

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

BENCHMARK

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

BONDS

Investments, mainly in government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTING)

CIPFA is the professional institute for accountants working in the public services. CIPFA publishes the Code.

CREDITORS

Amounts owed by the Council for goods and services received but not paid for as at 31 March.

DEBTORS

Amounts owed to the Council for goods and services provided but where the associated income was not received as at 31 March.

DEFERRED MEMBERS

Scheme members, who have left employment or ceased to be active members 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.

Glossary of Terms (continued)

DERIVATIVE

A derivative is a financial instrument which derives its value from the change in price (e.g. foreign exchange rate, commodity price or interest rate) of an underlying investment (e.g. equities, bonds, commodities, interest rates, exchange rates and stock market indices), which no net initial investment or minimal initial investment and is settled at a future date

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.

EXCHANGE TRADED

This describes a financial contract which is traded on a recognised exchange such as the London Stock Exchange or the London International Financial Futures Exchange.

FINANCIAL ASSETS

Financial assets are cash, equity instruments within another entity (e.g. shares) or a contractual right to receive cash or another asset from another entity (e.g. debtors) or exchange financial assets or financial liabilities under potentially favourable conditions (e.g. derivatives).

FINANCIAL INSTRUMENT

Any contract giving rise to a financial asset in one entity and a financial liability or equity in another entity.

FINANCIAL LIABILITIES

Financial assets are contractual obligations to deliver cash or another financial asset (e.g. creditors) or exchange financial assets or financial liabilities under potentially unfavourable conditions (e.g. derivatives).

FORWARD FOREIGN EXCHANGE DERIVATIVE

Forward foreign exchange derivatives are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange.

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.

OVER THE COUNTER

This describes a financial contract which is potentially unique as they are not usually traded on a recognised exchange

PASSIVE MANAGEMENT

Passive management is where the investments mirror a market 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.

PROJECTED UNIT METHOD – PENSION FUND VALUATION

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependents, allowing where appropriate for future increases, and
- the accrued benefits for members in service on the valuation date.

Glossary of Terms (continued)

RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party, to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source, to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Advice from CIPFA is that related parties to a local authority include Central Government, bodies precepting or levying demands on the Council Tax, members and chief officers of the authority and its pension fund.

RELATED PARTY TRANSACTION

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party, irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets or loans, irrespective of any direct economic benefit to the pension fund;
- the provision of services to a related party, including the provision of pension fund administration services; and
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, rents and payments of benefits.

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.

THE CODE

The Code incorporates guidance in line with IFRS, IPSAS and UK GAAP Accounting Standards. It sets out the proper accounting practice to be adopted for the Statement of Accounts to ensure they 'present fairly' the financial position of the Council. The Code has statutory status via the provision of the Local Government Act 2003.

UNREALISED GAINS/LOSSES

The increase or decrease in the market value of investments held by the fund since the date of their purchase.

NOTE: values throughout these accounts are presented rounded to whole numbers. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match to the core statements or other tables due to rounding differences.

Contact Information

www.lbhfpensionfund.org

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WC2N 5HR

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Email: pensionfund@lbhf.gov.uk

Bi-borough Pensions Manager

c/o Royal Borough of Kensington and Chelsea
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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

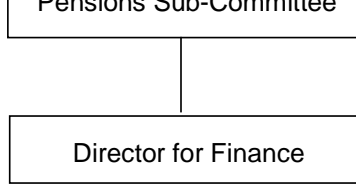
11 Belgrave Road
London, SW1V 1RB
Telephone: 020 7630 2200

Email: enquiries@pensions-ombudsman.org.uk

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Appendices





Governance Compliance Statement

BACKGROUND

The London Borough of Hammersmith and Fulham is the administering authority for the London Borough of Hammersmith and Fulham (“the Fund”) and it administers the Local Government Pension Scheme on behalf of the participating employers.

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires all administering authorities for local government pension schemes to publish a Governance Compliance Statement setting out the Fund’s governance arrangements.

Information on the extent of the Fund’s compliance with guidance issued by the Secretary of State for Communities and Local Government is also a requirement of this regulation.

GOVERNANCE STRUCTURE

The diagram below shows the governance structure in place for the Fund.

Full Council has delegated its functions in relation to the Pension Fund regulations, as shown in the diagram. The sections below explain the role of each party and provide the terms of reference.

Governance Compliance Statement (continued)

AUDIT, PENSIONS AND STANDARDS COMMITTEE

Full Council has delegated all decisions in relation to the Public Service Pensions Act 2013 to the Audit, Pensions and Standards Sub-Committee. In order to manage the workload of the committee, the committee has delegated decisions in relation to all pensions' matters to the Pensions Sub-committee.

PENSIONS SUB-COMMITTEE

The role of the Pensions Sub-Committee is to have responsibility for all aspects of the investment and other management activity of the Fund.

The sub-committee is made up of five elected members of the Audit, Pensions and Standards Committee – three administration councillors and two opposition councillors. The sub-committee is chaired by the Chair of the Audit, Pensions and Standards Committee. The Sub Committee may co-opt non-voting independent members, including Trade Unions and representatives from the admitted and scheduled bodies in the Pension Fund.

All Councillors on the sub-committee have voting rights. In the event of an equality of votes, the Chair of the Sub-committee shall have a second casting vote. Where the Chair is not in attendance, the Vice-Chair has the casting vote.

The Sub-committee meets four times a year and may convene additional meetings as required. Three members of the Sub-committee are required to attend for a meeting to be quorate.

The terms of reference for the sub-committee are:

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 Superannuation Fund regarding the level of employers' contributions necessary to balance the Superannuation 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.

Governance Compliance Statement (continued)

PENSION BOARD

With effect from 1st April 2015, all administering authorities are required by the Public Services Pensions Act 2013 to establish a Pension Board to assist them. The London Borough of Hammersmith and Fulham Pension Board was established by full Council on 25th February 2015.

The role of the Pension Board is to assist the administering authority with securing compliance with Local Government Pension Scheme regulations and other legislation relating to the governance and administration of the scheme. The Board does not have a decision making role in relation to management of the Fund, but is able to make recommendations to the Pension Fund Committee.

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 member's representatives from the Council or an admitted or scheduled body.

All Board members are entitled to vote, but it is expected that as far as possible Board members will reach a consensus. Three Board members are required to attend for a meeting to be quorate. The Board will meet a minimum of twice a year but is likely to meet on a quarterly basis to reflect the same frequency as the Pension Fund Committee.

COMPLIANCE WITH STATUTORY GUIDANCE

It is a regulatory requirement that the Fund publishes the extent to which it complies with statutory guidance issued by the Secretary of State for Communities and Local Government. The guidance and compliance levels are set out in Annex 1.

REVIEW OF STATEMENT

This statement will be kept under review and updated as required. Consultation with the admitted and scheduled bodies of the Fund will take place before the statement is finalised at each change.

Governance Compliance Statement (continued)

Compliance Requirement	Compliance	Notes
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	As set out in terms of reference of the Pensions Sub-Committee.
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Not fully compliant	Representatives of the employers and scheme members are Pension Board members, rather than members of the Pensions Sub-Committee.
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Not applicable	All Pension Fund matters are considered by the Pensions Sub-Committee
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel	Not applicable	All Pension Fund matters are considered by the Pensions Sub-Committee
Committee membership and representation		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: - i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an <i>ad hoc</i> basis).	Not fully compliant	Representatives of the employers and scheme members are Pension Board members, rather than members of the Pensions Sub-Committee. Expert advisers attend the Sub-Committee as required
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights	Not applicable	All Pension Fund matters are considered by the Pensions Sub-Committee
Selection and role		
That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee	Compliant	As set out in terms of reference of the Pensions Sub-Committee
That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Compliant	This is a standing item on the Pensions Sub-Committee agendas
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	As set out in terms of reference of the Pensions Sub-Committee

Governance Compliance Statement (continued)

Compliance Requirement	Compliance	Notes
Training, facility time and expenses		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process	Compliant	As set out in the Council's allowances policy and the Pension Fund Knowledge and Skills policy
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum	Compliant	As set out in the Council's constitution
Meetings		
That an administering authority's main committee or committees meet at least quarterly.	Compliant	As set out in terms of reference of the Pensions Sub-Committee
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits	Not applicable	All Pension Fund matters are considered by the Pensions Sub-Committee.
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	Compliant	Represented on the Pensions Board
Access		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Compliant	As set out in the Council's constitution
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Compliant	as set out in terms of reference of the Pensions Sub-Committee
Publicity		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements	Compliant	All meeting minutes, reports and Pension Fund policies are published on the Council's website

Statement of Investment Principles

BACKGROUND

Legal

Regulation 12(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires administering authorities, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement of the principles governing their decisions about the investment of Pension Fund money.

The Scheme

The Local Government Pension Scheme (“the Scheme”) was established in accordance with statute to provide retirement benefits for all eligible employees. The Scheme is a contributory, defined benefit occupational pension scheme. It is funded by employee contributions and by variable employer contributions, which are set every three years, following an actuarial valuation of the assets and liabilities of the scheme.

The benefits of the Scheme are defined by statute and they are inflation proofed in line with annual increases in the Consumer Price Index for September. The Scheme is operated by designated administering authorities, of which the London Borough of Hammersmith and Fulham is one such authority. Each administering authority maintains a Pension Fund (“the Fund”) and invests monies not required immediately to meet benefits.

Pensions Sub-Committee

The Council has delegated the investment arrangements of the Fund to the Pensions Sub-Committee. The Sub-Committee meets at least 4 times a year. Further information on the Sub-Committee can be found in the Fund’s Governance Compliance Statement and the responsibilities are set out in 2.1 below.

Advice

The Committee obtains and considers advice from the Director of Finance and Pension Fund Officers. In addition, the Fund retains the services of an external investment adviser who attends all the Sub-Committee’s meetings. The Sub-Committee also considers advice from the Fund Actuary and investment managers as necessary.

Investment Managers

All investment management of the Fund’s assets is undertaken externally. Some elements are managed on a segregated basis in accordance with investment management agreements. The remainder is invested in pooled fund products managed by external investment managers according to the terms of the funds.

INVESTMENT RESPONSIBILITIES

Pensions Sub-Committee

The Pensions Sub-Committee’s responsibilities are set out in their terms of reference and are to have responsibility for all aspects of the investment and other management activity of the Council’s Pension Fund, including, but not limited to, the following matters:

- To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the Investment Consultant.
- To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable.
- To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Actuary, Custodians and Fund Advisers.
- 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.

Statement of Investment Principles (continued)

- To approve the final statement of accounts of the Pension Fund and to approve the Annual Report.
- To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund.
- To oversee and approve any changes to the administration arrangements, material contracts and policies and procedures of the Council for the payment of pensions, compensation payments and allowances to beneficiaries.
- To make and review an admission policy relating to admission agreements generally with any admission body.
- To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
- To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
- To receive and consider the Auditor's report on the governance of the Pension Fund.
- To determine any other investment or pension 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 other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

Pension Fund Officers

The Pension Fund Officers are responsible for advising the Pensions Sub-Committee and for the following:

- Monitoring compliance with statutory requirements and the investment principles set out in the document and reporting any breaches to the Sub-Committee.
- Ensuring this document is regularly reviewed and updated in accordance with the LGPS Regulations.
- Investment accounting, preparing the annual accounts and report of the Fund and all day to day administration.
- Ensuring proper resources are available to meet the Council's responsibilities.

Statement of Investment Principles (continued)

Investment Managers

The investment managers are responsible for:

- The investment of the Fund's assets in compliance with prevailing legislation and the investment management agreements or terms of the pooled fund as appropriate.
- Tactical asset allocation and security selection within the parameters of the mandate set by the Fund or the terms of the pooled fund.
- Preparation of quarterly reports including a review of performance and attendance at sub-committee meetings as requested.
- Voting shares in accordance with the agreed policy.
- Reporting any breaches of their guidelines and changes in key investment personnel.

Custodian

The custodian is responsible for:

- Safe custody and settlement of all investment transactions, collection of income and administration of corporate actions for all segregated assets, independently from the investment managers.
- Providing a performance measurement service of all the Fund's investments including those in pooled funds, against agreed benchmarks and targets.
- Providing valuations and accounting data summarising details of all investment transactions with the Fund.

Investment Adviser

The investment adviser is responsible for:

- Advising the Sub-Committee on the investment strategy of the Fund and the implementation of it.
- Advising the Sub-Committee on the appointment and termination of appointment of the investment managers and custodian.

- Assisting the Sub-Committee and Pension Fund officers in the on-going review of the investment managers and the suitability of the investment products used.
- Providing advice, education and training on all investment related matters as required.

Fund Actuary

The Fund Actuary is responsible for:

- Undertaking triennial valuations of the Fund's assets and liabilities to measure funding level and set employer contribution rates.
- Providing regular updates between triennial valuations on the funding level of the Fund.
- Providing advice on the admission and withdrawal of employers to the scheme, including external employers following externalisation of services.

Statement of Investment Principles (continued)

PENSION FUND LIABILITIES

Overview

The Hammersmith and Fulham Pension Fund is broadly similar to other funds of comparable size in terms of its maturity. The Fund Actuary determined that the funding level was 83% at the 31st March 2013 valuation. It has agreed that the Council should make additional employer contributions over a period of 22 years to bring the funding level back to 100%.

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 via pension and pay increases, to interest rates and to 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 investment strategy set for the Fund, as detailed later in this document, recognises the need to mitigate the risks set out above, but also balances this with the need to generate additional returns to return the Fund to a 100% funding level.

Scheme Benefits

The LGPS is a defined benefit scheme, which provides benefits related to final salary for its members to 31 March 2014 and on a career average basis thereafter. Each member's pension is specified according to a formula based on salary and service and is unaffected by the investment return achieved by the fund. Full details of the benefits are set out in the LGPS regulations.

Funding the Benefits

Active members are required to make pension contributions where the rate will, depend on the level of their salaries. The Council and other employers participating in the Fund are responsible for meeting the remainder of the costs necessary to finance the benefits payable from the Fund by applying employer contribution rates, determined following the actuarial review and consultation with the Fund Actuary. The employers therefore have a direct financial interest in the investment return achieved on the Fund's assets to the extent that any funding shortfall is met from employers' contributions. The approach to funding is set out in the Funding Strategy Statement.

Actuarial Valuation

The Fund is valued every three years in accordance with the LGPS Regulations and monitored each year by the officers and the Actuary. The last valuation was as at 31 March 2013.

INVESTMENT STRATEGY

Aims and Purpose of the Fund

The aims of the Fund are to:

- Enable employer contribution rates to be kept as stable as possible and at reasonable cost to taxpayers, scheduled and admitted bodies,
- Manage employers' liabilities effectively,
- Ensure that sufficient resources are available to meet all liabilities as they fall due,
- Maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- Receive monies in respect of contributions, transfer values and investment income, and
- Pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the LGPS Regulations.

Statement of Investment Principles (continued)

Investment Strategy

An investment strategy has been agreed having taken advice from the Fund's investment adviser. The strategy aims to balance the need to generate sufficient return to reach a fully funded position with the need to mitigate against the risks of inflation and interest rates. The strategy is also designed to achieve diversification across different asset classes. It has been decided that all investments will be managed by external fund managers.

Strategic Benchmark

The strategic benchmark of the Fund reflects the high level asset allocation and is shown in the table below:

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 4%
Inflation Opportunities	10%	UK RPI plus 2.5%
Long Lease Property	5%	FT All Gilt index plus 2%
Total	100%	

Note: The Sub-committee is also considering an opportunistic element in the asset allocation. Once a decision is made about this, the Statement of Investment Principles will be reviewed and updated as required

Performance targets

Each of the fund managers and the investment products the Fund invests in has a set benchmark and target to achieve set out in the mandate. The detail of each of these is set out in Section 5.

Reporting

Quarterly reports on the Fund's investments, including activity and performance are provided by the investment managers to officers and the investment adviser. The Fund's investment performance is measured independently by the Fund's custodian. The investment adviser provides a quarterly report to the Committee summarising investment performance and other key issues affecting the investments and the fund managers.

Review

The investment strategy is reviewed periodically; at least every three years following the actuarial valuation of the Fund.

INVESTMENTS

The powers and duties of the Council to invest Fund monies are set out in the LGPS (Management and Investment of Funds) Regulations 2009. For all investments, the Administering Authority is required to take account of the need for diversification, and of advice from persons properly qualified by their ability and practical experience of financial matters to provide that advice.

The Regulations state that the Council, as Administering Authority must not invest any monies not immediately required for the payment of benefits and pensions with its own cash balances. The cash the Fund retains for the payment of benefits is therefore held in a separate bank account, in accordance with the Regulations.

Statement of Investment Principles (continued)

Statutory Investment Limits

The Regulations set out limits on different types of investment – these are set out in the table below. The percentages in the second column are the maximum limits which apply to all Funds. The Regulations include a provision for Funds to be able to elect to increase certain limits within parameters set out in a schedule to the Regulations. The Sub-Committee has elected to apply certain of these increased limits from 1st April 2015 and plans to review this election by 31st March 2018, as part of the next investment strategy review. These are shown in the final column of the table.

Investment Type	Regulatory limits	Election for increased limits
Any single sub-underwriting contract	1%	-
All contributions to any single partnership	2%	5%
All contributions to partnerships	5%	30%
All loans and any deposits with local authorities or their preceptors	10%	-
All investments in unlisted securities of companies	10%	15%
Any single holding unless guaranteed by Her Majesty's Government	10%	-
All deposits with any single bank, institution or person, (other than the National Savings Bank)	10%	-
All sub-underwriting contracts	15%	-
All investments in units or other shares of the investments subject to the trusts of unit trust schemes managed by any one body	25%	35%
All investments in open ended investment companies where the collective investment schemes constituted by the companies are managed by any one body	25%	35%
All investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body	25%	35%
Any single insurance contract	25%	35%
All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements	25%	-

Statement of Investment Principles (continued)

Risks

The Fund recognises there are a number of risks involved in the investment of the assets of the Fund, including:

- The risk of failing to meet the objectives – the Sub-Committee regularly takes advice and monitors the investments and funding level to mitigate this risk.
- Funding and Asset/Liability mismatch risk – this is addressed through the regular actuarial and investment reviews. The majority of the Fund’s liabilities are linked to inflation.
- Underperformance risk – this is addressed through monitoring closely the performance of the investment managers and taking necessary action when this is not satisfactory.
- Country risk – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
- Currency risk – the risk of a loss in the value of the Fund’s assets through holding assets in a currency other than sterling. Where feasible and practical, the Sub-Committee will look to manage the overall currency exposure of the underlying assets.
- Risk of inadequate diversification or inappropriate investment – this is addressed by investing in a diversified portfolio of assets thereby avoiding concentration of assets in one particular stock, sector or geographical area. The investment management agreements and pooled fund terms where appropriate, contain restrictions to limit the risks from each individual investment and prevent unsuitable investment activity.
- Organisational risk – this is addressed through regular monitoring of the investment managers, investment adviser and custodian.
- Liquidity risk – the risk that the Fund is unable to meet cashflows out of the Fund as and when required. To manage this risk, the majority of the Fund’s investments are invested in funds or assets which in a normal market environment are realisable at short notice.

The Sub-Committee maintain and regularly review a risk register including the above investment risks.

Rate of return

The investment strategy set by the Fund is expected to generate an annual investment return of 6%.

Realisation of investments

The majority of the Fund’s investments are readily marketable and may be easily realised if required. Some of the Fund’s investments, such as private equity and limited liability partnerships are less liquid, but they make up a relatively small proportion of the total Fund.

The Sub-Committee monitors cashflow at its quarterly meetings to ensure there is sufficient cash to meet the Fund’s obligations as they fall due.

Stock Lending

The Fund does not engage directly in the lending of stocks or other securities.

Statement of Investment Principles (continued)

Investment Managers

The investment of the Fund's investments is undertaken externally. Some elements are managed on a segregated basis by investment managers appointed by the Committee. The remainder is invested in pooled fund products managed by external investment managers according to the terms of the selected funds. The current investment management arrangements for the Fund are:

Asset Class	Investment Manager/ investment product	Segregated / Pooled	Target Allocation	Benchmark and target
UK equities	Majedie Asset Management	Segregated	22.5%	FTSE All Share plus 2% p.a.
Overseas equities	MFS International	Segregated	22.5%	MSCI All World ex UK Growth plus 2% per annum.
Secure income)	Partners Group Multi Asset Credit Fund 2014	Pooled	20%	3 month LIBOR plus 4%
	Oak Hill Advisers Diversified Credit Strategy	Pooled		3 month LIBOR plus 4%
	To be determined			
Dynamic Asset Allocation	Ruffer LLP	Segregated	10%	3month LIBOR plus 4%
Absolute Return Bonds	Goldman Sachs Asset Management Strategic Absolute Return Fund I	Pooled	10%	3month LIBOR plus 4%
Inflation Opportunities	M & G Inflation Opportunities Fund V	Pooled	10%	UK RPI plus 2.5%
Long Lease Property	Standard Life Long Lease Property Fund	Pooled	5%	FT All Gilt index plus 2%
Matching Fund	Legal & General Investment Management LDI Bespoke Fund	Pooled	-	2 x Bespoke liability benchmark minus 3 month LIBOR
Private equity	Invesco Fund IV & Invesco Fund V	Pooled	-	-
	Unicapital Fund IV & Unicapital Fund V	Pooled	-	-

Statement of Investment Principles (continued)

SOCIAL, ENVIRONMENTAL AND ETHICAL POLICY

The Fund recognises that the neglect of corporate governance and corporate social responsibility may lead to poor or reduced shareholder returns. The Sub-Committee has considered how the Fund may best implement a corporate social responsibility policy, given the current resources available to the Fund.

Accordingly, the Sub-Committee has delegated social, environmental and ethical policy to the investment managers, but also approved a Governance Strategy. The Sub-Committee believes this is the most efficient approach whilst ensuring the implementation of policy by each manager is consistent with current best practice and there is appropriate disclosure and reporting of actions taken. To that extent, the Sub-Committee maintains a policy of non-interference with the day-to-day decision making of the investment managers.

VOTING RIGHTS

The Sub-Committee has delegated the Fund's voting rights to the investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. The Sub-Committee expects the investment managers to vote in the best interests of the Fund.

The investment managers are required to regularly report voting actions and highlight where they do not vote in accordance with their stated policy.

COMPLIANCE WITH MYNERS' PRINCIPLES OF INVESTMENT DECISION MAKING

The LGPS (Management and Investment of Funds) Regulations 2009 require Funds to state the extent to which they comply with the six principles of investment practice set out in the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme – A Guide to the Application of the Myners' Principles" and give reasons for not complying where they do not do so.

The principles and the Hammersmith and Fulham Fund's position on compliance are set out in the table below:

Statement of Investment Principles (continued)

Compliance Requirement	Compliance	Notes
Principle 1: Effective Decision Making		
Administering Authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation.	Fully compliant	Decisions are made by the Pensions Sub-Committee, with advice from the Fund's investment adviser, Fund Actuary and officers. The Sub-Committee members receive quarterly reports on investment performance from the Investment Adviser.
The persons and organisations involved responsible for decisions should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.	Fully compliant	The Pensions Sub-Committee members collectively have the necessary experience and ability to challenge the advice they receive. The declaration of conflicts of interest is the first item on the agenda at each Pensions Sub-Committee meeting.
Principle 2: Clear Objectives		
An overall investment objective(s) should be set for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.	Fully compliant	The objectives are set out clearly and take into account the requirement to maintain an employer contribution rate as constant as possible over the long term. These are communicated to advisers and investment managers.
Principle 3: Risk and Liabilities		
In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk	Fully compliant	The structure of the liabilities has been considered in setting an investment strategy which recognises the need to mitigate against the risk of inflation and interest rates, which drive the liabilities, as well generate sufficient investment return to assist in achieving full funding.
Principle 4: Performance Assessment		
Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.	Fully compliant	<p>The Custodian independently measures the performance of the investment managers' portfolios and a summary of investment performance is provided to the Committee by the investment adviser quarterly.</p> <p>The investment adviser and Fund Actuary are appointed on fixed term contracts following tender processes and the quality of service is assessed through contract monitoring.</p> <p>The Sub-Committee does not periodically make a formal assessment of its own effectiveness as a decision-making body. However the performance of the Fund is reported in the Annual Report published on the website.</p>
Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to the scheme members.	Partially compliant	

Statement of Investment Principles (continued)

Principle 5: Responsible Ownership		
Administering authorities should: recognise and ensure their partners in the investment chain adopt, the FRC's UK Stewardship Code	Fully compliant	The Fund's investment managers have adopted the FRC's UK Stewardship Code.
Include a statement of their policy on responsible ownership in their statement of investment principles	Fully compliant	See section 6 of this document
Report periodically to scheme members on the discharge of these responsibilities	Fully compliant	As this Statement of Investment Principles forms part of the Annual Report and Accounts, the statements above comply with this requirement.
Principle 6: Transparency and Reporting		
Administering authorities should: act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives.	Fully compliant	The information is provided in the Pension Fund Annual Report and Accounts which is available through the website.
Provide regular communication to scheme members in the form they consider most appropriate.	Fully compliant	The published annual report and accounts are considered sufficient, since the benefits of the scheme are defined and guaranteed by statute.

Communication Policy

1. BACKGROUND

Regulation 61 of the Local Government Pension Scheme Regulations 2013 requires administering authorities to prepare, publish and maintain a policy statement setting out its communication strategy for communicating with:

- Scheme Members
- Members' representatives
- Prospective members
- Employers participating in the Fund

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This is the Local Government Pension Scheme (LGPS) Communications Policy Statement for the London Borough of Hammersmith & Fulham (LBHF).

LBHF in its capacity as the Administering Authority engages with other employers (under their status as Admitted and Scheduled Bodies) and has 4071 active members 5915 deferred members and 4518 pensioners as at 31st March 2016

This policy document sets out the mechanisms that LBHF uses to meet their communication responsibilities.

2. ROLES AND RESPONSIBILITIES

Retained team within HR

The Retained Team are responsible for setting the pensions administration management strategy which includes the drafting of this document and the allocation of communication responsibilities, including those to third parties.

They are also responsible for the monitoring of the quality, timeliness and accuracy of pensions communications from third parties and for the periodic review of this document.

The Retained Team will approve significant communications prior to them being issued that have been drafted on behalf of LBHF by Surrey County Council (SCC) and British Telecom (BT).

Surrey County Council

SCC are responsible for the day to day transactional pensions administration service under a section 101 agreement with LBHF.

Under this agreement SCC are responsible for the quality, timeliness and accuracy of pensions communications within their normal business activities.

They are also responsible for communications within specific projects and tasks agreed and allocated to them by the Retained Team.

British Telecom

SCC are responsible for the day to day transactional pensions administration service under a section 101 agreement with LBHF.

Under this agreement SCC are responsible for the quality, timeliness and accuracy of pensions communications within their normal business activities.

They are also responsible for communications within specific projects and tasks agreed and allocated to them by the Retained Team.

3. HOW INFORMATION IS COMMUNICATED

The table below shows the LBHF communication methods, the frequency of issue and the intended audiences.

Communication Type	Paper Based	Website	Intranet	Face to face	Electronic	Frequency of issue	Communication method	Active member	Deferred member	Pensioner	Prospective members	Employers	Union Reps	Pension fund committee	Pension Board	Residents and taxpayers	Media	Other stakeholders
Joiner information with Scheme details	✓	✓				During the recruitment process and upon request	Sent to home address/via employers				✓	✓	✓					
Newsletters	✓	✓				Annually and/or when the scheme changes	Sent to home address/via employers	✓	✓	✓	✓	✓	✓					
Fund Reports and Accounts			✓			Continually available	Link publicised	✓										
Annual Benefit Statements	✓					Annually and on request	Sent to home address and/or via employers for active members. Sent to home address for deferred members	✓	✓									
Factsheets	✓	✓				On request	On request	✓	✓	✓	✓	✓	✓					
Roadshows				✓		When major scheme changes occur	Advertised in newsletters, via posters	✓										
Personal discussions				✓		When required	Displayed in the workplace	✓	✓	✓	✓							
Posters	✓					Continually available	On request	✓			✓							
Employers Guide		✓				Annually	Annually					✓						

Communication Policy (continued)

4. DETAILS OF WHAT IS COMMUNICATED

Joiner information with Scheme details

A document providing an overview of the LGPS, including who can join, the contribution rates, the retirement and death benefits and how to increase the value of benefits.

Newsletters

An annual newsletter which provides updates on changes to the LGPS as well as other related news, such as national changes to pensions regulations, forthcoming roadshows and contact details.

Fund Report and Accounts

Details of the value of the Pension Fund during the financial year, income and expenditure etc.

Annual Benefit Statements

For active members these include the value of current and projected benefits. The associated death benefits are also shown along with details of any individuals nominated to receive the lump sum death grant.

In relation to deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well as the associated death benefits.

Factsheets

Information that provides a summary in relation to specific topics, such as topping up pension rights, transfer values in and out of the scheme, death

benefits and, for pensioners, annual pensions increases.

Roadshows

As required a representative from SCC and/or the Retained Team will visit a particular location to provide a presentation on a particular topic of interest.

Face to face/personal discussions.

Face to face discussions with a representative from SCC and/or the Retained Team to discuss personal circumstances.

Posters

These are to engage with staff that are not in the LGPS, to help them to understand the benefits of participating in the scheme and to provide guidance on how to join.

Employers' Guide

A detailed guide that provides guidance on the employer responsibilities including the forms and other necessary communications: -

Employers meeting

A seminar style event with a number of speakers covering topical LGPS issues.

Briefing papers

Formal briefings that highlight key issues or developments relating to the LGPS and the Fund,

these are used by senior managers when attending committee meetings.

Committee papers

Formal documents setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

Training and Development.

Pension issues are included in appropriate training and development events – specific pension training and development events are run at significant times such as when the scheme changes.

Press releases

Bulletins providing briefing commentary on LBHF's opinion on various matters relating to the Pension Fund, for example. the actuarial valuation results.

Other employers joining the fund

A legal requirement to notify both organisations of the name and type of employer entered into the Fund (e.g. following the admission of third party service providers into the scheme).

Pension disputes IDR

Formal notification of pension dispute resolutions to the complainant, together with any additional correspondence relating to the dispute.

Statutory returns and questionnaires

Statutory and various questionnaires that are received, requesting specific information in relation to the structure of the LBHF fund or the composition of the Fund.

Communication Policy (continued)

FURTHER INFORMATION

If you need more information about the Scheme you should contact Surrey County Council at the following address:

SURREY COUNTY COUNCIL

Pension Services (LBHF Team)
Surrey County Council
Room G59, County Hall
Penrhyn Road
Kingston upon Thames
Surrey KT1 2DN
Email: myhelpdeskpensions@surreycc.gov.uk

General enquiries and complaints:

Helpdesk: 0208 231 2802
General enquiries and complaints: 0208 541 9293

RETAINED HR TEAM

Maria Bailey
Pensions Manager
Royal Borough of Kensington and Chelsea,
Town Hall,
Hornton Street,
London
W8 7NX

Email: Maria.Bailey@rbkc.gov.uk
Phone: 0207 361 2333

Funding Strategy Statement

1. PURPOSE OF THE FUNDING STRATEGY STATEMENT

1.1 The purpose of this Funding Strategy Statement is to explain the funding objectives of the London Borough of Hammersmith and Fulham Pension Fund (the “Fund”) and in particular: -

- How the costs of the benefits provided under the Local Government Pension Scheme (the “Scheme”) are met through the Fund in a prudent way;
- The objectives in setting employer contribution rates and the desirability of maintaining stability in the primary contribution rate; and
- Ensuring that the regulatory requirements to set contributions that will maintain the solvency and long term cost-efficiency of the Fund are met.

2. AIMS AND PURPOSE OF THE FUND

2.1 The aims of the Fund are to:

- Manage employers’ liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible; and

- Seek returns on investment within reasonable risk parameters.

2.2 The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits under the Regulations;
- Meet the costs associated in administering the Fund;
- Receive monies in respect of contributions, transfer values and investment income.

3. RESPONSIBILITIES OF KEY PARTIES

3.1 The key parties involved in the funding process and their responsibilities are as follows:

The Administering Authority

3.2 The Administering Authority for the Pension Fund is the London Borough of Hammersmith and Fulham. The main responsibilities of the Administering Authority are:

- Operate a pension fund
- Collect employee and employer contributions investment income and other amounts due to the Fund, as stipulated in the LGPS Regulations;

- Invest the Fund’s assets in accordance with the LGPS regulations;
- Pay the benefits due to Scheme members; as stipulated by the LGPS regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS, the SIP and ISS after consultation with other interested parties; and
- Monitor all aspects of the Fund’s performance and funding, amending the FSS and ISS accordingly;
- Manage any potential conflicts of interest arising from the Borough’s dual role as scheme employer and fund administrator
- Enable the pension board to review the valuation process as set out in their terms of reference.

Funding Strategy Statement (continued)

Individual Employers

3.3 In addition to the Administering Authority, various scheduled and admitted bodies participate in the Fund.

The responsibilities of each individual employer that participates in the Fund, including the administering authority, are to:

- Deduct contributions from employees' salaries correctly and pay these, together with their own employer contributions as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of all changes in Scheme membership and any other membership changes promptly;
- Exercise any discretions permitted under the Regulations; and
- Meet the costs of any augmentations or other additional costs, such as early retirement strain, in accordance with agreed policies and procedures.

The Fund Actuary

4.4 The Pension Fund's Actuary is Barnett Waddingham LLP. Their main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long term cost efficiency, after agreeing assumptions with the administering authority and having regard to the FSS and the LGPS regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit related matters, such as pension strain costs, ill health retirement costs, compensatory added years costs, etc.;
- Provide advice and valuations on the exiting of employers from the Fund;
- Advise the administering authority on Bonds and other forms of security against the financial effect on the Fund of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations, as permitted or required by the regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements that may be of relevance to the administrator's role in advising the fund; and

- Advise on other actuarial matters affecting the financial position of the Fund.

4. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

- 5.1 Given the statutory position of the LGPS administering authorities and the tax-backed nature of employing authorities who make up the core of the Scheme and the statutory basis of the Scheme, the LGPS remains outside the solvency arrangements established for private sector occupational pension schemes.
- 5.2 LGPS regulations require each administering authority to secure fund solvency and long-term cost efficiency by means of employer contribution rates established by mandatory valuation exercises.
- 5.3 Maintaining as nearly a constant a primary employer contribution rate is a desirable outcome, but not a regulatory requirement. It is for LGPS administering authorities to seek to achieve a balance between the objectives in a prudent manner.
- 5.4 Solvency is defined as meaning that the rate of employer contributions should be set at such a level as to ensure that the scheme's liabilities can be met as they arise. This does not mean that the Fund should be 100% funded at all times, but that the rate of employer contributions should be set to target a funding level for the whole fund of 100% over an appropriate time period and using an appropriate set of actuarial assumptions.

Funding Strategy Statement (continued)

5.5 Employers should collectively have the financial capacity to increase employer contributions and/or the Fund should be able to realise contingent assets if future circumstances require, in order to continue to target a funding level of 100%. If these conditions are met, it is anticipated that the Fund will be able to pay scheme benefits as they fall due.

5.6 The rate of employer contributions shall be deemed to be set at an appropriate level to ensure long-term cost efficiency, if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to the rate for any surplus or deficit in the Fund. The Government Actuary's Department (GAD) will assess whether this condition is met.

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6. PRIMARY RATE OF THE EMPLOYERS' CONTRIBUTION

6.1 The primary rate for each employer is that employer's future service contribution rate which is the contribution rate required to meet the cost of the future accrual of benefits, expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any specific employer circumstances.

6.2 The primary rate for the whole Fund is the weighted average, by payroll, of the individual employers' primary rates.

6.3 The secondary rate of the employer's contribution is an adjustment to the primary rate to arrive at the rate each employer is required to pay. It may be expressed either as a percentage adjustment to the primary rate and/or as a cash adjustment for

each of the three years of the inter-valuation period. This will be set out in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the primary and secondary rates.

6.4 The actuary should disclose the secondary rates for the whole scheme in each of the three inter-valuation years. These should be calculated as a weighted average based on the whole scheme payroll. The purpose of this is to facilitate a single net rate of contributions expected to be received over each of the three years that can be readily compared with other rates and reconciled with actual receipts.

7 SOLVENCY ISSUES AND NON LOCAL AUTHORITY EMPLOYERS

7.1 The number and type of non-local government bodies operating within the LGPS has grown considerably since 2004, when Funding Strategy Statements were first introduced. There are now many more private sector contractors, companies spun off from local authorities and academies which have employees who continue to qualify for membership by dint of transferred rights under the TUPE regulations. Employees in academies qualify for the scheme because of academies' scheduled body status. Key issues are:

- The need to set appropriate employer contribution levels and deficit recovery periods for these employers which do not have tax-raising powers and therefore have weaker covenants than local authorities;
- The underlying investment strategy of the assets backing the liabilities of these employers;

- The financial standing of those employers (or their parent companies or guarantors) and their ability to meet the cost of current membership, fund any deficit and ability to ensure against default;
- The long and short term effects of high contribution rates on non-local authority employers in terms of their financial viability.

7.2 In the interests of transparency, the FSS should clearly set out the risk assessment methodology to assess the long term financial health of employers and how this will be monitored. This is undertaken by:

- Having the correct Risk Assessments made when new Admitted and Scheduled bodies join the fund and security via a bond is requested;
- Admitted and Scheduled bodies being consulted on Triennial revaluation rates; and
- Pension contributions being monitored "in year" to ensure Admitted and Scheduled bodies are making the required payments.

8. VALUATION ASSUMPTIONS AND FUNDING MODEL

8.1 In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

Funding Strategy Statement (continued)

8.2 The assumptions adopted at the valuation can therefore be considered as:

- The statistical assumptions which are essentially estimates of the likelihood of benefits and contributions being paid; and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current or present value.

Future Price Inflation

8.3 The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (or "RPI").

Future Pay Inflation

8.4 As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay inflation. Historically, there has been a close link between price and pay inflation with pay increases exceeding price inflation in the longer term. However, in recent years, this model has broken down due to pay freezes in the public sector and continuing restraint to restrict salary growth across many sectors.

Future Pension Increases

8.5 Pension increases are linked to changes in the level of the Consumer Price Index (or "CPI"). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. An adjustment is therefore made to the RPI assumption to derive the CPI assumption.

Future Investment Returns/Discount Rate

8.6 To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

8.7 The discount rate that is adopted will depend on the funding target adopted for each employer.

8.8 For open employers, the discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "on-going" discount rate.

8.9 For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected "termination date"), the employer either wishes to leave the Fund, or the terms of their admission require it.

8.10 The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.

8.11 The adjustment to the discount rate for closed employers is to set a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a "minimum risk" rather than on an on-going basis. The aim is to minimise the risk of deficits arising after the termination date.

Asset Valuation

8.12 For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date.

Statistical Assumptions

8.13 The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Funding Strategy Statement (continued)

9. DEFICIT RECOVERY/SURPLUS AMORTISATION PERIODS

9.1 Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions.

Accordingly, the Fund will normally either be in surplus or in deficit.

9.2 Where the actuarial valuation discloses a significant surplus or deficit then the levels of required employers' contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.

9.3 The period that is adopted for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer and any limited period of participation in the Fund; and
- The implications in terms of stability of future levels of employers' contribution.

10. POOLING OF INDIVIDUAL EMPLOYERS

10.1 The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution

rates are set for individual employers to reflect their own particular circumstances.

10.2 However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small. This is the reason for pooling academies within the Fund.

10.3 The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst, recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

11. CESSATION VALUATIONS

11.1 On the cessation of an employer's participation in the Scheme, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.

11.2 In assessing the deficit on termination, the Fund Actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous valuation in order to protect the other employers in the Fund from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

12. Links with the Investment Strategy Statement (ISS)

12.1 The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the underlying investment strategy as set out in the ISS.

12.2 As explained above, the on-going discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the underlying investment strategy. This ensures consistency between the funding strategy and investment strategy.

13. RISKS AND COUNTERMEASURES

13.1 Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

13.2 The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

Funding Strategy Statement (continued)

14. FINANCIAL RISKS

14.1 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

14.2 The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5% per annum in the real discount rate will decrease/increase the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll.

14.3 However, the Pensions Sub-committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

14.4 The Pensions Sub-committee may also seek advice from the Fund Actuary on valuation related matters.

14.5 In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

15. DEMOGRAPHIC RISKS

15.1 Allowance is made in the funding strategy via the actuarial assumptions for a continuing

improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will reduce the funding level by between 0.5 to 1%.

15.2 The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

15.3 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.

15.4 However, the Administering Authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

16. REGULATORY RISKS

16.1 The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by central government.

16.2 The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

16.3 However, the Administering Authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

17. GOVERNANCE

17.1 Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

17.2 However, the Administering Authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

17.3 In addition, the Administering Authority keeps in close touch with all individual employers participating in the Fund to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

Funding Strategy Statement (continued)


18. MONITORING AND REVIEW

- 18.1 This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.
- 18.2 The Administering Authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.



**London Borough of Hammersmith & Fulham Pension Fund
Tri-Borough Treasury & Pensions
5th Floor
5 The Strand
London
WC2N 5HR**

Agenda Item 5

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>20 September 2017</p>	
INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 APRIL – 30 JUNE 2017	
Report of the Director of Audit, Fraud, Risk and Insurance	
Open Report	
For review and comment Key Decision: No	
Wards Affected: None	
Accountable Director: David Hughes, Director of 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 2017 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. PROPOSAL AND ISSUES

- 4.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 April to 30 June 2017, and is for the Committee to note.

Internal Audit Coverage

- 4.1.1. 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.
- 4.1.2. A total of 32 audit reports were finalised in the first quarter of 2017/2018 from 1 April to 30 June 2017, including 5 Substantial Assurance and 23 Satisfactory Assurance reports.
- 4.1.3. 4 Limited Assurance reports were issued in this period.
- 4.1.4. The audit of the Community Equipment Framework Procurement received Limited Assurance, with 1 high priority and 1 medium priority recommendation being raised. These recommendations were not due for implementation at the time of writing.
- 4.1.5. The audit of Elgin Close Resource Centre Contract Management received Limited Assurance with 3 high priority and 3 medium priority recommendations being raised. 3 recommendations have been reported as implemented, 1 is currently outstanding and 2 are not yet due for implementation.
- 4.1.6. The audit of Payroll received Limited Assurance with 9 high priority and 1 medium priority recommendations and being raised. None of the recommendations were due for implementation at the time of writing.
- 4.1.7. The audit of Pensions Administration received Limited Assurance with 2 high priority recommendations being raised. Neither of the recommendations were due for implementation at the time of writing.
- 4.1.8. A summary of the limited assurance reports is set out in Appendix D.
- 4.1.9. 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.

Outstanding audit recommendations

- 4.1.10. The Internal Audit service works with key departmental contacts to monitor the implementation of agreed recommendations.
- 4.1.11. There are now 7 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. These are shown at Appendix E. This compares to 9 outstanding as reported at the end of the previous quarter. We will continue to work with departments to reduce the number of outstanding issues.

4.1.12. The breakdown of the 7 outstanding recommendations between departments is as follows:

- Adult Social Care – 1
- Regeneration, Planning & Housing Services – 5
- Public Health – 1

4.1.13. None 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.

4.1.14. Management have decided not to fully implement one of the recommendations made in the 2016/17 Planning Control audit due to the resources required to implement the control. The recommendation raised stated that:

- All fees should be checked for accuracy by a second senior officer;
- Fees received on Uniform (planning system) should be reconciled against income received in Agresso on a regular basis; and,
- The Council should assess the benefits of undertaking a reconciliation between services provided and income received.

4.1.15. Planning Control management have stated that the first two recommendations will not be progressed due to cost, for the third point the software contractor will be contacted with a request for change. The increased risk of fees for planning applications and discretionary services being input incorrectly and income received not being received in full and accurately recorded have been accepted by management.

Implemented Recommendations

4.1.16. 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	Internal Audit Service
2014/15	204	202	
2015/16	277	277	
2016/17	129	124	

4.1.17. Part of the Senior Audit Manager'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 2017/18 financial year.

Performance Indicators 2017/18

Ref	Performance Indicator	Target	At 30 June 2017	Variance	Comments
1	% of deliverables completed	24%	11%	-13%	8 deliverables issued out of a total plan of 75. Behind target as audit plan allocated to Mazars is profiled to deliver more work towards the end of the financial year.
2	% of planned audit days delivered	24%	17%	-7%	162 days delivered out of a total plan of 974 days.
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	100%	+5%	5 out of 5 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%	100%	+5%	One draft report issued within 10 working days of exit meeting.
5	% of Final reports issued within 5 working days of the management responses	95%	N/A	N/A	No final reports issued.

Audit Planning

4.1.18. Amendments to the 2017/18 year Internal Audit plan are shown at Appendix C.

5. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None.

LIST OF APPENDICES:

- Appendix A - Audit reports issued 1 April to 30 June 2017
- Appendix B - Summary of Outstanding Audit Reports
- Appendix C - Amendments to 2017/18 audit plan
- Appendix D - Summary of Limited Assurance Reports
- Appendix E - Outstanding Recommendations

APPENDIX A

Audit reports Issued 1 April to 30 June 2017

We have finalised a total of 25 audit reports for the period of 1 April to 30 June 2017 to be reported to this Committee. We categorise our opinions according to our assessment of the controls in place and the level of compliance with these controls.

No.	Audit Plan	Audit Title	Director / Sponsor	Audit Assurance
1	2016/17	Asset Management – Utilisation of Space	Maureen McDonald – Khan	Satisfactory
2	2016/17	Procurement Governance	Michael Hainge	Satisfactory
3	2016/17	Departmental Risk Management - ICT	Veronica Barella	Satisfactory
4	2016/17	Accounts Receivable	Hitesh Jolapara	Satisfactory
5	2016/17	MiHomecare procurement	Mike Boyle	Substantial
6	2016/17	Befriending and Community Engagement procurement	Mike Boyle	Satisfactory
7	2016/17	Community Equipment Procurement	Mike Boyle	Limited
8	2016/17	Elgin Close Resource Centre Contract Management	Mike Boyle	Limited
9	2016/17	Customer Journey	Rachel Wigley	Satisfactory
10	2016/17	Health & Wellbeing Strategy	Mike Boyle	Substantial
11	2016/17	Bridge Maintenance	Mahmood Siddiqi	Satisfactory
12	2016/17	Economic Development	Jo Rowlands	Satisfactory
13	2016/17	Transport policy/highways infrastructure (Highways Infrastructure Accounting)	Hitesh Jolapara	Satisfactory
14	2016/17	Procurement Compliance – Drug Dealing YOS Film Project	Mark Jones	Substantial
15	2016/17	Procurement Compliance – Work Setting Sensors and Live Occupancy Display	Maureen McDonald-Khan	Satisfactory
16	2016/17	Planning Control (excluding Enforcement)	Jo Rowlands	Satisfactory
17	2016/17	Planning Enforcement	Jo Rowlands	Satisfactory
18	2016/17	CCTV	David Page	Satisfactory
19	2016/17	SPUR Parking Application	Mahmood Siddiqi	Satisfactory
20	2016/17	PH Contract Monitoring - GPs and Pharmacists	Mike Robinson	Satisfactory
21	2016/17	ASC Commissioning Planning	Mike Boyle	Substantial
22	2016/17	Budgetary Control	Hitesh Jolapara	Satisfactory
23	2016/17	Treasury Management	Hitesh Jolapara	Substantial
24	2016/17	General Ledger	Hitesh Jolapara	Satisfactory
25	2016/17	Your Voice Survey	Mark Grimley	Satisfactory
26	2016/17	Parking Pay and Display*	Mahmood Siddiqi	Satisfactory
27	2016/17	Passenger Transport - Contract Monitoring*	Rachael Wright-Turner	Satisfactory
28	2016/17	Accounts Payable*	Hitesh Jolapara	Satisfactory
29	2016/17	Payroll – Managed Services*	Mark Grimley	Limited
30	2016/17	Pensions Administration*	Mark Grimley	Limited
31	2016/17	Community Safety Wardens	Mahmood Siddiqi	Satisfactory
32	2017/18	Risk Management – Libraries	Mike Clarke	Satisfactory

* Undertaken by the RBKC in-house audit team.

Substantial There is a sound system of control designed to achieve the objectives. Compliance with

Assurance	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.	Title
33	Head of Internal Audit 2016/17 Year End Summary Report
34	Schools 2016/17 Year End Summary Report
35	Procurement and Contract Management 2016/17 Year End Summary Report

Internal Audit reports in issue more than two weeks

There are currently no reports in issue more than two weeks at time of reporting.

Amendments to 2017/18 Audit Plan

	Department	Audit Name	Nature of Amendment	Reason for amendment
1	Corporate Services	Finance Transformation - Programme Governance	Addition	Allowance of days in the plan converted into specific audits.
2	Corporate Services	Finance Transformation - Business and Project Alignment	Addition	Allowance of days in the plan converted into specific audits.
3	Corporate Services	Finance Transformation - Organisational and Process Change Management	Addition	Allowance of days in the plan converted into specific audits.
4	Corporate Services	Finance Transformation - Post Implementation	Addition	Allowance of days in the plan converted into specific audits.
5	Corporate Services	MSP Pensions Compliance	Addition	Added at request of management
6	Environment Services	Parks Bookings	Addition	Added at request of management
7	Adult Social Care	Financial management and budgetary control	Removed	Removed from plan due to duplication with previous audits.
	Adult Social Care	Customer care/complaints management	Removed	Deferred to 2018/19
	Adult Social Care	Occupational therapy, including OT equipment	Removed	Covered by Reablement audit.
	Adult Social Care	Care assessments (including financial management)	Removed	Deferred to 2018/19
	Adult Social Care	Self-neglect and hoarding	Removed	Deferred to 2018/19
	Adult Social Care	Mental Health day services	Removed	Deferred to 2018/19
	Public Health	Public Health Commissioning (Part 2)	Removed	Deferred to 2018/19

Summary of Limited and Nil Assurance Reports

Ref	Audit and Scope	Details	Assurance/Risk
1	<p>Community Equipment Framework procurement</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"> • Strategic Assessment and Business Justification (Strategic Outline Case) • Project Governance • Contract Strategy • Delivery/Procurement Strategy (Outline Business Case & Options Appraisal and Authorisation to Proceed to Procurement) • Procurement (Selection of Contractor/Service Provider/Suppliers) • Procurement (Assessing Value for Money) and Award of Contract (Full Business Case) • Formation of Contract, Compliance with Contracting Authority's Legal Requirements, Retention and Security of Contracts 	<p>A framework for delivery and installation of community equipment for vulnerable adults was in place until 31 March 2017 with Medequip Assistive Technology Ltd. that originally started in April 2010 for which the Royal Borough of Kensington and Chelsea (RBKC) is the primary contracting authority. A new framework commenced on 1 April 2017, and this audit relates to the procurement of this new framework.</p> <p>Equipment is ordered by professionals in Adult Social Care (ASC) and Health on behalf of clients and supports enabling people to live in their own homes for longer. This framework is currently accessed by 18 London Boroughs. The London Borough of Hammersmith and Fulham has been in the process of procuring a new framework. A Cabinet report was prepared seeking authorisation to proceed to procurement and this was given in July 2016.</p> <p>An OJEU Contract Notice was published on 26 August 2016. However, at the time of publishing the Contract Notice, the tender documents were not fully uploaded onto CapitalEsourcing resulting in less than 30 days for providers to submit their bids after they could access all the tender documents. A PIN had been published for this procurement, meaning that the minimum response period for bidders could theoretically be lawfully reduced to 15 days. However, it was decided, on balance, that due to the size and complexity of the tender the bidders should be given at least 30 days. The initial Contract Notice was withdrawn and a new Invitation to Tender published after making further adjustments to the tender documents. The new Contract Notice was submitted on 26 September 2016, and a tender response deadline set for 27 October 2016.</p> <p>One high and one medium priority recommendation were raised as follows:</p> <ol style="list-style-type: none"> 1) Sufficient time should be allowed to plan and resource the procurement process to help ensure that: <ol style="list-style-type: none"> a. Tender documents are prepared to the required quality standard in good time for publication b. Approved tender documentation is uploaded onto CapitalEsourcing (but not published) prior to the OJEU notice being sent for publication. c. The time period when bidders may not be aware of the tender or have access to tender documents (between the submission of the contract notice and publication of the notice and tender documents) is taken into account when deciding the tender timescales. d. The option of allowing more than the minimum time for the receipt of tenders (based on Public Contract Regulations) is available if this would improve the quality of submissions received. 2) When planning the procurement process, the need for training (including refresher training) and support from Corporate Procurement should be considered, discussed with Corporate Procurement, and planned into the procurement process. 	<p>Limited</p>
<p>Management Comment</p>			
<p>The procurement of the new Community Equipment Service was successfully completed and the new arrangements came into effect on the 5 April. This was a pan-London procurement with LBHF holding the framework contract and 19 other boroughs calling off from that framework. 3 staff are permanently employed in the team and additional resources are drawn off as and when required. The team is funded equally by those authorities calling off the contract. As a result of the lessons learned from this procurement, we have now put in place arrangements for all staff involved in major procurements to have refresher training on CapitalEsourcing before the procurement commences.</p>			

Ref	Audit and Scope	Details	Assurance/Risk
2	<p>Elgin Close Resource Centre Contract Management</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"> • Contract Formalities • Schedule of Works • Contract Variations and Service Improvements • Contract Monitoring and Performance Management • Payments • Budget Monitoring • Value for Money • Contractor Compliance and Workforce Development 	<p>Elgin Close Resource Centre is a London Borough of Hammersmith and Fulham led contract and this has been provided by Notting Hill Housing Trust since 2005. The centre has a range of facilities available including kitchen facilities, IT equipment, assisted bathroom, hairdressing facilities, laundry facilities and treatment/healthcare room. Services to be provided by staff at the resource centre include: Personal care support; Financial advice, assistance and advocacy; Practical and social support; Catering; and Respite care.</p> <p>Services are provided to those with high care needs, vulnerable older people and older people requiring preventative support.</p> <p>Three high and three medium priority recommendation were raised as follows:</p> <ol style="list-style-type: none"> 1) Adult Social Care should ensure that the arrangements with Notting Hill Housing Trust for the Elgin Close Resource Centre are legally binding through a signed contract. For future contracts, a timetable should be put in place to provide sufficient time to instigate any reviews, procurement process or waivers before the contract expires. 2) Adult Social Care should seek legal advice in relation to the contract extension for the Elgin Close Resource Centre to confirm they have not breached the Public Contract Regulations. 3) As part of the contract management process, a periodic review of the contract should be undertaken to confirm that the way in which the contract is delivered continues to meet the Council's needs and provide value for money. 4) The quality of service provided by the Notting Hill Housing Trust with regards to the Elgin Close Resource Centre should be formally monitored, with rectification action taken where issues are found. Metrics for reviewing the quality of work undertaken by the contractor should be reviewed as part of this monitoring process as stated within the contract. 5) The finance team should ensure that payments to the contractor are made in accordance with the contract terms. 6) Adult Social Care should periodically obtain assurance that the staff of Notting Hill Housing Trust for Elgin Close Resource Centre have the required qualifications and skills to work with vulnerable clients. 	<p>Limited</p>
<p>Management Comment</p>			
<p>The Elgin Close Resource Centre is one of a number of formerly grant funded organisations for whom no formal contracts or quality measures were in place. A programme to rectify this is in place and, following a meeting on the 6 September it is anticipated a formal contract, with associated KPIs and monitoring arrangements, will be signed by the end of the month.</p>			

Ref	Audit and Scope	Details	Assurance/Risk
3	<p>Payroll</p> <p>The objective of the payroll audit was to provide a level of assurance to the Councils and Members that key payroll controls were operating effectively for the three Councils.</p> <p>The audit did not examine the payroll system controls operating within BT's operational site at South Tyneside since all transaction testing was based on data held on Agresso. It was specifically restricted to the following areas where sample testing was carried out:</p> <ul style="list-style-type: none"> • Starters • Leavers • Variations to Pay • Standing Data, and • Performance and Management Reporting 	<p>As part of the Managed Services agreement, BT are contracted to deliver a payroll service to all three Councils through the Agresso Business World application which went live in April 2015. The payroll service is delivered through the BT Shared Service Centre supported by the Intelligent Client Function (ICF) and the retained HR teams within each Council.</p> <p>Retained HR teams are available to provide managers with support on certain HR and payroll related matters across each Council although the bulk of these issues should be directed in the first instance to BT Shared Service through the Service Now portal by users with any payroll related queries.</p> <p>As at the time of this audit review, there were ongoing issues over the delivery of the payroll service by BT. Whilst it is acknowledged that the service has not been operating as it should since go live in April 2015, the ICF and retained HR have been working closely with BT to correct and resolve these issues.</p> <p>Four high and one Medium priority recommendations were raised including:</p> <ol style="list-style-type: none"> 1) The ICF should ensure that the payroll related performance monitoring and reporting arrangements are resolved with BT such that the arrangements are transparent and robust. 2) The ICF should ensure that BT maintain a full audit trail for all starter and leaver transactions on Agresso. The ICF should liaise with Retained HR to ensure appropriate communications are sent to all business managers reminding them of the importance of completing the new starter and leaver forms disclosing all relevant details and submitting this to BT through the Service Now portal on a timely basis. 3) The Intelligent Client Function should ensure that BT maintain a full audit trail of supporting documentation and authorisation for all variation and changes to pay for employees on Agresso. 4) The Intelligent Client Function should ensure that the errors, anomalies and discrepancies identified by Audit with payroll standing data and starts and leavers are referred to BT for resolution and corrective action where appropriate. 	<p>Limited</p>
<p>Management Comment</p>			
<p>The areas identified within the audit relating to payroll have been recognised as part of the contract management with BT through the joint Intelligent Client Function (ICF). Specific plans have been put in place that address both the stability and accuracy of the service - including the controls, and the recovery of historical errors.</p> <p>The areas highlighted within the Audit report have improved through greater scrutiny and testing through ICF with monthly oversight by the Director of HR & OD. Greater and more regular sampling of areas of control and compliance are now also undertaken by the ICF with fortnightly reporting to the Director of HR & OD.</p> <p>Our intention is to ensure we improve on the limited assurance and focus on addressing other weaknesses with controls within the system as we prepare to look at alternative providers in the future.</p> <p>The management actions identified within the Audit report are all accepted and being addressed the HR Improvement Programme within LBHF.</p>			

Ref	Audit and Scope	Details	Assurance/Risk
4	<p>Pensions Administration</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"> • Policies, Procedures and Plans • Starters, Leavers and Amendments • Transfers • Payment of Pensions • Access Controls and Data Transfer 	<p>Surrey County Council (SCC) was awarded the contract under an s101 Agreement to manage the Pension Administration arrangements for Kensington & Chelsea and Hammersmith & Fulham Councils in April 2015 for a period of four years. SCC already had an s101 Agreement to provide Pension Administration arrangements for Westminster City Council (WCC) since September 2014.</p> <p>Following the implementation of a new financial management system in April 2015 (Agresso), there have been some delays and inaccuracies with the transfer of LGPS information between the new Managed Services Provider (BT) and the Pensions Administration Service (SCC).</p> <p>Two high priority recommendations were raised as follows:</p> <ol style="list-style-type: none"> 1) HR Management should ensure that SCC can provide the number of transfer (in and out) requests received and should include performance monitoring on the processing of these as part of the monthly monitoring of the SCC service. Transfer requests should be processed in a timely and accurate manner and where there are delays, clear information should be provided to the individual concerned and copies retained on the SCC system. HR Management should ensure that SCC have appropriate systems & records in place to demonstrate that they informed scheme members of the status of any changes requested. 2) It was recommended that: <ol style="list-style-type: none"> a. Full documentation is retained by the Councils' HR teams to support the actions taken to correct the incorrect pension records; b. Any changes which will impact on the 2016/17 year-end pensions data are verified with BT with due dates agreed; c. The accuracy of the year-end pensions file for 2016/17 is reviewed in good time prior to the deadline for submission to enable corrections to be processed without delay; d. If the monthly file of starters and leavers file cannot be provided by BT to SCC when agreed, the Councils should identify what actions are required to address this; e. Any changes to process, responsibilities or methodology as a result of the correction of the 2015/16 year-end data and the lessons learned must be documented in a timely manner and agreed by the Councils and their service providers (BT and SCC). 	<p>Limited</p>
<p>Management Comment</p>			
<p>Since the report was originally written significant progress has been made in implementing the audit recommendations, as follows:</p> <p><u>Recommendation 1 – Policies, Procedures and Legislation procedure notes:</u> The Pensions SOPs and swim lanes have been produced following numerous discussions between Tri-Borough and BT and are now awaiting sign-off by all parties through the formal change control process, which is due in September 2017. The Pensions Administration Strategy has now been approved by the RBKC Pensions Board and the RBKC Investment Committee.</p> <p><u>Recommendation 2 – Transfers In and Out:</u> Surrey now includes transfers in/out in its quarterly performance monitoring stats. We accept that further work is required to bring transfers in/out to an acceptable level of performance and have agreed a revised target date of 31 March 2018 with Surrey to achieve this.</p> <p><u>Recommendation 3 – Starters, Transfers and Leavers:</u> All of these actions are now completed.</p>			

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	Recommendation	Priority (1/2/3)	Agreed Target Date	Sponsor (Name/Title)	Status
Adult Social Care: ASC Contract Management - Elgin Close Resource Centre (2016/17 review) - Limited Assurance					
1	Adult Social Care should ensure that the arrangements with Notting Hill Housing Trust for the Elgin Close Resource Centre are legally binding through a signed contract. For future contracts, a timetable should be put in place to provide sufficient time to instigate any reviews, procurement process or waivers before the contract expires. Extensions should be formally agreed prior to contracts expiring.	1	30/06/2017	Mike Boyle: Director for Strategic Commissioning and Enterprise	In process of getting contracts signed. Contracts will be in place by the end of August 2017. A service review and commissioning timetable has been developed and is being delivered against to ensure that should any modifications to contracts required that this will be requested well in advance to the cessation to the current arrangements. Current services have agreement for a one (1) year contract which is a direct award.
Housing & Regeneration: Housing Health and Safety of Service Users (2014/15 review) – Satisfactory Assurance					
2	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	30/04/2017	Jane Martin: Interim Director of Property Services	There is a corporate policy which Housing currently adhere to. Housing will develop a local policy by October 2017 and will take into account the requirements for auditing H&S of contractors. A list of all contractors working has been collated and due diligence is taking place on the H&S safety requirements in conjunction with what is held corporately and what needs to be held locally.
3	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	30/04/2017	Jane Martin: Interim Director of Property Services	All compliance and H&S policies and procedures are under review with an end date of October 2017. When a policy is signed off it is uploaded to the intranet. Throughout October, awareness sessions and communication will take place with all housing staff to make them aware of the new policies and procedures and where to find them
Ref	Recommendation	Priority (1/2/3)	Agreed Target Date	Sponsor (Name/Title)	Status

Ref	Recommendation	Priority (1/2/3)	Agreed Target Date	Sponsor (Name/Title)	Status
Housing & Regeneration: Emergency Planning (out of hours) (2016/17 review) – Satisfactory Assurance					
4	The Housing & Property Services Emergency Response Plan should be tested on a periodic basis to provide assurance on its effectiveness when activated and identify areas for improvement.	2	30/05/2017	Jane Martin: Interim Director of Property Services	The new ERO policy states that scenario testing should take place at least annually. Property Services are ensuring that their scenario testing will be in place as part of the new training regime and reflects the way corporate services carry out their scenario testing. Scenario testing and its results, along with lessons learned, will be fed back to corporate emergency services and any new actions needed to improve the service will be implemented and monitored at the monthly ERO meeting. This will start in October 2017 when the new Emergency Response Officers are in place and trained.
Housing & Regeneration: Mitie Contract Quality Assurance (2016/17 review) - Limited Assurance					
5	The results of post-inspections should be periodically reviewed to identify common trends. Where common themes are identified, the root cause should be identified and an action plan agreed with Mitie to help prevent reoccurrence. Where this data can be gathered in a quantitative manner rather than general observations from reports, this will provide a reliable evidence base for subsequent actions, and a means of assessing positive or negative trends in performance. This analysis should be periodically reported to senior management.	2	30/06/2017	Jane Martin: Interim Director of Property Services	Part of the new performance management regime is gathering useful data which will be reported through the new core group structure. Information about voids, post inspections, and other repairs data is fed through the repairs Core which is attended by both LBHF and MITIE. Trend data is currently being worked up as part of the new information and will be fed through to repairs Core and any operational groups from September onwards.
6	The Council should periodically compare jobs which have failed post-inspections to the Recalls Post-Inspections tracker to ensure that all failed inspections are being logged appropriately by Mitie.	2	30/04/2017	Jane Martin: Interim Director of Property Services	There is a repairs tracker in place which is tracked by the Quality Surveyors. Where a job fails, it is logged with MITIE and then followed up with them to further post inspect. A checking process is being developed and will be ready in September to check that MITIE are appropriately recording the jobs on their system compared to the records against failed post inspections.
Public Health: GP and Pharmacy Services Contract Management (2016/17 review) – Satisfactory Assurance					
7	Feedback should be obtained from users of the Health Check service. Where possible, this feedback would be obtained directly from services users. Feedback forms could be provided to residents after attending NHS Health Checks to be returned to the Public Health department.	2	30/06/2017	Gaynor Driscoll: Head of Commissioning	Feedback/Survey design completed – delays in issuing to service users incurred planned for release September.

London Borough of Hammersmith & Fulham

Final Internal Audit Report

St. Thomas of Canterbury Primary School

February 2017

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1 Introduction


This audit was undertaken as part of the 2016/17 audit plan. The London Borough of Hammersmith & 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. The purpose of the audit is to help Schools establish and maintain robust financial systems.

The executive summary provides the overall view of the system which is supported by RAG (Red/Amber/Green) ratings for the activities covered by the audit. The remainder of the report is by exception only to highlight areas for improvement.

2 Executive Summary

2.1 Assurance Opinion

	Nil	Limited	Satisfactory	Substantial
Audit Opinion				

2.2 Recommendations Summary

The following table highlights the number and categories of recommendations made. The Action Plan at Appendix 1 details the specific recommendations made as well as agreed management actions to implement them.

Area of Scope	Adequacy	Effectiveness	Recommendations Raised		
			High	Medium	Low
Governance and Leadership			0	1	1
Financial Management			0	2	1
Procurement			0	2	0
Staff Expenses & Petty Cash			0	1	0
Income			0	0	0
Payroll			0	1	0
Head Teachers Pay			0	1	0
Assets and Inventory			0	1	0
Leasing			0	0	1
Unofficial Funds			0	1	0
Total			0	10	3

Please refer to the Appendix 2 for a definition of the audit opinions and recommendation priorities.

3 Summary of Findings

At the time of the audit, a number of control weaknesses were identified. In Internal Audit's opinion, Limited assurance can be given to the Governing Body on the current controls. The School's Administration team has had a restructure, with a new School Business Manager in place since September 2016.

Design of and compliance with controls to address the key risks identified

- The Governing Body and Finance Committee meet at least once a term in accordance with their terms of reference.
- A periodic skills audit has been carried out by Governors at the School to assess the level of training each Governor requires.
- All Governors and staff with financial responsibilities are required to sign the School register of pecuniary interests and we confirmed that this had been completed by all Governors.
- The School Development Plan 2015/16 was in place, however it did not include financial resource requirements. The 2016/17 School Development Plan is yet to be put in place.
- The School has access to the Council's Financial Procedures and have adopted their own Finance Policy. The Finance Policy was approved in February 2016 by the Resources Committee but not the Governing Body.
- The 2016/17 budget plan is in place and was approved by the Governing Body in June 2016.
- Budget monitoring is conducted by the Finance Committee. This was evident in the meeting minutes for the last 12 months.
- Budget monitoring reports were reviewed by the School Business Manager (SBM) and Head Teacher on monthly basis, however, evidence of this review is not documented or retained.
- Monthly bank reconciliations were completed by the SBM and reviewed by the Head Teacher.
- The SFVS was submitted to the Council on 27th June 2016, after the deadline of 31st March 2016.
- Petty cash reconciliations were undertaken on a periodic basis; however, these were not signed by the conducting or reviewing officer.
- From a sample of five petty cash claims tested, the forms had been completed and authorised with evidence of receipts/invoices retained on file. However, in all five cases, the claimant did not sign the form to confirm receipt of the money and validity of the claim.
- One expense identified was for a four night stay in a hotel. It was established that this was for a member of staff with a long commute to the School, who was required to work extended hours on site. The expense was approved by the Headteacher, however, given the nature of the expense this should also be reported and agreed by the Governing Body.
- From a sample of 10 purchases tested, the following exceptions were identified:
 - In four applicable instances, a purchase order was not raised;

- In one instance, a purchase in excess of £10,000 was not approved by the Governing Body or Finance Committee, and evidence that value for money had been sought was not retained;
- In four instances, the payment was not made within 30 days; and
- In one instance, the invoice was not authorised by the Headteacher.
- There was separation of duties with regards to the procurement of goods and services.
- For a sample of three contracts, we were unable to confirm that the market was tested and value for money was sought. Although contracts are discussed at Resources Committee meetings there was no evidence suggesting the contracts were discussed and approved.
- It was identified that income at the School was banked on a regular basis.
- Reconciliations are undertaken between income records and cash and cheques due to be banked, however evidence is not retained.
- For all main sources of income at the School, we found that there was an adequate audit trail to be able to trace income received through to banking.
- Payroll reports are not reviewed and signed off by the Head Teacher.
- From a sample of five new starters selected for testing, the following exceptions were identified:
 - In all five cases a letter of appointment was not available on file;
 - In two cases evidence of qualifications was not on file; and
 - In three cases only one reference was obtained.
- From a sample of five overtime claims tested, in all instances the form was authorised.
- During the audit, we confirmed the School's Individual School Range. Pay spinal points for the Head Teacher, Acting Head Teacher and Deputy Head Teacher were established, however, we were unable to confirm that these had been approved by the Governing Body.
- The Head Teacher receives additional payments in excess of their spine point, but we were unable to confirm that justification for this had been documented, and that this had been approved by the Governing Body.
- The School have data back-up arrangements with LGfL Gridstore.
- A full inventory check has not been evidenced as completed within the last 12 months.
- From a sample of five assets selected from the School, in all instances the asset could be traced to the asset register.
- From a sample of five assets selected from the asset register, in all instances the asset could be located to verify its physical location.
- The School has entered into a photocopier lease, however advice from the Council's Director of Finance was not sought.
- The School operates an Unofficial Fund Account. We were unable to confirm that bank reconciliations were undertaken and we were also unable to confirm that an independent audit has taken place this year.

4 Acknowledgement

We would like to thank the following members of staff for their time and assistance during the audit:

- Head Teacher
- School Business Manager

Appendix 1: Management Action Plan

1. Governance – Review and Approval of Policies and Documents

Priority	Issue	Risk	Recommendation
Low	<p>Examination of Governing Body meeting minutes identified that four documents had not been minuted as approved within the last 12 months:</p> <ul style="list-style-type: none"> • Finance Policy; • Expenses Policy; and • Charging Policy. 	<p>Where approval has not been documented in meeting minutes, there is a risk that the School may be operating under plans or procedures that are no longer in line with the wishes of the Governing Body.</p> <p>Furthermore, there is a risk that the Governing Body lack oversight of the plans, policies and procedures under which the School operates.</p>	<p>The following policies and documents should be subject to review and approval by the Governing Body on an annual basis:</p> <ul style="list-style-type: none"> • Finance Policy; • Expenses Policy; and • Charging Policy. <p>Approval should be documented within meeting minutes.</p>
Management Response			
Agreed.			
Responsible Officer			Deadline
Governing Body/ Head Teacher			July 2017

2. Governance – School Development Plan

Priority	Issue	Risk	Recommendation
Medium	Examination of the School Development Plan for 2015-16 confirmed that it includes targets and success criteria, but did not include budget and resource requirements. The 2016-17 School Development Plan is also yet to be developed and put in place.	Where the School Development Plan does not include budget and resource requirements, there is a risk that financial resources may be insufficient to achieve the desired outcomes, particularly where additional costs may exceed available funds.	The 2016-17 School Development Plan should be developed and approved by the Governing Body. This should include financial costs associated with delivering the agreed outcomes.
Management Response			
This was discussed at the Resources Committee on 15 November 2016. The new SDP is given to subject leaders who will add costings ready for the next budget planning March 2017.			
Responsible Officer			Deadline
Head Teacher / School Business Manager			March 2017

3. Financial Management – Monitoring Reports

Priority	Issue	Risk	Recommendation
Medium	Through examination of the latest budget monitoring reports and payroll reports, we were unable to confirm that these are reviewed on a monthly basis.	Where the School cannot demonstrate that reports are reviewed, there is a risk that functions are not adequately monitored, and that variances or discrepancies are not identified or addressed in a timely manner.	Budget monitoring reports and payroll reports should be reviewed on a monthly basis. Evidence of the review process should be retained.
Management Response			
These are now signed off monthly.			
Responsible Officer			Deadline
Head Teacher / School Business Manager			Implemented

4. Financial Management – Review of Reconciliations

Priority	Issue	Risk	Recommendation
Medium	Examination of the latest unofficial fund, income, and petty cash reconciliations identified that these had not been signed by the undertaking officer, or a second officer as evidence of review.	Where reconciliations, are not signed by the undertaking officer and a second officer as evidence of review, there is a risk that variances or discrepancies are not identified or addressed in a timely manner.	The unofficial fund, income, and petty cash reconciliations should be signed by the undertaking officer, and the reviewer on a monthly basis.
Management Response			
These are now signed off monthly.			
Responsible Officer			Deadline
Head Teacher / School Business Manager			Implemented

5. Financial Management – SFVS Return

Priority	Issue	Risk	Recommendation
Low	<p>It was identified that the 2015/16 Schools Financial Value Standard (SFVS) had been submitted to the Council on 27 June 2016, and not by the 31 March 2016 deadline.</p> <p>Additionally, from examination of Governing Body meeting minutes, it could not be confirmed that the SFVS had been reviewed by the Governing Body, although the SFVS had been signed by the Chair of the Resources Committee.</p>	<p>Where the Schools Financial Value Standard is not signed and submitted in a timely manner, there is an increased risk that the Local Authority does not have adequate oversight of the School's financial environment.</p>	<p>The SFVS should be approved by the Governing Body and submitted to the Local Authority in a timely manner.</p> <p>The review of the SFVS should be documented in Governing Body meeting minutes.</p>
Management Response			
<p>Reminders and time will be set aside to ensure this is sent off in the timeframe for March 2017. This will also be given to the Clerk of Governors to record in the full GB minutes as well as the Resources minutes.</p>			
Responsible Officer			Deadline
Governing Body / Head Teacher			April 2017

6. Procurement – Ordering Goods and Services

Priority	Issue	Risk	Recommendation
Medium	<p>From a sample of 10 purchases tested, the following exceptions were identified:</p> <ul style="list-style-type: none"> • In four applicable instances, a purchase order was not raised for goods/services; • In two instances, a purchase order was raised but in one case was not authorised; • In one instance, the invoice was authorised by the SBM and not the Head Teacher; • In one instance, a purchase in excess of £10,000 was not approved by the Governing Body or Finance Committee. Furthermore, there was no evidence that value for money had been sought; and • In four instances, payment was not made within 30 days. 	<p>Where purchase orders are not raised and authorised prior to placing the order with the supplier, there is an increased risk that inappropriate expenditure may be incurred, either directly through that purchase or indirectly through further purchases for which there is insufficient budgetary provision.</p> <p>Where the Governing Body or Finance Committee does not approve high value purchases, and where quotes are not obtained, there is a risk that inappropriate expenditure may be incurred and/or value for money may not be achieved.</p> <p>Where payments are not made within 30 days, there is a risk that the School damages relationships with its suppliers. Furthermore, late payment charges may be applied.</p>	<p>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.</p> <p>Purchases in excess of £10,000 should be approved by the Governing Body or Finance Committee, with quotes obtained in accordance with the School's Financial Regulations.</p> <p>Payment of undisputed invoices should be made within 30 days.</p>

Management Response

Costs identified in advance will now have an order raised against them and will follow the correct authorisation procedure. Consistency of authorisation will now be followed.

It was raised at the Resources meeting on 15 November 2016 that authorisation hadn't been signed off for an invoice over £10,000. This invoice was for Eden Catering and the committee advised that they authorise this as part of the SLA at the beginning of the year, so no need to sign off every invoice that comes through. It was agreed in the meeting on 15 November 2016 that Governors will sign off the supplier transaction listings at every meeting so they can see what expenditure has been raised against each supplier.

In September 2015, there were several suppliers chasing invoices, but these were sent to the previous Senior Admin Officer and were never passed on, so invoices had to be chased. In future any invoices dated outside of the 30 days will have a written reason on them.

Responsible Officer	Deadline
Head Teacher / School Business Manager	April 2017

7. Procurement – Contracts

Priority	Issue	Risk	Recommendation
Medium	For two contracts tested, we were unable to confirm that value for money had been sought and that quotes had been obtained in line with the School's Financial Regulations.	Where quotes are not obtained in line with the School's Financial Regulations, there is a risk that value for money is not obtained.	Quotes should be obtained before entering into contracts, or high value purchases in line with the School's Financial Regulations. Where it is not possible to obtain the required number of quotes, a waiver to the regulations should be sought from the Governing Body, and evidence of this retained.
Management Response			
Agreed.			
Responsible Officer			Deadline
Governing Body / Head Teacher / School Business Manager			May 2017

8. Petty Cash - Expenses

Priority	Issue	Risk	Recommendation
Medium	<p>For all five petty cash claims tested, the claimant had not signed the claim form to confirm receipt of payment.</p> <p>One expense identified was for a four night stay in a hotel. It was established that this was for a member of staff with a long commute who was required to work extended hours on site. The expense was approved by the Headteacher, however, given the nature of the expense this should also be reported and agreed by the Governing Body.</p>	<p>Where expense claim forms are not completed and signed by the claimant, there is an increased risk that inappropriate payments are approved and paid.</p> <p>Where expenditure in exceptional circumstances is not reported to the Governing Body, there is a risk that inappropriate expenses may be claimed.</p>	<p>Expense claim forms should be signed and dated by the claimant to confirm the receipt of payment.</p> <p>Where payments of significance are made in exceptional circumstances, this should be reported and agreed by the Governing Body.</p>
Management Response			
<p>These are now signed off and a report of expenditure was presented at the Resources committee meeting on 15 November 2016 and will be discussed at the next Full GB meeting in early 2017.</p>			
Responsible Officer			Deadline
Head Teacher / School Business Manager			Implemented

9. Payroll – Starters information

Priority	Issue	Risk	Recommendation
Medium	<p>From a sample of five new starters selected for testing, the following exceptions were identified:</p> <ul style="list-style-type: none"> • In three cases, only one reference was obtained; • In all five cases, a letter of appointment was not available on file; and • In two cases, evidence of qualifications was not on file. 	<p>Where two references, and evidence of qualifications are not obtained, there is a risk that the employee will not be suitable for the job.</p> <p>Where letters of appointment are not retained, there is a risk that the School cannot demonstrate transparency in the recruitment process.</p>	<p>The School should ensure that the following is obtained for new starters:</p> <ul style="list-style-type: none"> • Two satisfactory references; • Letter of appointment; and • Evidence of qualifications (where applicable).
Management Response			
Systems are now in place to ensure staff files have the satisfactory documentation that is needed. A tick sheet is now completed with the appropriate documentation enclosed.			
Responsible Officer			Deadline
Head Teacher			Implemented

10. Head Teacher's Pay – School's Individual School Range

Priority	Issue	Risk	Recommendation
Medium	<p>The Individual School Range (ISR) and spinal points for the Head Teacher, Acting Head Teacher and Deputy Head Teacher were established, however, we were unable to confirm that these had been approved by the Governing Body.</p> <p>Furthermore, the Head Teacher receives additional payments in excess of their spine point, but we were unable to confirm that justification for this had been documented and that this had been approved by the Governing Body.</p>	<p>Where the Head Teacher and Deputy Head Teacher's ISRs are not evidenced as approved by the Governing Body, there is a risk that the School is not complying with the School Teachers' Pay and Conditions.</p> <p>Where additional payments are not evidenced as approved by the Governing Body, there is an increased risk that inappropriate and excessive payments are made.</p>	<p>The School should ensure that the ISR and pay scales for the Head Teacher, Acting Head Teacher, and Deputy Head Teacher are formally approved and documented by the Governing Body.</p> <p>The School should ensure that additional payments to staff are in line with the Pay Policy, and approved by the Governing Body or delegated Committee with justification documented.</p>
Management Response			
This will be formally approved and put in the full GB minutes at the next appropriate meeting, rather than just email evidence.			
Responsible Officer			Deadline
Head Teacher			April 2017

11. Assets and Inventory – Annual Asset Check

Priority	Issue	Risk	Recommendation
Medium	Discussion with the ICT Systems Manager established that an asset check is not undertaken on a periodic basis.	Where asset register checks are not undertaken annually, there is a risk that theft or loss of assets will not be identified in a timely manner.	Asset register checks should be undertaken on an annual basis. This should be recorded and presented to the GB or delegated committee.
Management Response			
This was discussed at the Resources committee on 15 November 2016 and the Chair of Governors is visiting school to check and sign this off on 9 December 2016. A reminder has been set with the SBM to get this done every September.			
Responsible Officer			Deadline
Head Teacher / School Business Manager / Site Manager			Implemented

12. Leasing – Council Advice

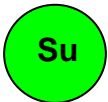


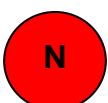
Priority	Issue	Risk	Recommendation
Low	The School has a lease in place for photocopiers, however, we were unable to confirm that advice and approval from the Director of Finance (via Children Services Finance) had been obtained prior to entering the leasing agreement	Where advice and approval from the Director of Finance (via Children Services) is not obtained prior to entering leasing agreements there is a risk that value for money is not obtained.	The School should ensure that advice and approval from the Director of Finance (via Children Services) is obtained prior to entering leasing arrangements.
Management Response			
The school didn't inform the LA when entering into the photocopier contract in August 2015, but will ensure this is addressed in future. This was also discussed at the Resources meeting on 15 November 2016.			
Responsible Officer			Deadline
Governing Body / Head Teacher			Implemented

13. Unofficial Funds – Reconciliation and Audit

Priority	Issue	Risk	Recommendation
Medium	<p>Discussion with the Senior Admin Officer established that the Unofficial Fund Account is not being reconciled on a regular basis.</p> <p>Additionally, whilst the Unofficial Fund Account has been audited on an annual basis, the results have not been presented to the Governing Body.</p>	<p>Where the Unofficial Fund Account is not reconciled regularly, there is a risk that errors and anomalies may not be identified.</p> <p>Where the Unofficial Fund Account Audit is not presented to the Governing Body, there is a risk that the Governing Body are not aware of the findings of the Audit.</p>	<p>Unofficial Fund Account reconciliations should be completed and checked by a second independent officer.</p> <p>The Unofficial Fund Account Audit should be presented to the Governing Body for review.</p>
Management Response			
<p>Discussed at the Resources meeting on 15 November, the chair of finance will recommend an independent auditor. The unofficial fund will be signed off by a second officer and this will be presented to the next full GB meeting.</p>			
Responsible Officer			Deadline
Governing Body / Head Teacher			April 2017

Appendix 2: Definition of Assurance Opinions and Recommendation Priorities

In order to help put the audit opinion and recommendation priority ratings in context the following tables detail the current ratings used by Internal Audit.

Rating	Description
 Su	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and no material errors or weaknesses were found.
 Sa	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.
 L	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.
 N	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.

Priority	Description
High	Recommendation addresses fundamental weaknesses, which seriously compromise the effective accomplishment of the system's objectives. Risks presented by the control weaknesses could be damaging in the short term. The management action required should be implemented as soon as possible, certainly within 0-3 months.
Medium	Recommendation addresses serious weakness, which affect the reliance to be placed on the system. Risks presented by control weaknesses could be damaging in the medium term. Management action is required within 0-6 months.
Low	Recommendation addresses minor weaknesses, or suggests a desirable improvement. Risks presented by control weaknesses are unlikely and inconsequential. Management action is recommended to address concerns within 0-9 months.

Appendix 3: Timetable and Distribution List

Stage	Date
End of Fieldwork	24/11/2016
Draft Report Issued	25/11/2016
Responses Received	26/01/2017
Final Report Issued	27/02/2017

Audit Team
Client Engagement Manager: James Graham
Auditor: Mithen Kotecha
Client Sponsors
Executive Director of Children's Services
Staff Consulted
Head Teacher
School Business Manager

London Borough of Hammersmith & Fulham

Final Internal Audit Report

**Adult Social Care – Contract Management
Elgin Close Resource Centre
(Notting Hill Housing Trust)**

April 2017

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1 Introduction

As part of the internal audit plan for 2016/17, agreed by the Audit Pensions and Standards Committee, we have undertaken an internal audit of the management of the Elgin Close Resource Centre contract with Notting Hill Housing Trust.

Adult Social Care is a shared service across the London Borough of Hammersmith and Fulham, Royal Borough of Kensington and Chelsea, and Westminster City Council. Although this is a shared service, the contracts for services delivered by external providers are assigned a contracting authority with some contracts specific to one Borough and some covering all three boroughs. A new Contract Management Framework has been developed for the shared service and is due for full adoption in December 2016.

Elgin Close Resource Centre is a London Borough of Hammersmith and Fulham led contract and this has been provided by Notting Hill Housing Trust since 2005. The centre has a range of facilities available including kitchen facilities, IT equipment, assisted bathroom, hairdressing facilities, laundry facilities and treatment/healthcare room. Services to be provided by staff at the resource centre include:

- Personal care support;
- Financial advice, assistance and advocacy;
- Practical and social support;
- Catering; and,
- Respite care.


Services are provided to those with high care needs, vulnerable older people and older people requiring preventative support.

The contract was awarded to Notting Hill Housing Trust in April 2005 with the duration of the contract taking the delivery of the service by the contractor to 01 April 2017. The contract included an option for extending the contract by 24 months. The current contract value is approximately £280,000 per financial year. Service improvements have been identified and agreed between the Council and Notting Hill Housing Trust to help to realise cost savings.

Notting Hill Housing Trust provide other services to the Council as well as the Elgin Close Resource Centre.

2 Executive Summary

2.1 Assurance Opinion

	Nil	Limited	Satisfactory	Substantial
Audit Opinion				

2.2 Recommendations Summary

The following table highlights the number and categories of recommendations made. The Action Plan at Appendix 1 details the specific recommendations made, as well as the agreed management actions to implement them.

Area of Scope	Adequacy	Effectiveness	Recommendations Raised		
			High	Medium	Low
Contract Formalities			2	0	1
Schedule of Works			0	*	0
Contract Variations and Service Improvements			0	1	0
Contract Monitoring and Performance Management			1	0	0
Payments			0	1	0
Budget Monitoring			0	0	0
Value for Money			**	0	0
Contractor Compliance and Workforce Development			0	1	0
Total			3	3	1

*A recommendation in relation to this area has been included within the Contract Variations and Service Improvements area.

** A recommendation in relation to this area has been included within the Contract Monitoring and Performance Management area.

Please refer to the Appendix 2 for a definition of the audit opinions and recommendation priorities.

3 Summary of Findings

In Internal Audit's opinion, **Limited Assurance** can be given to Members, the Chief Executive and other officers, weaknesses and omissions in the system of controls are such as to put the system objectives at risk, and the level of non-compliance puts the system objectives at risk.

The key findings and an assessment of controls are summarised below:

Design of and compliance with controls to address the key risks identified

- The agreement between the London Borough of Hammersmith and Fulham and Notting Hill Housing Trust relating to the Elgin Close Resource Centre was initially signed in 2003.
- The contract expired on 19th January 2006, with no formal document or contract signed between the two parties to agree an extension, even though the service is still provided by Notting Hill Housing Trust and paid for by Adult Social Care. An extension letter sent to the contractor on 14th March 2016 was provided, outlining the conditions of a contract extension from 1st April 2015 to 31st March 2017, but this had not been signed by either party.
- The contract modification outlined in the extension letter was for more than 50% of the contract's original value and may result in a breach of the Public Contract Regulations 2015.
- Adult Social Care were unable to provide a copy of the signed contract, instead retaining an electronic copy of a draft version which was not finalised. A signed copy of the contract was obtained from the legal team.
- The contract outlines the requirements of the Notting Hill Housing Trust to provide "non-residential supportive care and other services within a secure, safe and stimulating environment to older people who may have a range of needs".
- The contract has only been reviewed once since it commenced, when the extension letter was sent in March 2016. However, there was no documentation showing how Adult Social Care had reviewed the contract or its terms prior to the extension, which we could not confirm had been agreed. Therefore, it could not be confirmed that the following areas are regularly reviewed within the contract:
 - The schedule of services provided;
 - Workforce development; and
 - Value for money.
- The contract does not outline provision for ad-hoc requests as the service provided by Notting Hill Housing Trust is all contained within the schedule of work.
- Metrics for reviewing the quality of work undertaken by the contractor are outlined within the contract such as attendance records, number of complaints, number of referrals and variance in attendance.
- Discussion with the Strategic Commissioner established that there is currently no process in place to monitor the performance of the contractor. Therefore, it cannot be confirmed whether poor performance is present or acted upon by the service.
- The Elgin Close Resource Centre contract states that payments should be made in monthly instalments. During testing of payments made in 2016, we found two cases where payments were made for a two month period (April to May, and October to November) and one case where payment was made for a three month period (June to August). Payments were authorised by the budget holder prior to payment.
- Budget monitoring is reported to the Adult Leadership Team on a monthly basis with any variances or exceptions being noted and discussed.

-
- Currently, no assurance is obtained that employees used by Notting Hill Housing Trust hold the necessary qualifications to work with the clients required by the contract. In addition, the quality of the work conducted by staff who deliver the service is not monitored by the Council to ensure that the service they provide is adequate and sufficient to meet the needs of clients and the expectations of the Council.

4 Acknowledgements

We would like to thank the following members of staff for their time and assistance during the audit:

- Strategic Commissioner
- Procurement and Contracts Manager (Adult Services)
- Adult Social Care Payments Manager

Appendix 1: Management Action Plan

1. Signed contract/extension

Priority	Issue	Risk	Recommendation
High	<p>The agreement between the London Borough of Hammersmith and Fulham and Notting Hill Housing Trust relating to the Elgin Close Resource Centre was initially signed in 2003.</p> <p>The contract expired on 19 January 2006 with no formal document or contract signed between the two parties to agree an extension, even though the service is still provided by Notting Hill Housing Trust and paid for by Adult Social Care.</p> <p>An extension letter sent to the contractor on 14 March 2016 was provided, outlining the conditions of a contract extension from 1 April 2015 to 31 March 2017, but this had not been signed by either party.</p>	<p>Where a legally binding contract is not in place and signed by both parties, there is a risk that the terms and conditions of the contract cannot be enforced. Additionally, the contractor could halt its service abruptly and face no legal or financial repercussions.</p>	<p>Adult Social Care should ensure that the arrangements with Notting Hill Housing Trust for the Elgin Close Resource Centre are legally binding through a signed contract.</p> <p>For future contracts, a timetable should be put in place to provide sufficient time to instigate any reviews, procurement process or waivers before the contract expires.</p> <p>Extensions should be formally agreed prior to contracts expiring.</p>
Management Response			
<p>Comments noted regarding copy of signed contract and timetable for contract extension. Legal services have been unable to locate the signed version of the contract in their archives. Activities relating to the contract extension in 2016 were impacted by The Contract and Commissioning reorganisation during 2015 and 2016. New contracts have been agreed for 2017/18 prior to contracts expiring.</p>			
Responsible Officer			Deadline
Strategic Commissioner			Ongoing, June 2017

2. Contract extension legality

Priority	Issue	Risk	Recommendation
High	<p>The Public Contract Regulations (PCR) 2015 state that contracts may only be modified 'where all the following conditions are fulfilled: (i) the need for modification has been brought by circumstances which a diligent contracting authority could not have foreseen... (ii) the modification does not alter the overall nature of the contract... and (iii) any increase in price does not exceed 50% of the value of the original contract...'</p> <p>On 14 March 2016, a Council representative sent an extension letter via email to the Service Provider, indicating that the contract had been extended by an additional two years with the following contract sums: (a) £282,168 for the period 1 April 2015 to 31 March 2016; and (b) £239,842.80 for the period 1 April 2016 to 31 March 2017. This modification therefore totals £522,010.80, which is more than 50% of the initial contract value (£517,091.42).</p>	<p>Where the Public Contract Regulations 2015 are not abided by, there is a risk of legal action against the Council.</p> <p>Additionally, in the event of a dispute the Council may not be able to legally enforce its intended position.</p>	<p>Adult Social Care should seek legal advice in relation to the contract extension for the Elgin Close Resource Centre to confirm they have not breached the Public Contract Regulations.</p>
Management Response			
Comments noted regarding legal advice. Commissioning have worked closely with legal prior to requesting contract extensions to ensure that they meet Public Contract Regulations.			
Responsible Officer			Deadline
Strategic Commissioner			Ongoing, June 2017

3. Contract accessibility

Priority	Issue	Risk	Recommendation
Low	Adult Social Care were unable to provide a copy of the signed contract with Notting Hill Housing Trust, instead retaining an electronic copy of a draft version on SharePoint. A signed copy of the contract was obtained from the legal team.	Where an up to date copy of the contract is not held by Adult Social Care, there is a risk that staff are unaware of the terms and conditions of the contract or that understanding of the contract terms is incorrect.	Adult Social Care should keep an up to date electronic copy of the Elgin Close Resource Centre contract and this should be made accessible to staff involved in the management of the contract.
Management Response			
Comments noted regarding the retention of contracts within the department and plans are in place to address this.			
Responsible Officer			Deadline
Strategic Commissioner			June 2017

4. Contract review

Priority	Issue	Risk	Recommendation
Medium	<p>The contract with Notting Hill Housing Trust has only been reviewed once since it commenced in 2003, when an extension letter was sent to the contractor in March 2016.</p> <p>However, there was no documentation showing that Adult Social Care had reviewed the contract or its terms, prior to the extension. It could therefore not be confirmed that the following areas had been taken into consideration:</p> <ul style="list-style-type: none"> • The schedule of services provided; • Workforce development; and • Value for money. 	<p>Where contracts are not regularly reviewed, there is a risk that the needs of the Council(s)/service change, resulting in contracts becoming less effective over time.</p>	<p>As part of the contract management process, a periodic review of the contract should be undertaken to confirm that the way in which the contract is delivered continues to meet the Council's needs and provide value for money.</p> <p>Any proposed changes should be negotiated and agreed with the contractor through a formal variation order.</p>
Management Response			
<p>The performance and contract monitoring comments have been noted and plans are in place to start addressing this via a schedule of contracting monitoring.</p>			
Responsible Officer			Deadline
Strategic Commissioner			July 2017

5. Performance Management

Priority	Issue	Risk	Recommendation
High	Adult Social Care do not monitor the quality of work/service provided by Notting Hill Housing Trust for the Elgin Close Resource Centre.	Where Notting Hill Housing Trust's services are not formally monitored, there is a risk of poor performance resulting in service user needs not being met and value for money not being achieved.	The quality of service provided by the Notting Hill Housing Trust with regards to the Elgin Close Resource Centre should be formally monitored, with rectification action taken where issues are found. Metrics for reviewing the quality of work undertaken by the contractor should be reviewed as part of this monitoring process as stated within the contract.
Management Response			
The performance and contract monitoring comments have been noted and plans are in place to start addressing this via as schedule of contracting monitoring.			
Responsible Officer			Deadline
Strategic Commissioner			June 2017

6. Payments made as per contract stipulation




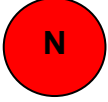
Priority	Issue	Risk	Recommendation
Medium	The Elgin Close Resource Centre contract states that payments should be made in monthly instalments. During testing of payments made in 2016, we found two cases where payments were made for a two month period (April to May, and October to November) and one case where payment was made for a three month period (June to August).	Where payments are not made in accordance with the contract, there is a risk of action being taken by the contractor to collect owed funds and penalties being levied.	The finance team should ensure that payments to the contractor are made in accordance with the contract terms. A timetable/schedule of payments should be considered to help achieve this.
Management Response			
Comments regards payments duly noted and in order to ensure value for money going forward and to minimise the need for future corrective work activity is taking place to ensure that these errors are not repeated.			
Responsible Officer			Deadline
Strategic Commissioner			June 2017

7. Contractor staff assurance

Priority	Issue	Risk	Recommendation
Medium	<p>Assurance is not gained by the Council that the employees used by Notting Hill Housing Trust hold the necessary qualifications to work with vulnerable clients at the Elgin Close Resource Centre.</p> <p>In addition, the quality of the work conducted by staff who deliver the service is not monitored by the Council to ensure that the service they provide is adequate and sufficient to meet the needs of clients and the expectations of the Council.</p>	<p>Where staff qualifications are not checked or assurance is not obtained from the contractor regarding this, there is a risk that unqualified or unsuitable employees are hired resulting in reputational risk to the Council as vulnerable clients may be put at risk.</p>	<p>Adult Social Care should periodically obtain assurance that the staff of Notting Hill Housing Trust for Elgin Close Resource Centre have the required qualifications and skills to work with vulnerable clients.</p>
Management Response			
<p>Comments noted – work is taking place to ensure that provision is monitored going forward and that assurances will be sought with regards to the suitability and quality of staff.</p>			
Responsible Officer			Deadline
Strategic Commissioner			July 2017

Appendix 2: Definition of Assurance Opinions and Recommendation Priorities

In order to help put the audit opinion and recommendation priority ratings in context the following tables detail the current ratings used by Internal Audit.

Rating	Description
	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and no material errors or weaknesses were found.
	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.
	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.
	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.

Priority	Description
High	Recommendation addresses fundamental weaknesses, which seriously compromise the effective accomplishment of the system's objectives. Risks presented by the control weaknesses could be damaging in the short term. The management action required should be implemented as soon as possible, certainly within 0-3 months.
Medium	Recommendation addresses serious weakness, which affect the reliance to be placed on the system. Risks presented by control weaknesses could be damaging in the medium term. Management action is required within 0-6 months.
Low	Recommendation addresses minor weaknesses, or suggests a desirable improvement. Risks presented by control weaknesses are unlikely and inconsequential. Management action is recommended to address concerns within 0-9 months.

Appendix 3: Audit Scope, Limitations and Inherent Risks

This audit was a full risk based review of the arrangements for ASC Contract Management – Elgin Close Resource Centre (Notting Hill Housing Trust) and included the following areas:

Ref	Audit Area - Description	Comments on Coverage / Area Objectives
1	Contract formalities	<p>There is a signed contract between the Council and Notting Hill Housing Trust for the provision of the service. Staff involved in the management of the contract have easy access to the contract and are aware of its content.</p> <p>Staff involved in the management of the contract have been made aware of the new governance arrangements and responsibilities under the new Contract Management Framework.</p>
2	Schedule of works	<p>An agreed schedule of works (service specification) and defined quality standards have been developed and these are available to both Council staff and Notting Hill Housing Trust.</p> <p>The schedule and quality standards are reviewed on a periodic basis.</p> <p>The cost and specification of additional services to be delivered by the provider outside of the schedule of works are formally agreed by both parties in advance.</p>
3	Contract variations and Service Improvements	<p>All variations to the contract are formally approved and agreed by both parties prior to the service being undertaken by the contractor.</p> <p>Service improvements are in line with the strategic commissioning priorities and there is adequate communication between both parties to agree on the improvements.</p> <p>Service improvements are approved by a Senior Officer and are reflected in the contract documentation.</p>
4	Contract Monitoring and Performance Management	<p>There are metrics in place to measure contractor performance and these are suitable to measure against the objectives of the contract. The Council confirms that the contractor is working to the agreed standards and specification defined within the contract.</p> <p>Appropriate action is taken to address poor performance, including exercising penalty clauses or incentives detailed within the contract.</p> <p>Relationships with the contractor are developed and monitored to maximise the effectiveness of the services delivered.</p>
5	Payments	<p>Payments are made accurately, completely and in a timely manner according to the contract terms and conditions. Any applicable additions, deductions and variations are accounted for.</p> <p>All payments are authorised by a Senior Officer prior to processing payment to the contractor.</p>

Ref	Audit Area - Description	Comments on Coverage / Area Objectives
6	Budget Monitoring	<p>The service is delivered within agreed financial constraints and any variances are identified promptly through regular budget monitoring.</p> <p>The impact of any variances is assessed fully and valid corrective action is identified, agreed and implemented in a timely manner.</p>
7	Value for money	<p>Monitoring mechanisms are in place to ensure that the contract provides value for money and opportunities for cost efficiencies are explored.</p>
8	Contractor Compliance and Workforce Development	<p>The Council confirms that the contractor's staff delivering the services hold the relevant qualification and vetting requirements and have received appropriate training.</p> <p>The quality of staff is monitored and is as expected with any issues with the workforce being addressed in a timely manner.</p> <p>Workforce development is considered when identifying and discussing service improvements.</p>

Inherent Risks

The risks listed below are potential inherent risks which are common for any system/organisation of this type:

- Poor contractor performance persists with no corrective or enforcement action taken;
- Payments are made for work not undertaken to a satisfactory standard, or at all;
- The contractor does not deliver value for money for the Council; and
- The resources available, including staff and infrastructure, are not adequate to deliver the activities and sessions required.

Limitations to the Scope of the Audit

The following limitations to the scope of the audit were agreed when planning the audit:

- The work will be undertaken using a risk based approach and testing will be on a sample basis to verify compliance;
- The records maintained by third parties to the Council will not be reviewed and are outside of the scope of this audit;
- The audit review does not provide absolute assurance that material error, loss or fraud does not exist; and,
- This audit work will provide assurance over the contract management processes but will not provide an opinion on the procurement process or the effectiveness of the contract itself.

The internal audit approach was developed through an assessment of risks and management controls operating within the agreed scope. The following procedures were adopted:

- Identification of the role and objectives of each area;
- Identification of risks within each area which threaten the achievement of objectives;
- Identification of controls in existence within each area to manage the risks identified;
- Assessment of the adequacy of controls in existence to manage the risks and identification of additional proposed controls where appropriate; and,
- Testing of the effectiveness of key controls in existence within each area.

Management should be aware that our internal audit work was performed in accordance with the Public Sector Internal; Audit Standards which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Our internal audit testing was performed on a judgemental sample basis and focussed on the key controls mitigating risks. Internal audit testing is designed to assess the adequacy and effectiveness of key controls in operation at the time of the audit.

Please note that, in relation to the agreed scope, whilst our internal audit will assess the efficiency and effectiveness of key controls from an operational perspective, it is not within our remit as internal auditors to assess the efficiency and effectiveness of policy decisions.

Appendix 4: Timetable and Distribution List

Stage	Date
End of Fieldwork	20/03/2017
Draft Report Issued	22/03/2017
Responses Received	05/04/2017
Final Report Issued	07/04/2017

Audit Team
Client Engagement Manager: James Graham (Mazars)
Auditor: Matthew Blackman (Mazars)
Auditee
Strategic Commissioner (Adult Social Care and Health)
Client Sponsor
Mike Boyle – Director for Strategic Commissioning and Enterprise

Report Distribution List
Strategic Commissioner (Adult Social Care and Health)
Head of Complex Needs (Older People)
Head of Commercial Innovation and Insight
Strategic Commissioner
Assessment and Review Team Manager
Copy Recipients of Report
Mike Boyle – Director for Strategic Commissioning and Enterprise

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Recommendations for improvements should be assessed by management for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. 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 as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

This report is prepared solely for the use of Audit Committees and senior management of the London Borough of Hammersmith and Fulham, Royal Borough of Kensington and Chelsea and Westminster City Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

London Borough of Hammersmith & Fulham

Final Internal Audit Report

**Procurement Compliance – Community
Equipment Framework**

June 2017

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1 Introduction

As part of the 2016/17 Internal Audit Plan, we have undertaken an internal audit of procurement compliance related to the procurement of a framework agreement for Community Equipment.

A framework for delivery and installation of community equipment for vulnerable adults was in place until 31 March 2017 with Medequip Assistive Technology Ltd. that originally started in April 2010 for which the Royal Borough of Kensington and Chelsea (RBKC) is the primary contracting authority. A new framework commenced on 1 April 2017, and this audit relates to the procurement of this new framework.

The equipment is ordered by professionals in Adult Social Care (ASC) and Health on behalf of clients and supports enabling people to live in their own homes for longer. This framework is currently accessed by 18 London Boroughs. The London Borough of Hammersmith and Fulham has been in the process of procuring a new framework. A Cabinet report was prepared seeking authorisation to proceed to procurement and this was given in July 2016.


An OJEU Contract Notice was published on 26 August 2016. However, at the time of publishing the Contract Notice, the tender documents were not fully uploaded onto CapitalEsourcing resulting in less than 30 days for providers to submit their bids after they could access all the tender documents. A PIN had been published for this procurement, meaning that the minimum response period for bidders could theoretically be lawfully reduced to 15 days. However, it was decided, on balance, that due to the size and complexity of the tender the bidders should be given at least 30 days. The initial Contract Notice was withdrawn and a new Invitation to Tender published after making further adjustments to the tender documents. The new Contract Notice was submitted on 26 September 2016, and a tender response deadline set for 27 October 2016.

The timeline is as follows:

Task	Completion date
Commissioning review for Community Equipment Service	November 2015
Obtain in-principle approval from consortium members for project – including for funding Recruitment of project team members (March 2016 – catalogue development officer / project support; May 2016 – procurement officer) Create business case (including detailed options appraisal) and procurement strategy Start preparing tender documentation Approval for procurement strategy, service extension and delegated authority to award	04/07/2016
First Contract Notice dispatched to OJEU (later withdrawn)	24/08/2016
Letter sent via capitalEsourcing notifying that tender is being withdrawn	13/09/2016
Second Contract Notice dispatched to OJEU	26/09/2016
Deadline for tenders to be submitted	27/10/2016
Tenders evaluated Recommendation to award report written Councillor approval received Standstill letter sent	09/12/2016
Contract award date	21/12/2016
Go-live date of new contract	01/04/2017

2 Executive Summary

2.1 Assurance Opinion

	Nil	Limited	Satisfactory	Substantial
Audit Opinion				

2.2 Recommendations Summary

The following table highlights the number and categories of recommendations made. The Action Plan at Appendix 1 details the specific recommendations made as well as agreed management actions to implement them.

Area of Scope	Adequacy	Effectiveness	Recommendations Raised		
			High	Medium	Low
Strategic Assessment and Business Justification (Strategic Outline Case)			0	0	0
Project Governance			1	0	0
Contract Strategy			0	0	0
Delivery/Procurement Strategy (Outline Business Case & Options Appraisal and Authorisation to Proceed to Procurement)			0	0	0
Procurement (Selection of Contractor/Service Provider/Suppliers)			0	0	0
Procurement (Assessing Value for Money) and Award of Contract (Full Business Case)			0	1	0
Formation of Contract, Compliance with Contracting Authority's Legal Requirements, Retention and Security of Contracts			0	0	0
Total			1	1	0

Please refer to the Appendix 2 for a definition of the audit opinions and recommendation priorities.

3 Summary of Findings

In Internal Audit's opinion, Limited assurance can be given to Members, the Chief Executive and other officers that the controls relied upon were suitably designed, consistently applied and effective in their application.

Design of and compliance with controls to address the key risks identified

- A framework was previously in place with Medequip Ltd. A Cabinet report was submitted in July 2016 requesting an extension to these services up until September 2017, and the approval of a procurement strategy for the procurement of a new framework. The Appendix to this report discusses contract packaging.
- A Project Highlight Report was produced documenting the project governance structure.
- A Project Brief was produced in June 2015. This included a project timetable. Following the withdrawal of the initial tender, and the start of the new tender process in September 2016, a revised project timetable was produced.
- Minutes were available for the project Steering Group from February 2016 to January 2017.
- Contract Standing Order 10.4 states 'All procurements must be managed using the e-tendering portal'. We were informed that the officer responsible for publishing the documentation on capitalEsourcing for this procurement had not received formal training on how to use the system. In addition, the project manager had received training but this was some time before having to use the system.
- A Prior Information Notice (PIN) was placed on Tenders Electronic Daily on 24 June 2016 based on an estimated framework value of £145m. The Cabinet Approval for the procurement was provided on 4 July 2016.
- The procurement was run as an open procedure.
- An advertisement was placed on 26 August 2016. This was withdrawn as the tender documents were not fully uploaded when the advert was published. The tender was re-started providing new tender response timescales in order to reduce the risk of a challenge to the Council and to improve the chances of a quality tender submissions. A further advertisement was placed on 26 September 2016 and published on 30 September after making further adjustments to the tender documents.
- We were advised that the tender process was undertaken to tight timescales as resources were not available to start the process as early as desired. This may have contributed to the initial notice having to be withdrawn.

4 Acknowledgement

We would like to thank the following members of staff for their time and assistance during the audit:

- Project Manager/Consortium Lead Officer
- Senior Procurement Officer
- Catalogue Development Officer

Appendix 1: Management Action Plan

1. Forward Planning of the Procurement Process

Priority	Issue	Risk	Recommendation
High	<p>An initial OJEU Contract Notice was published on 26 August 2016. However, at the time of publishing the Contract Notice, the tender documents were not fully uploaded onto CapitalEsourcing resulting in less than 30 days for providers to submit their bids after they could access all the tender documents. The initial Contract Notice was withdrawn and a new Invitation to Tender published after making further adjustments to the tender documents.</p> <p>The revised contract notice was submitted to the Publications Office on 26 September 2016 and published on 30 September, with a closing date of 27 October 2016.</p> <p>We were advised that the tender process was undertaken to tight timescales as resources were not available to start the process as early as desired.</p>	<p>Where sufficient time is not allowed for the procurement process, there is an increased risk of non-compliance with The Public Contract Regulations 2015. There is a further risk that financial penalties and/or damages may be levied against the Council.</p>	<p>Sufficient time should be allowed to plan and resource the procurement process to help ensure that:</p> <ul style="list-style-type: none"> - Tender documents are prepared to the required quality standard in good time for publication - Approved tender documentation is uploaded onto CapitalEsourcing (but not published) prior to the OJEU notice being sent for publication. - The time period when bidders may not be aware of the tender or have access to tender documents (between the submission of the contract notice and publication of the notice and tender documents) is taken into account when deciding the tender timescales. - The option of allowing more than the minimum time for the receipt of tenders (based on Public Contract Regulations) is available if this would improve the quality of submissions received.

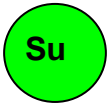


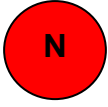
Management Response	
<p>There is now a comprehensive forward plan in place and this will be regularly reviewed by the Contracts and Commissioning Board. It incorporates contract end dates and the appropriate time requirements for developing and approving future procurement strategies and the implementation of new contracts.</p> <p>This process is supported by the use of CapitalESourcing for managing all contract documentation as this allows for a flagging system for contract end dates. The forward plan of procurement will be reported regularly to Cabinet Members</p>	
Responsible Officer	Deadline
Director of Strategic Commissioning and Enterprise – Adult Social Care and Health	July 2017

2. CapitalE-sourcing training and support

Priority	Issue	Risk	Recommendation
Medium	<p>Contract Standing Order 10.4 states 'All procurements must be managed using the e-tendering portal'.</p> <p>We were informed that the officer responsible for publishing the documentation on capitalE-sourcing for this procurement had not received formal training on how to use the system. In addition, the project manager had received training but this was some time before having to use the system.</p>	Where sufficient training and support is not provided, there is an increased risk of a non-compliant tender process being undertaken.	When planning the procurement process, the need for training (including refresher training) and support from Corporate Procurement should be considered, discussed with Corporate Procurement, and planned into the procurement process.
Management Response			
<p>There is an ongoing Corporate Project Group working to embed the use of CapitalE-sourcing. ASC has been represented on this working group and has nominated several "super users" as well as adding training to the team core skills.</p> <p>There is recruitment underway to bolster procurement expertise in the team and there will be more regular monitoring of individual training to ensure there is a reservoir of skills and knowledge of CapitalE-sourcing across the team.</p>			
Responsible Officer			Deadline
Head of Commercial Innovation and Insight			September 2017

Appendix 2: Definition of Assurance Opinions and Recommendation Priorities

In order to help put the audit opinion and recommendation priority ratings in context the following tables detail the current ratings used by Internal Audit.

Rating	Description
	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and no material errors or weaknesses were found.
	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.
	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.
	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.

Priority	Description
High	Recommendation addresses fundamental weaknesses, which seriously compromise the effective accomplishment of the system's objectives. Risks presented by the control weaknesses could be damaging in the short term. The management action required should be implemented as soon as possible, certainly within 0-3 months.
Medium	Recommendation addresses serious weakness, which affect the reliance to be placed on the system. Risks presented by control weaknesses could be damaging in the medium term. Management action is required within 0-6 months.
Low	Recommendation addresses minor weaknesses, or suggests a desirable improvement. Risks presented by control weaknesses are unlikely and inconsequential. Management action is recommended to address concerns within 0-9 months.

Appendix 3: Audit Scope & Limitations

This audit was a full risk based review of procurement compliance for the Community Equipment contract and included the following areas:

Ref	Audit Area - Description	Comments on Coverage / Area Objectives
1	Strategic Assessment and Business Justification (Strategic Outline Case)	A valid business case aligned to the organisation's strategic needs exists for the expenditure of resources.
2	Project Governance	<p>Projects are managed within tolerances to maintain the cost/benefit ratio envisaged, and additional resources are only committed to pursuing benefits that are still deemed worth it:</p> <p>Project outputs/outcomes/benefits meet the organisation's needs;</p> <p>Projects are planned in sufficient detail and are controlled within tolerance sufficiently to deliver to time/cost/quality and where such delivery is threatened, that adequate and commensurate action is taken to avert such threats;</p>
3	Contract Strategy	An optimum balance is achieved between contestability and delivering the service the contracting authority needs.
4	Delivery/Procurement Strategy (Outline Business Case & Options Appraisal and Authorisation to Proceed to Procurement)	The most efficient and effective procurement option is selected to realise the greatest value to the contracting authority, and EU Public Procurement Directives as enacted into the UK are complied with.
5	Procurement (Selection of Contractor/Service Provider/Suppliers)	The procurement process complies with EU and organisational regulations, policies and procedures, and best value for money is obtained.
6	Procurement (Assessing Value for Money) and Award of Contract (Full Business Case)	The business case (cost/benefit) is not invalidated by actual costs (tendered/negotiated costs) prior to "award of contract" and that the contingent liability created remains within the capital resourcing ability of the organisation.
7	Formation of Contract, Compliance with Contracting Authority's Legal Requirements, Retention and Security of Contracts	The contracting authority has recourse to legal redress and is able to seek enforceability of performance/other remedies including damages at the discretion of the courts.

Key risks

The risks listed below are potential inherent risks which are common for any system of this type:

- Failure to focus on delivery of the Council's and Service's objectives, resulting in expected benefits not being realised;
- The most efficient and effective procurement option may not be selected from the various options, thereby reducing total value realisable to the Council;
- Non-compliance with the Contract Standing Orders and EU Procurement thresholds;
- Fraud or irregularity are perpetrated, resulting in increased contract costs and loss of best value, as well as reputational damage to the Council;
- Members do not scrutinise potential contract awards, resulting in non-compliant tenders not being identified; and
- Contracts do not meet the Council's needs, and provide legal comfort that, should things go wrong, it can see specific performance damages or other suitable remedies at the discretion of the court.

Limitations to the Scope of the Audit

The internal audit approach was developed through an assessment of risks and management controls operating within the agreed scope.

The following procedures were adopted:

- Identification of the role and objectives of each area;
- Identification of risks within each area which threaten the achievement of objectives;
- Identification of controls in existence within each area to manage the risks identified;
- Assessment of the adequacy of controls in existence to manage the risks and identification of additional proposed controls where appropriate; and
- Testing of the effectiveness of key controls in existence within each area.

Management should be aware that our internal audit work was performed in accordance with the Public Sector Internal; Audit Standards which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Our internal audit testing was performed on a judgemental sample basis and focussed on the key controls mitigating risks. Internal audit testing is designed to assess the adequacy and effectiveness of key controls in operation at the time of the audit.

Please note that, in relation to the agreed scope, whilst our internal audit will assess the efficiency and effectiveness of key controls from an operational perspective, it is not within our remit as internal auditors to assess the efficiency and effectiveness of policy decisions.

Appendix 4: Timetable and Distribution List

It is the responsibility of the auditee to identify all officers that should receive a copy of this report.

Stage	Date
End of Fieldwork	22/03/2017
Draft Report Issued	06/04/2017
Responses Received	26/06/2017
Final Report Issued	29/06/2017

Audit Team
Client Engagement Manager: James Graham
Auditor: Lisanna Neumann
Auditee
Project Manager/Consortium Lead Officer
Senior Procurement Officer
Catalogue Development Officer
Client Sponsor
Mike Boyle – Director of Strategic Commissioning and Enterprise – Adult Social Care and Health

Report Distribution List
Project Manager/Consortium Lead Officer
Senior Procurement Officer
Copy Recipients of Report
Mike Boyle – Director of Strategic Commissioning and Enterprise – Adult Social Care and Health

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Recommendations for improvements should be assessed by management for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. 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 as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

This report is prepared solely for the use of Audit Committees and senior management of the London Borough of Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea and Westminster City Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

London Borough of Hammersmith & Fulham

Final Report

**Shared Services
Agresso Payroll Review**

May 2017

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1. Introduction

As part of the internal audit plan for 2016/17, agreed by the Committee of all three Councils (Westminster City Council, Hammersmith and Fulham and Royal Borough of Kensington and Chelsea), Audit undertook a review of the payroll service under the Managed Service contract with BT.

The objective of the payroll audit was to provide a level of assurance to the Councils and Members that key payroll controls were operating effectively for the three Councils.

The audit did not examine the payroll system controls operating within BT's operational site at South Tyneside since all transaction testing was based on data held on Agresso. It was specifically restricted to the following areas where sample testing was carried out; Starters, Leavers, Variations to Pay, Standing Data and Performance and Management Reporting.

As part of the Managed Services agreement, BT are contracted to deliver a payroll service to all three Councils through the Agresso Business World application which went live in April 2015. The payroll service is delivered through the BT Shared Service Centre supported by the Intelligent Client Function (ICF) and the retained HR teams within each Council.

Retained HR teams are available to provide managers with support on certain HR and payroll related matters across each Council although the bulk of these issues should be directed in the first instance to BT Shared Service through the Service Now portal by users with any payroll related queries.

The Agresso application is an Enterprise Resource Planning (ERP) system which delivers a standard transactional solution for HR (including Payroll), Finance and Procurement functions across the three Councils with hierarchy based workflow and self-service underpinning the key functionality of the system for end users. As a managed service provider BT has responsibility for managing, maintaining and delivering related support services such as the help desk through the BT Shared Service arrangements.

The largest area of expenditure for any public sector body is on its employees and it is therefore critical that the payroll system functions properly and robust controls exist to minimise the risk of errors and omissions occurring with employee pay.

The total number of employees and approximate payroll expenditure across the three Councils (excluding schools) for 2016/17 is summarised below:

Council	Employees	Employee Cost
WCC	3,353	£92.1m
H&F	3,231	£83.5m
RBKC	3,370	£93.5m
Total	9,954	£269.1m

As at the time of this audit review, there were ongoing issues over the delivery of the payroll service by BT. Whilst it is acknowledged that the service has not been operating as it should since go live in April 2015, the ICF and retained HR have been working closely with BT to correct and resolve these issues.

This audit only covers council employees and excludes the school and employees of other third parties that the Council pays through the Agresso application.

As part of this review, Audit were provided with high level read only access to the Agresso HR module which enabled access to key payroll/HR information, data and documentation for employees across all three Councils.

From various payroll data reports provided for all three Councils, a suite of tests and analytical processes using audit specialist software was performed on the data to highlight potential indicators of control weaknesses and erroneous transactions. The results from the data analytic reports were used to focus audit testing to detect any errors and omissions in payroll transactions.

In order to undertake this audit, read only access was requested to the Agresso payroll module through the ICF and BT which enabled Audit to access key payroll data documents and records held on Agresso. Significant delays were encountered in granting read only access which impacted the level of audit testing that could be carried out.


Furthermore, Audit experienced difficulties in engaging with BT in providing payroll based reports for the audit and seeking clarification on potential errors and anomalies identified from transaction testing where the full audit trail for payroll transactions was not always held within Agresso. This also had an impact on the level of testing that could be undertaken as part of this audit review.

2. Executive Summary

2.1 Assurance Opinion

The table below provides an overview of the adequacy and the effectiveness of the controls for the Agresso Payroll Service across the three Councils using a RAG rating to highlight the degree of control weakness. It also indicates the number and priority rating of any recommendation raised as a result of the review.

The assurance opinion is based on the areas and transactions tested as part of this review; Starters, Leavers, Variations to Pay, Standing Data and Performance and Management Reporting. It does not provide an assurance opinion of the end to end payroll service.

	Nil	Limited	Satisfactory	Substantial
Audit Opinion				

2.2 Recommendations Summary

The following table highlights the number and categories of recommendations made. The Action Plan at Appendix 1 details the specific recommendations made as well as agreed management actions to implement them.

Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
			High	Medium	Low
Policies and Procedures					
Reporting and Monitoring				1	
Starters to payroll			3		
Leavers to payroll			3		
Variations to Pay			2		
Standing Data			1		
Management Reports					
		Total	9	1	

Please refer to the Appendix 2 for a definition of the audit opinions and recommendation priorities.

3. Summary of Findings

In Internal Audit's opinion, **Limited Assurance** can be given to Members, the Chief Executive and other senior officers that the Agresso Payroll controls relied upon at the time of the audit were suitably designed, consistently applied and effective in their application. This opinion relates only to the areas examined as part of this audit review (as detailed in the introduction) and does not refer to the complete end to end payroll service.

The key findings and an assessment of controls are summarised below:

Application of and compliance with control framework to address risks identified

Areas where compliance was satisfactory

- Updated procedure and guidance notes are available for users under the Service Now / Knowledge Base / Learning Guide portal. These now provide comprehensive desktop guidance on how to undertake key payroll and HR tasks covering establishment & recruitment; new starters & induction; pay expenses & timesheets; leavers; and working patterns.
- Various self-service reports and functionality has been built into the Agresso application which enable line managers to view payroll and HR information and data for employees under their management.
- The workflow set up enables appropriate authorisation and escalation of payroll related requests in accordance with service organisation hierarchy and approval profiles across all three Councils.

Areas where compliance could be improved

- The absence of supporting documentation and records on Agresso for payroll transactions meant that the audit trail was either incomplete or missing. This limits the audit checks that can be undertaken on payroll records and their accuracy and means that the integrity of payroll transactions cannot be confirmed.
- The retention of supporting documentation and maintaining an audit trail for payroll transactions on Agresso by BT was an area of concern. The ability to validate transactions is compromised where off system records are maintained by BT such as email communications with line managers requesting and authorising payments such as overtime, ad hoc allowances and maternity pay.
- The lack of co-operation and assistance from BT with the payroll review was an area of concern. Although a number of requests were made for standard payroll reports (amendments to pay, standing data listings, sickness reports) these were not provided. This restricted the level of transaction testing that could be carried out as part of this review.
- Details of anomalies and queries identified through transaction testing were passed onto BT for further clarification although no response has been received addressing the queries raised.
- Reliance cannot be placed over the integrity and accuracy of payroll performance reports produced by BT due to the impact of known errors which occurred at the commencement of the service.
- Reliance cannot be placed on the starters and leavers process and the accuracy of data held on the payroll for new starters and leavers due to the incomplete audit trail noted on Agresso as part of transaction testing undertaken.
- Reliance cannot be placed on leavers being removed from the payroll on a timely basis and that there are no overpayments or that employees may still be on the payroll even though they have left. This is due to the incomplete audit trail noted on Agresso as part of transaction testing.
- Reliance cannot be placed on variations to pay being processed correctly, on a timely basis and supported by the appropriate level of approval.

- The accuracy and completeness of standing data on the payroll cannot be relied upon. Errors and omissions were noted over standing data on Agresso as part of transaction testing undertaken.

4. Acknowledgement

We would like to thank the following members of staff for their time and assistance during the review:

- Bi Borough Managed Services and 3rd Party Providers
- Programme Assurance Manager for MSP
- Retained HR Officers and Managers – Various across WCC, H&F and RBKC
- BT Payroll Services – Various

Appendix 1: Management Action Plan

1. Reporting and Monitoring – Service Performance

Priority	Issue	Risk	Recommendation
Medium	<p>As at February 2017, BT had delivered the following from the agreed BT Recovery Plan:</p> <ul style="list-style-type: none"> • Payroll Recovery Plan: 29 out of 42 items (69%) • HR Recovery Plan: 36 out of 54 items (67%) <p>Each item was part of the overall BT Recovery Plan (323 items) agreed with the three Councils that would enable BT to achieve a steady state of operation for the Agresso application.</p> <p>As at February 2017, the BT Shared Service Centre operational performance figures showed the following open (unresolved) incidents from a total of 2,596 open incidents covering all service areas (Finance, HR, Payroll, Pensions and Support):</p> <ul style="list-style-type: none"> • 512 Payroll incidents • 752 HR incidents <p>The most recent Payroll Performance data available from the monthly report to members was for December 2016 and showed the following payroll accuracy against a performance target of 99.8%:</p> <ul style="list-style-type: none"> • WCC 99.3% • H&F 98.9% • RBKC 99.2% <p>Payroll accuracy has been a major concern across the three Councils and whilst there has been some improvement, concerns remain over the robustness and accuracy of the</p>	<p>There is a risk that where the performance of the payroll service falls below the agreed performance levels, this can have a detrimental impact on the confidence in the ability of BT to deliver a payroll service to the requisite standard as per the contract specification.</p> <p>There is also the risk that where the robustness, integrity and transparency of performance data produced by BT cannot be verified, this has a detrimental impact on the reliability and confidence over the data being an accurate and true reflection of actual performance.</p>	<p>1.1 The ICF should ensure that the payroll related performance monitoring and reporting arrangements are resolved with BT such that the arrangements are transparent and robust.</p>

figures reported by BT since they do not take into account known issues or errors such as pensions, sickness, unpaid leave and under/over payments. Whilst the reporting of current payroll performance data over the last six months has been stable, there are issues over the impact that historical errors may have on the performance statistics and work is currently ongoing with BT and the ICF to address this.

The reporting of payroll under and overpayments is an area of concern. Despite a number of requests to the Intelligent Client Function, Audit were not provided with the most the recent report showing this information. Audit were informed by the ICF that due ongoing discussions with BT on the accuracy of the report, an agreed report could not be released for information purposes until both parties had signed off the final version of this report.

As at March 2017, payroll overpayments being actively recovered as sundry debtors by BT since April 2015 are shown below. A significant number of overpayments are still being reviewed to determine the most appropriate recovery method and have yet to be officially reported on until these have been signed off by the Councils and BT:

	No invoices	Outstanding balance	Original balance
WCC	94	£83.3k	£200.7k
H&F	81	£55.1k	£142.7k
RBKC	57	£113.4k	£159.3k
Total	232	£251.8k	£502.7k

Audit are unable to provide assurance on the accuracy and integrity of data reported by BT due to the lack of clarity and transparency over how the various payroll performance data is compiled and calculated.

Management Response

This is currently being resolved with BT which has yet to complete an under and over payments report that meets the requirements of the councils. As part of the resolution of over and underpayments we will agree with BT how historic errors should be accounted for in the payroll accuracy figures. This will give us the foundation for robust future reporting of performance against this key performance indicator which BT are contractually obliged to meet (99.8% payroll accuracy month on month).

Responsible Officer

Intelligent Client Function

Deadline

July 2017

2. New Starters – Transaction Testing

Priority	Issue	Risk	Recommendation															
High	<p>A number of online forms (SN75, SN76, SN110) are available under the Service Now portal which managers have to complete and submit to BT to initiate a new starter on the payroll as part of the self-service set up on Agresso.</p> <p>A report showing all new starters for each Council was extracted from Agresso Smartclient for the period April to October 2016. Total new starters for this period and the sample of new starters examined for compliance testing is shown below:</p> <table border="1"> <thead> <tr> <th>Council</th> <th>New Starters</th> <th>Sample tested</th> </tr> </thead> <tbody> <tr> <td>WCC</td> <td>376</td> <td>20</td> </tr> <tr> <td>H&F</td> <td>212</td> <td>20</td> </tr> <tr> <td>RBKC</td> <td>342</td> <td>20</td> </tr> <tr> <td>Total</td> <td>930</td> <td>60</td> </tr> </tbody> </table> <p>Testing Methodology: The following key areas were tested for each new starter by examining the records, data and documents held under the Agresso Personnel module:</p> <ul style="list-style-type: none"> -New starter form present, authorised and properly completed. -New starter role approved and accurately recorded on Agresso. -New starter form submitted, processed and checked by second officer in timely manner. -New starter details accurately input onto Agresso (personal/bank details, tax code, salary, deductions, benefits). -All supporting documentation retained under the Document Archive folder (right to work, P45, references). -First salary payment made on time and is correct. 	Council	New Starters	Sample tested	WCC	376	20	H&F	212	20	RBKC	342	20	Total	930	60	<p>There is a risk that where the full audit trail for new starters is not maintained in Agresso, the accuracy and completeness of payroll transactions for new starters cannot be independently verified and checked as being correct and as a result errors and omissions may go undetected and uncorrected.</p> <p>There is a risk that where relevant information relating to a new starter is not provided or disclosed to BT by managers, delays can occur in setting up the new starter and errors and omissions can occur in the new starters pay.</p>	<p>2.1 The ICF should ensure that BT maintain a full audit trail for all new starter transactions on Agresso.</p> <p>2.2 The ICF should liaise with Retained HR to ensure appropriate communications are sent to all business managers reminding them of the importance of completing the new starter form disclosing all relevant details for the new starter and submitting this to BT through the Service Now portal on a timely basis.</p> <p>2.3 The anomalies and queries identified by Audit should be referred to BT for resolution and corrective action where appropriate.</p>
Council	New Starters	Sample tested																
WCC	376	20																
H&F	212	20																
RBKC	342	20																
Total	930	60																

Key Findings: the following was noted from transactional testing of new starters:

	WCC	H&F	RBKC
New Starter Form (NSF) retained on Agresso	2/20	12/20	4/20
NSF fully completed	1/2	9/12	1/4
NSF authorised by manager	2/2	1/12	1/4
NSF dated by manager	2/2	11/12	4/4
NSF dated by BT	0/2	0/12	2/4
First salary paid on time and correct	20/20	20/20	19/20
Bank details accurately input	a)	a)	a)
Tax code correct	a)	a)	a)
Pension opt out processed correctly where present	2/2	1/1	6/6
Occupation Health Forms retained	3/20	13/20	17/20
Occupational Health tab on Agresso completed with details by BT	17/20	17/20	20/20
P45/46 retained b)	3/20	16/20	4/20
References retained on Agresso	2/20	12/20	17/20
Signed employment contract retained	1/20	9/20	15/20
Verification of ID retained	1/20	14/20	17/20

a) Audit did not have sufficient Agresso access privileges to undertake this check

b) There is no requirement to file a P45/46 but it is good practice to retain this information.

As a result of the anomalies and queries identified from transactional testing and the absence of a full audit trail, Audit are unable to provide assurances on the robustness and integrity of the new starter process across the three councils.

Management Response

The ICF is working with BT SSC on the improvement of all payroll processes through the recovery plan and will continue to do so as part of completing that plan. We will also reinforce with retained HR the importance of ensuring that line managers and employees take responsibility for those parts of the process for which they are responsible. As part of the follow up to the audit the Programme Assurance Manager will review with the BT Service Assurance Manager the specific gaps in the records identified by Internal Audit with objective of agreeing lessons to be learned to prevent the future recurrence of such gaps. We will focus particularly on understanding why there is what appears to be a significantly worse position for Westminster on a number of the areas tested and what action is needed to address this.

Responsible Officer	Deadline
Intelligent Client Function Retained HR for WCC, RBKC and H&F	July 2017

3. Leavers – Transaction Testing

Priority	Issue	Risk	Recommendation															
High	<p>A leaver is initiated by the line manager completing the leaver details on the employee's personnel record on Agresso. Some information is also provided by the retained HR team before BT can process the leaver. All information is work flowed to BT for action. A leaver can also be processed by completing a SN10 Leavers Form by the manager through the Service Now portal where the line manager/employee does not have access to Agresso. This should be the exception rather than the rule.</p> <p>A report showing all leavers for each Council was extracted from Agresso Smartclient for the period April to October 2016. Total leavers for this period and the sample of leavers examined for compliance testing is shown below:</p> <table border="1"> <thead> <tr> <th>Council</th> <th>Leavers</th> <th>Sample tested</th> </tr> </thead> <tbody> <tr> <td>WCC</td> <td>284</td> <td>20</td> </tr> <tr> <td>H&F</td> <td>232</td> <td>20</td> </tr> <tr> <td>RBKC</td> <td>452</td> <td>20</td> </tr> <tr> <td>Total</td> <td>968</td> <td>60</td> </tr> </tbody> </table> <p>Testing Methodology: The following key areas were tested for each leaver by examining the records, data and documents maintained under the Agresso Personnel module:</p> <ul style="list-style-type: none"> -Leavers details are entered against employee record -Leavers details completed by line manager/submitted to BT in timely manner -Leaver details accurately input on Agresso by BT -Correct final pay based on last day of service -Supporting leaver documents retained (i.e. resignation letter) -P45/46 copy retained (best practice) -Leaver removed from payroll in timely manner -Salary deductions made to recover any overpayment or allowance (i.e. travel allowance) 	Council	Leavers	Sample tested	WCC	284	20	H&F	232	20	RBKC	452	20	Total	968	60	<p>There is a risk that where the full audit trail for leavers is not maintained in Agresso, the accuracy and completeness of payroll transactions for leavers cannot be independently verified and checked as being correct.</p> <p>There is a risk that where relevant information relating to leavers is not provided or disclosed to BT by managers on a timely basis, salary overpayments can occur where a leaver is not removed from the payroll on a timely basis.</p> <p>There is a risk that errors and omissions remain undetected and uncorrected where the integrity of the leaver process cannot be relied upon.</p>	<p>3.1 The Intelligent Client Function should ensure that BT maintain a full audit trail for leaver transactions on Agresso.</p> <p>3.2 The Intelligent Client Function should liaise with Retained HR to ensure that appropriate communications are sent to all business group managers reminding them of the importance of complying with the leavers notification process and submitting appropriate information to BT through the Service Now portal on a timely basis.</p> <p>Also see Recommendation 2.3 above</p>
Council	Leavers	Sample tested																
WCC	284	20																
H&F	232	20																
RBKC	452	20																
Total	968	60																

Key Findings: the following was noted from transactional testing of 20 leavers for each Council:

	WCC	H&F	RBKC
Leaver notified through line manager completing leaver details on employee record on Agresso	9/20	14/20	6/20
Leave date agreed with manager reconciles with leave date entered by BT (a)	9/20	14/20	6/20
SN10 form (where completed) retained on Agresso	11/20	6/20	14/20
SN10 form (where completed) contains all relevant information (b)	8/11	3/7	9/14
SN10 form (where completed) authorised by line manager (c)	0/11	1/7	0/14
Last day service notified agrees with Agresso entry (d)	19/20	17/20	17/20
Leaver removed from payroll in timely manner (e)	20/20	18/20	17/20
Potential overpayments made (f)	3/20	6/20	3/20
Final salary unable to determine if correctly calculated (g)	5/20	6/20	7/20

Following findings also noted in relation to the above:

- (a) Audit unable to view workflow approval log for leavers to verify this action
- (b) SN10 forms had missing information such employee name, job title, reason for leaving and resignation date.
- (c) Audit unable to determine line manager due to missing information on the employee record on Agresso
- (d) Leave date incorrectly shown as default 31.12.2099 for three RBKC and three H&F employees.

	<p>(e) Includes an RBKC leaver that appears to have been removed from payroll 17 days earlier than their actual leave date.</p> <p>(f) Further investigation revealed two confirmed overpayments of £3,676 and £1,750 for H&F and two overpayments for RBKC which are “parked” awaiting further review by BT. The remaining anomalies could not be verified due to the insufficient supporting documentation being retained.</p> <p>(g) Due to insufficient supporting documentation being retained.</p> <p>The amount of supporting documentation retained for leavers was limited or incomplete making it difficult to verify whether payments made such as redundancy, compromise agreements, payments in lieu, had been correctly made and authorised or represented potential overpayments.</p> <p>Payroll related queries and incidents are reported to BT through the Service Now portal by council employees. However, these communications are not uploaded onto Agresso as supporting evidence where issues have been raised and resolved.</p> <p>Audit were informed by the ICF that although Service Now forms must be added to personal files there is no requirement in the service agreement with BT that they add records of incidents and queries dealt with outside the Service Now portal.</p>		
	<p>As a result of the number of anomalies and queries identified from transactional testing, Audit are unable to provide any assurances for the following areas:</p> <ul style="list-style-type: none"> • Robustness and integrity of the leavers process. • Leavers being promptly removed from the payroll. • Overpayments have not occurred. • There are no employees on the payroll who have left but are still being paid through the payroll. 		

Management Response

We are working with BT SSC on the improvement of all payroll processes through the recovery plan and will continue to do so as part of completing that plan. We will also reinforce with retained HR the importance of ensuring that line managers and employees take responsibility for those parts of the process for which they are responsible.

As part of the follow up to the audit the Programme Assurance Manager will review with the BT Service Assurance Manager the specific gaps in the records identified by Internal Audit with objective of agreeing lessons to be learned to prevent the future recurrence of such gaps. We will also examine when and how it may be necessary for information provided outside Service Now to be incorporated into the employee record on Agresso.

Responsible Officer	Deadline
Intelligent Client Function Retained HR for WCC, RBKC and H&F	July 2017

4. Variations to Pay – Transaction Testing

Priority	Issue	Risk	Recommendation												
High	<p>Audit requested a number of reports from BT showing variations to pay for the three council payrolls. These reports were not provided.</p> <p>Audit were, however, able to use other payroll based reports already in circulation from BT to extract the following variations to pay across the three council payrolls for the period October 2015 to September 2016;</p> <ul style="list-style-type: none"> • Overtime Payments • Honoraria Payments • Variable Payments (relocation expense, professional fees, work permit expenses etc.) <p>Testing Methodology: A sample of 20 from each type of variation to pay was examined for each Council and checks made to verify the supporting documentation held under the Document Archive folder under the employee record and evidence of appropriate payment authorisation by the line manager. An SN 82 Notification of Allowance/Payment Form is completed by the line manager and submitted to BT through the Service Now portal for the payment instruction to be processed.</p> <p>Key Findings: the following findings were noted from transactional testing for each Council:</p> <table border="1"> <thead> <tr> <th>Variation to pay WCC</th> <th>Sample size WCC</th> <th>Evidence retained WCC</th> </tr> </thead> <tbody> <tr> <td>Overtime payment (a)</td> <td>20</td> <td>Not tested</td> </tr> <tr> <td>Honoraria payment (b)</td> <td>20</td> <td>10</td> </tr> <tr> <td>Variable payment (c)</td> <td>20</td> <td>4</td> </tr> </tbody> </table>	Variation to pay WCC	Sample size WCC	Evidence retained WCC	Overtime payment (a)	20	Not tested	Honoraria payment (b)	20	10	Variable payment (c)	20	4	<p>There is a risk that where supporting evidence and authorisation relating to overtime, honoraria and variable payments are not retained on Agresso, the audit trail is incomplete and the accuracy of payments made cannot be determined.</p> <p>There is a risk that errors and omissions may occur in the absence of line manager authorising overtime, honoraria and variable payments.</p>	<p>4.1 The Intelligent Client Function should ensure that BT maintain a full audit trail of supporting documentation and authorisation for all variation and changes to pay for employees on Agresso.</p> <p>Also see Recommendation 2.3 above</p>
Variation to pay WCC	Sample size WCC	Evidence retained WCC													
Overtime payment (a)	20	Not tested													
Honoraria payment (b)	20	10													
Variable payment (c)	20	4													
	<p>(a) Range from £448 to £2,163. (b) Range from £254 to £5,000. (c) Range from £113 to £4,350. Latter relates to one off payment for sponsoring foreign national, other payments relate to moving, relocation, professional fees and general expenses incurred by employees.</p>														

Variation to pay H&F	Sample size H&F	Evidence retained H&F
Overtime payment (a)	20	Not tested
Honoraria payment (b)	20	2
Variable payment (c)	20	4

a) Range from £483 to £3,605.

b) Range from. £127 to £5,500. An overpayment of £6,970 was noted for an employee (Fostering and Adoption) between April to May 2016 due to the SN82 Notification of Allowance Form being incorrectly completed by the line manager and payment instructions misinterpreted by BT. Attempts are being made to recover this from the employee who subsequently left H&F in June 2016.

c) Range from £32 to £1,844 including a £1,510 payment for sponsoring foreign national.

Variation to pay RBKC	Sample size RBKC	Evidence retained RBKC
Overtime payment a)	20	Not tested
Honoraria payment b)	20	6
Variable payment c)	20	6

a) Range from £340 to £1,468

b) Range from £120 to £35,310. Latter relates to one off ad hoc payment to a senior director with no supporting evidence retained.

c) Range from £147 to £2,815

Audit were unable to test the overtime claims due to the lack of access to the workflow log showing managers approving the amount claimed. This will be examined as part of the 2017/18 payroll audit work where appropriate access will be requested to undertake this check although there may be some technical obstacles to overcome in order to achieve this.

Analysis of the data from the variation to pay report and examination of employee records on Agresso also identified the following issues and anomalies:

- Inconsistency in the treatment of professional fees with

	<p>some fees reimbursed net of tax whilst others reimbursed gross of tax;</p> <ul style="list-style-type: none">• Payslip incorrectly filed under the wrong employee record. A payslip for an H&F employee was incorrectly held under another H&F employee record. This is potentially a breach of the Data Protection Act;• Sickness documents and certificate for an WCC employee erroneously filed under an H&F employee. This is potentially a breach of the Data Protection Act;• WCC male employee aged 60 years had maternity pay adjustments between May to November 2016 which may indicate a payment error and no supporting documents or audit trail to explain the adjustments; and• RBKC employee transferred to H&F post but appears to receive pay for RBKC post beyond their leave date which may have resulted in a potential overpayment. <p>As a result of the number of anomalies and queries identified from transactional testing, Audit are unable to provide assurances that variations and adjustments to pay are have been authorised and processed correctly, accurately and on a timely basis on Agresso.</p>		
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Management Response

The ICF has reviewed and resolved the incorrectly filed payslip and the incorrectly filed sickness absence documents. We are in the process of commissioning an audit which will focus specifically on the potential for the occurrence of data breaches at the BT SSC and will ensure that lessons are learned from the incorrect filing of documents identified here so that steps are taken to minimise this risk. We are investigating the two other specific incidents identified by the report.

We are working with BT SSC on the improvement of all payroll processes through the recovery plan and will continue to do so as part of completing that plan.

We will also reinforce with retained HR the importance of ensuring that line managers and employees take responsibility for those parts of the process for which they are responsible.

As part of the follow up to the audit the Programme Assurance Manager will review with the BT Service Assurance Manager the specific gaps in the records identified by Internal Audit with objective of agreeing lessons to be learned to prevent the future recurrence of such gaps.

Responsible Officer	Deadline
Intelligent Client Function	August 2017




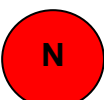
5. Standing Data – Transaction Testing

Priority	Issue	Risk	Recommendation
High	<p>Audit requested a number of reports from BT showing standing data information of employees on the three Council payrolls such as name, address, bank details, National Insurance number. This report was not provided.</p> <p>Audit were able to use other payroll reports already in circulation to undertake a data analytic exercise to identify potential errors and anomalies. The payroll data report used showed standing data for employees across all three Councils as at September 2016 and comprised approximately 9,300 entries.</p> <p>Testing Methodology: A suite of analytic tests using audit specialist software was performed on the standing payroll data to highlight potential payroll errors and anomalies.</p> <p>Key Findings: the following was noted from the analytical review of standing data:</p> <ul style="list-style-type: none"> • One WCC employee had a date of birth recorded as 01.01.1901; • One H&F employee had a date of birth recorded as 28.04.2016; • One H&F employee with date of birth 25.09.1987 commenced employment on 07.01.2003 at which point they would have been 15.8 years old; • Two WCC employees and one H&F employee did not have a home address showing against their personal record on Agresso; and • An additional 400 potential anomalies were identified from the data analytic exercise which could not be fully reviewed as part of this exercise due to time constraints. These will 	<p>There is a risk that where there are errors and anomalies in payroll standing data, the integrity of payroll data is compromised and its accuracy cannot be relied upon.</p>	<p>5.1 The Intelligent Client Function should ensure that the errors, anomalies and discrepancies identified by Audit with payroll standing data are referred to BT for resolution and corrective action where appropriate.</p>

	<p>be picked up as part of the next key system review of payroll in 2017/18.</p> <p>Audit also noted the following payroll and related HR issues:</p> <ul style="list-style-type: none"> • Annual leave balance report extracted from Agresso as at January 2017 identified 421 permanent employees (278 WCC, 66 H&F and 77 RBKC) with a nil annual leave allocation on Agresso for 2016/17. There is a known issue with employees on non-standard contracts where the annual balances on Agresso are incorrect and show as nil. Employees with a nil allocation have to maintain manual records to record all annual leave taken; • Personnel records from legacy HR systems had not been transferred across to Agresso for all employees that were in post prior to April 2015; • Issues over the input and reporting of sickness levels. This is a known issue that is the subject of a separate audit review. <p>As a result of the number of anomalies and queries identified from transactional testing, Audit are unable to provide assurances over the accuracy of changes and amendments made to standing data and that these have been authorised and processed correctly, accurately and on a timely basis.</p>		
Management Response			
The ICF will investigate with BT the specific incidents identified by the report with a view to understanding what has happened and learning lessons to prevent a recurrence.			
Responsible Officer			Deadline
Intelligent Client Function			August 2017

Appendix 2: Definition of Assurance Opinions and Recommendation Priorities

In order to help put the audit opinion and recommendation priority ratings in context the following tables detail the current ratings used by Internal Audit.

Rating	Description
 Su	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and no material errors or weaknesses were found.
 Sa	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.
 L	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.
 N	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.
Priority	Description
High	Recommendation addresses fundamental weaknesses, which seriously compromise the effective accomplishment of the system's objectives. Risks presented by the control weaknesses could be damaging in the short term. The management action required should be implemented as soon as possible, certainly within 0-3 months.
Medium	Recommendation addresses serious weakness, which affect the reliance to be placed on the system. Risks presented by control weaknesses could be damaging in the medium term. Management action is required within 0-6 months.
Low	Recommendation addresses minor weaknesses, or suggests a desirable improvement. Risks presented by control weaknesses are unlikely and inconsequential. Management action is recommended to address concerns within 0-9 months.

Appendix 3: Audit Scope, Limitations & Inherent Risks

This audit was a full risk based review of the arrangements for the Agresso Payroll audit and included the following areas:

Ref	Audit Area - Description	Comments on Coverage / Area Objectives
01	Policies and Procedures	<ul style="list-style-type: none"> Determine whether clear and up to date procedure documents are in place that reflect actual payroll processes and practice. Establish whether compliance with agreed procedures and practice is satisfactory. Establish whether the roles responsibilities and duties are clearly set out for managers, retained HR, Intelligent Client Function and BT Shared Service Centre in relation to the payroll function.
02	Reporting and Monitoring	<ul style="list-style-type: none"> Establish whether appropriate management reports can be produced from Agresso for the payroll. Determine whether any exception reports identifying payroll errors and anomalies are produced from Agresso and how resulting actions are controlled and monitored such as payroll error rates. Assess whether the reporting functionality within Agresso for payroll reports meets user requirements. Assess what action is being taken to mitigate against the risk of payroll errors reoccurring each month.
03	Starters	<ul style="list-style-type: none"> Review of a sample of new starters to check that they are added to the payroll system completely, accurately, validly and in a timely manner. Authority to set up the employee is appropriate. Review to ensure that all relevant information relating to the new starter is retained and uploaded onto Agresso. Verification of correct payment made to the new starter following commencement of their employment.
04	Leavers	<ul style="list-style-type: none"> Review of a sample of leavers to check that they were completely, accurately, and validly removed from the payroll in a timely manner and outstanding commitments to both parties to the contract of employment are completely, accurately and validly made to prevent leaver payment errors or anomalies. All appropriate leaver documentation is recorded and uploaded onto Agresso.
05	Variations to Pay	<ul style="list-style-type: none"> Review of a sample of additional payments made to employees to check these are adequately and appropriately approved through workflow and evidence is retained to support this. Dates for additional payments are correctly recorded to ensure under/over payments are not made. Verification of correct payment made to the employee in a timely manner. Review of a sample of non-statutory deductions to basic pay to check that they are processed completely, accurately, validly, and in a timely manner with evidence retained to demonstrate appropriate approval for the deduction. Dates for deductions are correctly recorded to ensure under/over deductions are not made. Review of a sample of employees paid on the basis of a claim to check that the claim has been appropriately authorised, recorded on the payroll system and paid accurately in line with agreed pay rates.
06	Changes to Standing	<ul style="list-style-type: none"> Review a sample of adjustments to individual payee's standing data

	Data	<p>such as bank details; date of birth, addresses to ensure amendment was subject to due process and evidence is retained.</p> <ul style="list-style-type: none"> • Verify the integrity of standing data held on the payroll
07	Management Information	<ul style="list-style-type: none"> • Determine the frequency of any regular and exception reports produced from Agresso and whether they are distributed to the appropriate recipient. • Establish whether the integrity accuracy and veracity of payroll based management reports produced from Agresso is maintained.

Limitations to the Scope of the Audit

The following limitations to the scope are applicable to this review which have been identified at the planning stage:

- The work will be undertaken using a risk based approach and testing will be on a sample basis to verify compliance; and
- The audit review does not provide absolute assurance that material error; loss or fraud does not exist.
- The audit did not examine or test the operational and system controls operating within the BT back office function at South Tyneside.

Inherent Risks

The risks listed below are **potential** inherent risks which are common for any system of this type and were considered as part of this review:

- Inaccurate or incomplete entry of payments and deductions;
- Inaccurate or incomplete entry of employee time and attendance data;
- Payroll calculations are inaccurate or incomplete;
- Risk of overpayment/underpayment of salary to staff;
- Statutory obligations for payment of taxation are breached;
- Breach of legislative requirements relating to pensions; and
- Payroll totals do not reconcile to the General Ledger

Appendix 4: Timetable and Distribution List

It is the responsibility of the auditee to ensure identify all officers that should receive a copy of this report.

Stage	Date
Exit Meeting	30 March 2017
Draft Report Issued	31 March 2017
Responses Received	6 April 2017
Final Report Issued	19 May 2017

Audit Team
Principal Auditor: Alpesh Patel
Internal Auditor: Sohal Rawal
Sponsor
Director for Human Resources – Debbie Morris (H&F/RBKC) Director of People Services – Lee Witham (WCC) Head of Framework ICF
Report Distribution List
Programme Assurance Manager (MSP) Managed Services and 3rd Party Providers Head of Framework ICF
Copy Recipients of Report
Director for Human Resources – Debbie Morris (H&F/RBKC) Director of People Services – Lee Witham (WCC)

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Recommendations for improvements should be assessed by management for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. 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 as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

This report is prepared solely for the use of Audit Committees and senior management of the London Borough of Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea and Westminster City Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

London Borough of Hammersmith & Fulham

Final Report

Pensions Administration - Audit

May 2017

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1. Introduction

Surrey County Council (SCC) was awarded the contract under a s101 Agreement to manage the Pension Administration arrangements for Kensington & Chelsea and Hammersmith & Fulham Councils in April 2015 for a period of four years. SCC already had a s101 Agreement to provide Pension Administration arrangements for Westminster City Council (WCC) since September 2014.

The general powers of a local authority to delegate its functions include delegation to another authority. Delegation involves one authority taking over more or less entirely from another the provision of a particular function, but even where payment is made, represents a reorganisation of administrative responsibilities between different public bodies. The power is found in s101 LGA1972 (or s19 LGA 2000 for Executive Functions).

On 1 April 2014, the new Local Government Pension Scheme (LGPS) came into effect, replacing the final salary scheme with a Career Average Revalued Earnings (CARE) scheme for future benefit accrual.

The new Scheme:

- has a normal pension age equal to state pension age (minimum age 65)
- gives a pension for each year at a rate of 1/49th of pensionable pay received in that year
- provides increased flexibility for members wishing to retire early
- allows members to pay reduced contributions as an alternative to opting out (though benefits build up at a slower rate)
- provides for previous years' CARE benefits to be inflation proofed in line with the Consumer Prices Index while the member is still paying in
- requires members to have at least 2 years' membership to qualify for pension benefits.


Surrey County Council have provided Pension Administration services to Westminster City Council (WCC) since September 2014. The Council's previous administration service provider was the LPFA. The boroughs of Kensington & Chelsea (RBKC) and Hammersmith & Fulham (LBHF) decided to terminate their shared Pension Administration contract with Capita on 31 August 2015 in favour of an arrangement with Surrey County Council. The new Pension Administration contract for these two Councils began in April 2015, and the live operational service started on 1 September 2015. This agreement may be terminated at any time by either party giving the other party not less than twelve months' notice in writing, such notice not to expire before 1 September 2017. The client function for this service is undertaken by the officers within the Councils' retained HR function, which is a shared service for RBKC and LBHF.

Following the implementation of a new financial management system in April 2015 (Agresso), there have been some delays and inaccuracies with the transfer of LGPS information between the new Managed Services Provider (BT) and the Pensions Administration Service (SCC).

2. Executive Summary

2.1 Assurance Opinion

The table below provides an overview of the adequacy and the effectiveness of the controls across the project using a RAG rating to highlight the degree of control weakness. It also indicates the number and priority rating of any recommendation raised as a result of the review.

	Nil	Limited	Satisfactory	Substantial
Audit Opinion				

2.2 Recommendations Summary

The following table highlights the number and categories of recommendations made. The Action Plan at Appendix 1 details the specific recommendations made as well as agreed management actions to implement them.

Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
			High	Medium	Low
Policies, Procedures and Plans			0	0	1
Starters, Leavers and Amendments			1	0	0
Transfers			1	0	0
Payment of Pensions			0	0	0
Access Controls and Data Transfer			0	0	0
		Total	2	0	1

Please refer to the Appendix 2 for a definition of the audit opinions and recommendation priorities.

3. Summary of Findings

This audit focused on the operations undertaken by Surrey County Council (SCC) who provide the pensions administration service to the London Borough of Hammersmith & Fulham, the Royal Borough of Kensington & Chelsea and Westminster City Council. Pension information managed by Surrey County Council is highly dependent on accurate and timely information provided by the Council's HR/Payroll provider (BT) as well as by the payroll providers of admitted/scheduled bodies. As such a number of the audit tests that would provide assurance on the accuracy and completeness of the pensions administration system, could not be undertaken due to issues regarding the accuracy of reporting from BT which are well known to all three councils and are being actively managed.

Although the audit identified that a number of the controls in place for calculating, processing and maintaining the scheme as operated by SCC are appropriate, the weaknesses in the information being provided by BT has impacted on the assurance opinion given to this review. In our opinion, **Limited Assurance** can be given to Members, the Chief Executives, the Town Clerk and other senior officers that the controls relied upon at the time of the audit were suitably designed, consistently applied and effective in their application.

The key findings and an assessment of controls are summarised below:

Application of and compliance with control framework to address risks identified

- All three boroughs have established and are operating a local Pensions Board as defined by section 5 of the Public Service Pensions Act 2013 and regulation 106 of the Local Government Pension Scheme (LGPS) Governance Regulations 2013.
- All three boroughs have signed a Delegation Agreement with Surrey County Council to provide the boroughs with their Pensions Administration service.
- An end to end process map has been developed but parts have been superseded by the Standard Operating Procedures, which are in the process of be reviewed and have not yet been formally agreed with BT. (A recommendation has been raised).
- The three councils have developed a "Pension Administration Strategy" document and it reflect roles and responsibility between the Administrating Authority and the Employers. However, these have not formally been approved by RBKC and WCC. (A recommendation has been raised).
- On examining a sample of 60 retirement grants (20 from each of the three councils) the grants calculated were found to be accurate and complete to ensure the lump sum payments (1/80th) were correctly calculated. An in depth reconciliation and calculations were undertaken in the following areas and no significant issues were identified:
 - Post 65 retirement;
 - Early Retirement reduction;
 - Annual pension reduction (to obtain larger lump sum) & additional annual increase in lump sum;
 - The multiplier agreed with LGE scale;
 - Pension increase due to inflation since deferred / frozen.
- On examining a sample of 30 deceased pensioners (10 from each council) it was found that;
 - All had valid death certificate.
 - The two death in service were correctly calculated; and
 - All the remaining had appropriate calculations and correspondence.
- According to the reports provided by SCC it was identified that RBKC had no Transfers "In" during 2015/16 or this year up to September 2016. Westminster City Council had one Transfer in 2015/16 and only one transfer in to September 2016. In the case London Borough of Hammersmith & Fulham no transfers in 2015/16 and four up to September 2016.

However, these figures do not reflect the actual Transfers In, as according to SCC the transfers have been on hold since April 2015 due a combination of technical issues and awaiting for new government Actuary Department's delayed guidelines for calculating Transfers. In October 2016 audit were informed that SCC are now working through them. However, Audit were unable to identify whether what numbers are involved and what progress is being made as no exemptions reports were provided by SCC to verify or test this area. (A recommendation has been raised).

- BT is required to provide to the Pension Administrators of the three Councils (SCC) a year end file and monthly starters, leavers and change files. The year-end file is statutory obligation and has been blighted by data errors and a series of agreed deadlines that have been missed by BT for the correct data to be provided to SCC. (A recommendation has been Raised).
- BT has failed to provide any monthly files of starters, changes and leavers to SCC from April 2015. BT indicated to the Council's HR services that it is likely to able to supply a monthly file to SCC from May 2017. LGPS scheme member changes / amendments will not be identified until the annual report sent by BT is reconciled by each of the three boroughs. (A recommendation has been Raised).
- SCC is registered member of the Information Commissioner's Office (ICO) and therefore, the controls relating data protection are in compliance with the commissioner's requirements.

4. Acknowledgement

We would like to thank the following members of staff for their time and assistance during the review:

- Operations Manager - Pensions (SCC)
- Pension Services Manager (SCC)
- Business Operations (SCC)
- Bi borough Pensions Manager (LBHF & RBKC)
- Pensions and Payroll Officer (WCC)
- Senior Pensions/Payroll Advisor (WCC)
- HR & Payroll Consultant (LBHF & RBKC)
- HR (LBHF & RBKC)
- Managed Services HR Payroll Project Manager (LBHF & RBKC)

Appendix 1: Management Action Plan

1. Policies, Procedures and Legislations – Procedure Notes

Priority	Issue	Risk	Recommendation
Low	<p>An end to end process map has been developed but has not been formally approved.</p> <p>The Standard Operating Procedures have been produced, which cover the BT element of the process, but they are in the process of being reviewed and have not been formally agreed with BT.</p> <p>The three Councils have developed a “Pension Administration Strategy” and it reflects roles and responsibility between the Administrating Authority and the Employers. However, these have not been formally approved by RBKC and WCC. LBHF’s has already been approved by the Pensions Sub-Committee.</p>	A lack of formalised procedural guidance increases the risk of that a non-standard approach will be used.	<p>To ensure the operational procedures are undertaken correctly and all staff are aware of their formal roles and responsibilities the following documents should be approved by senior management and the relevant partners:</p> <ul style="list-style-type: none"> - The Swim Lanes/ End to End process map - The Standard Operating Procedures (SOPs) - The Pension Administration Strategy document for RBKC and WCC
Management Response			
<p>We will work with the MS ICF team to review the end to end process maps and ensure they are fit for purpose and implemented. This will be implemented within 9 months, the team’s’ priorities are currently on BT data starters, leavers, changes and the production of Annual Benefit Statements.</p> <p>WCC and RBKC do have a draft PAS (Pensions Administration Strategy) which due to other pressures on the retained Pension team has not been finalised and brought before the relevant Pensions Board / Committee. WCC agrees it should have this signed off at the next Board which is currently showing as the 10th July, however we may have to delay the implementation of it until an agreed date, I would suggest 1st September this will allow us time to notify the appropriate parties. RBKC’s Pensions Board has already seen the draft PAS and it is now due to go to the RBKC Investment Committee for approval on 13 September 2017.</p>			

Responsible Officer	Deadline
Heads of HR	31/12/2017

Appendix 1: Management Action Plan

2. Transfers In & Out

Priority	Issue	Risk	Recommendation
High	<p>Due to a delay in receiving guidance from the government’s Actuary’s Department, transfers in and out of the pension scheme were not processed between April 2015 and late 2016.</p> <p>Although a small sample of transfers were available to review, SCC were unable to provide Audit with details of the number of outstanding requests therefore, Audit could not undertake any substantial testing to verify the accuracy of transfer system and the communications with pension scheme members.</p> <p>Whilst it is noted that the delays in processing transfers was outside of the control of SCC, there was no evidence that appropriate communications were provided to scheme members.</p>	<p>Transfers in are not identified promptly and transfer out values are incorrectly calculated not paid promptly or authorised appropriately</p>	<p>HR Management should ensure that SCC can provide the number of transfer (in and out) requests received and should include performance monitoring on the processing of these as part of the monthly monitoring of the SCC service.</p> <p>Transfer requests should be processed in a timely and accurate manner and where there are delays, clear information should be provided to the individual concerned and copies retained on the SCC system.</p> <p>HR Management should ensure that SCC have appropriate systems & records in place to demonstrate that they informed scheme members of the status of any changes requested.</p>
Management Response			
<p>LGPS transfers in/out are complex and each case is different. Now that the revised GAD regulations have been released to authorities enabling them to calculate transfers. SCC has completed approximately 20% of the backlog for all three boroughs and the KPIs we have in place with Surrey reflect this action and progress being made.</p> <p>We will ensure is that SCC is keeping members informed of the progress of any interfund adjustments. This will be part of our regular service reviews with Surrey.</p> <p>Our Improvement plan with BT is focusing on generating more meaningful end to end data. This report will show the “inputs” being transferred from BT to Surrey and can be added to the “outputs listing” that is already being supplied by Surrey</p> <p>This way, on a monthly basis the administering authority will have:</p> <ol style="list-style-type: none"> i. Inputs from BT (the largest HR/Payroll Provider). ii. Outputs from Surrey – as we have now. Additionally, WCC have requested to receive monthly, rather than quarterly, data reports from Surrey. iii. There is the action to add volumetric data to those Surrey lines that presently do not contain this information. 			

Responsible Officer	Deadline
Heads of HR	01/11/2017 for full resolution (dependant on BT delivery)

3. Starters, Leavers and Amendments

Priority	Issue	Risk	Recommendation
High	<p>BT is required to provide to the Pension Administrators of the three Councils (SCC) with a year-end file.</p> <p>However, the year-end file, a statutory requirement, was not produced by BT in April 2016. BT made several attempts to produce this report but each time the data provided was inaccurate and a series of agreed deadlines for the correct data to be provided were missed.</p> <p>As at April 2017, BT's latest year end file still had a number of errors and as result the Annual Benefit Statements for 300 RBKC, 400 LBHF and 250 WCC scheme members have yet to be issued. HR Management have advised the Pensions Regulator of this issue and have identified a solution which is being worked on during April-May 2017 by the Councils' Pensions Subject Matter Experts and BT.</p> <p>BT has also failed to provide any monthly files of starters, changes and leavers to Surrey County Council from April 2015. BT has indicated to Council's HR services that it is likely to able to supply a monthly file from May 2017.</p> <p>Because of the above issues, it was not possible to undertake any meaningful testing of the completeness of SCC data and so no assurance could be given that the pensions administrator's records were accurate and complete.</p>	<p>Non-compliance with government and Council regulations.</p> <p>Starters, leavers and amendments are not properly recorded.</p>	<p>It is noted that the issues regarding the 2015-16 year-end file and monthly updates from BT are well documented and the Councils actions to correct the errors and achieve an appropriate and accurate level of service from BT are on-going.</p> <p>It is recommended that:</p> <ul style="list-style-type: none"> (a) Full documentation is retained by the Councils' HR teams to support the actions taken to correct the incorrect pension records; (b) Any changes which will impact on the 2016/17 year-end pensions data are verified with BT with due dates agreed; (c) The accuracy of the year-end pensions file for 2016/17 is reviewed in good time prior to the deadline for submission to enable corrections to be processed without delay; (d) If the monthly file of starters and leavers file cannot be provided by BT to SCC when agreed, the Councils should identify what actions are required to address this; (e) Any changes to process, responsibilities or methodology as a result of the correction of the 2015/16 year-end data and the lessons learned must be documented in a timely manner and agreed by the Councils and their service providers (BT and SCC).
Management Response			

All 5 parts of this recommendation cover the approach we must have and we will be ensuring that BT adhere to for the 15/16 and 16/17 EOY files plus the monthly files.

One of the key issues has been the transfer of data (Starters/Leavers/Changes) from the Councils' payroll provider BT to Surrey. There are two interfaces relating to this:

- The year-end interface has been seen before by Surrey and is being updated for comments that have been fed back.
- The Joiners interface has not yet been seen by Surrey.
- Even when these interfaces are live there are still known issues that will not be included within them. These will be "fixed" over the longer term.

Both BT Interfaces to Surrey were expected to be operational by the 31st March. This date has significantly slipped for the Joiners data and we are awaiting a revised timeline from BT. Their first runs, which will be in the 2016/17 financial year, will be for updates not migrated to date.

These interfaces are then due to run monthly. However:

- a. There needs to be confirmation that the interface has run and the data contained in the initial runs is correct.
- b. The Council will ask Surrey once the interface has been run if they are happy with the data and formats to close off the "transaction".
- c. If Surrey are not happy with the outputs, the Council will endeavour to get Surrey and BT into a room together the following week to run through the issues, and set out a quick timescale for when the interface will be fit for purpose and operational, and monitor progress against the revised plan.

There is a separate deliverable relating to BT's failure so far to deliver to the necessary quality in respect of the provision of correct data for the 950 Tri-Borough scheme members who have yet to receive an Annual Benefit Statement (ABS) as well as the provision of corrections to known errors on the original file that was used to issue 2015-16 ABS's in August 2016. This data has been promised by BT for the end of May 2017, which is over one year overdue. Tri-Borough subject matter experts are working closely with BT to ensure that BT delivers these corrections and that the resulting data file meets the necessary quality standards to enable SCC to update scheme members' 2015-16 year-end data accurately.




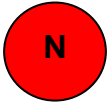
Once live, these interfaces will resolve a number of the problems being experienced at the moment.

Part of this recommendation is caught up in the commercial discussions that are going on so we are dependent on these having a successful outcome

Responsible Officer	Deadline
Heads of HR	01/09/2017 for full resolution (dependant on BT delivery)

Appendix 2: Definition of Assurance Opinions and Recommendation Priorities

In order to help put the audit opinion and recommendation priority ratings in context the following tables detail the current ratings used by Internal Audit.

Rating	Description
	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and no material errors or weaknesses were found.
	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.
	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.
	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.
Priority	Description
High	Recommendation addresses fundamental weaknesses, which seriously compromise the effective accomplishment of the system's objectives. Risks presented by the control weaknesses could be damaging in the short term. The management action required should be implemented as soon as possible, certainly within 0-3 months.
Medium	Recommendation addresses serious weakness, which affect the reliance to be placed on the system. Risks presented by control weaknesses could be damaging in the medium term. Management action is required within 0-6 months.
Low	Recommendation addresses minor weaknesses, or suggests a desirable improvement. Risks presented by control weaknesses are unlikely and inconsequential. Management action is recommended to address concerns within 0-9 months.

Appendix 3: Audit Scope, Limitations & Inherent Risks

Outline Scope		
Ref	Audit Area	Coverage
01	Policies, Procedures and Plans	Staff act consistently in compliance with legislative and management requirements. The Council receives on-going assurance that SCC have adequate and up-to-date service continuity provision.
02	Starters, Leavers and Amendments	Starter, leaver and amendment forms are accurately completed in a timely manner. Starter, leaver and amendment forms are appropriately authorised by delegated officers, and updated on Surrey County Council system, in a timely manner.
03	Transfers	Transfer in and out payments are appropriately calculated and authorised prior to being processed.
04	Payment of Pensions	Only valid and accurate pension payments are made and this is in a timely manner; including lump sum payments & initial pension, payment due to deceased members, spouse's Pension, refunds of contributions and deferred benefits; as well the annual updating exercise to pension rates.
05	Access Controls and Data Transfer	Adequate access controls are in place to ensure staff have unique usernames and passwords which are changed on a regular basis. Only valid data is transferred to SCC and this data is transferred in a complete, accurate and timely manner.

Limitations to the Scope of the Audit

The limitations to the scope of the audit

- The work will be undertaken using a risk based approach and testing will be on a sample basis to verify compliance;
- The audit will not include testing Additional Voluntary Contributions;
- The audit will exclude the Teacher's Pension Scheme arrangements; and
- The audit review will not provide absolute assurance that material error; loss or fraud does not exist.

Inherent Risks

The risks listed below are **potential** inherent risks which are common for any system of this type:

- Non- compliance with government and Council regulations.
- Starters, leavers and amendments are not properly recorded.
- Transfers in are not identified promptly and transfer out values are incorrectly calculated not paid promptly or authorised appropriately.
- Pension payments are not made to legitimate pensioners.
- Deceased pensioners are not identified promptly.
- Management does not monitor risks on a regular basis.
- Data transferred to Surrey County Council (SCC) is invalid, out of date incomplete or inaccurate.
- All key accounts are not subject to appropriate reconciliations to ensure data integrity.
- All data held by SCC is not kept securely.
- Fund members are not communicated with in accordance with legislation

Appendix 4: Timetable and Distribution List

It is the responsibility of the auditee to ensure identify all officers that should receive a copy of this report.

Stage	Date
Exit Meeting / End of Fieldwork	18 April 2017
Draft Report Issued	27 April 2017
Responses Received	15/05/2017
Final Report Issued	15/05/2017

Audit Team
Senior Audit Manager:
Senior Auditor:
Sponsor
Debbie Morris (Shared Services Director for Human Resources for RBKC & LBKF)
Lee Witham – Director of People Services (WCC)

Copy recipients:

- Pensions Manager LBHF & RBKC
- Pensions / Payroll Officer WCC
- Senior Pensions/Payroll Advisor WCC
- Director of Human Resources
- HR & Payroll Consultant LBHF & RBKC
- Managed Services HR Payroll Project Manager LBHF & RBKC
- ICF Manager WCC
- ICF WCC

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Recommendations for improvements should be assessed by management for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. 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 as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

This report is prepared solely for the use of Audit Committees and senior management of the London Borough of Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea and Westminster City Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>20 September 2017</p>	
<p>ANNUAL CORPORATE HEALTH AND SAFETY REPORT 2016-17</p>	
<p>Report of the Director for Environmental Health - Nicholas Austin</p>	
<p>Open Report</p>	
<p>Classification: For review and comment Key Decision: No</p>	
<p>Wards Affected: All</p>	
<p>Accountable Director: Nicholas Austin, Director for Environmental Health</p>	
<p>Report Author: Somayya Yaqub, Corporate Health and Safety Manager</p>	<p>Contact Details: Tel: 0208 753 3949 Email: Somayya.yaqub@lbhf.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1. This report summarises the safety performance of the council for the year April 2016 to March 2017 and the aims of the Corporate Health and Safety Team for the year ahead.
- 1.2. During this period, the council was not subject to any Health and Safety Executive prosecutions, prohibition, or improvement notices. The council was subject to 11 deficiency notices and three enforcement notices from the London Fire Brigade for housing deficiencies.

2. RECOMMENDATIONS

- 2.1. The Committee review and comment on the organisational health and safety performance.

3. REASONS FOR DECISION

- 3.1. To ensure the council complies with relevant health and safety legislation and reduce the risk of accidents, incidents, damage to property and subsequent enforcement action and fines.

4. PROPOSAL AND ISSUES

Background

- 4.1 The Council's health and safety policy, signed by the Interim Chief Executive and Deputy Leader, sets out responsibility for compliance with the Health and Safety at Work etc. Act 1974, the primary legislation, and associated regulations. The policy sets out how we manage effective health and safety based upon best practice in accordance with the Health and Safety Executive's guidance notes HSG65: Managing for health and safety, using the approach; Plan, Do, Check, Act:
- Plan the direction for health and safety management
 - Do profile the health and safety risks, organise, and implement controls
 - Check that health and safety management is working
 - Act on improving health and safety management
- 4.2 It is the stated policy of the Council to follow the principles of sensible risk management. Although it is impossible to entirely remove risk, reasonable management should:
- Ensure that we protect employees and the public/service users;
 - Ensure that those creating risks clearly understand that a failure to manage them could have serious consequences; and
 - Highlight to all managers and staff that, whilst the measures are in place to protect them, they too must act in a responsible manner.
- 4.3 Elected members should ensure that health and safety is part of making decisions at a strategic level. The Cabinet Member for Environment, Transport and Resident Services is the lead on Health and Safety matters.
- 4.4 The Director for Environmental Health is the Lead Director for Health and Safety.

5. HEALTH AND SAFETY PERFORMANCE: CORPORATE SERVICES

- 5.1. The corporate portfolio includes all services, for example, adult social care, environment services, housing, children services and libraries.

Risk Management

- 5.2 Health and safety legislation requires us to control risk effectively through planning and risk profiling. The Council is a large and complex organisation delivering a multitude of services to residents and businesses across a wide range of needs. We deliver these services both directly and through commissioned and outsourced third parties; this complexity increases the level of risk. It is important to note that the Council retains a level of responsibility in law regardless of whether the service is outsourced and provided by a third party, such as AMEY, SERCO or MITIE.
- 5.3 To comply, and to aid overall risk management, the Corporate Health and Safety Team maintain a risk register. Through this, the team reviews the significant hazards and risks and the existing control measures.

Recommendations are then made and work done with the relevant manager to address any gaps in the required compliance. The register is reported corporately on a quarterly basis.

5.4 The team uses the risk register to inform their business plan (appendix 2) including scheduling of audits and site inspections.

5.5 The risk register is split into three broad categories: People, Management, and Premises. Section 5.6 to 5.21 list the key organisational risks.

People

5.6 Lone Working, Violence, and Aggression

As part of the ongoing review of the safety management system, the team are inspecting risk assessments across service areas. Focus being on control measures for identified risks, ensuring these are suitable and sufficient. Lone Working, Violence, and Aggression is one of the key themed based audits the team will be conducting.

5.7 Management of work-related stress

Stress is one of the key causes of absence at work on a national scale. In LBHF there were 836 days lost in the second quarter of 2016-17, 1,186 third quarter and 1,529 in the last quarter. Data is not available for the first quarter. The Council's 'Your Voice' annual staff survey includes questions on stress that allows is to pinpoint areas of the organisation most at risk. The team have developed and published a stress procedure linked to the HSE's stress survey. The procedure helps staff and managers to manage and reduce the risks associated with stress. The new online health and safety training also has a module on Health and Wellbeing put together collaboratively with members from the Health and Wellbeing Board.

5.8 Slips, trips, and falls

Slips, trips, and falls are still too common. The team concentrates on this area when undertaking site inspections as part of its audit programme. Corporate Health and Safety follow up all accidents with the manager responsible, to ensure that they take corrective action to prevent a recurrence. Last year, there were 25 such reported incidents.

5.9 Musculoskeletal disorders

The team have tried to obtain information on sickness absence but due to ongoing problems with Agresso, the Council's HR system, data has only been available for three quarters. With limited data it is difficult to identify areas where due to, for example stress, musculoskeletal sickness may be higher than other services. As part of our Health and Wellbeing audit we are focussing on these areas to help reduce sickness absences. There were

1,095 days lost in the second quarter of the year, 929 third quarter and 627 in the last quarter. Data is not available for the first quarter.

- 5.10 Corporate Health and Safety undertook theme based audits of Lone Working, Violence and Aggression and Health and Wellbeing. The outcome of these audits was satisfactory with recommendations. The Health and Wellbeing audit incorporates the objectives of the Health and Wellbeing agenda and Your Voice survey 2016 recommendations.

Management

- 5.11 Production of suitable and sufficient risk assessments

The team have compiled a central repository of risk assessments to cover all Services across the Council. A risk assessment is a careful examination of things, situations, processes, that may cause harm, particularly to people. After identifying risks, the control measures required are evaluated. The team have been carrying out inspections of risk assessments and meeting service managers to review the control measures.

- 5.12 Provision of fire evacuation and first aid for flexibly working staff and others

Site inspections have highlighted that this is an issue in corporate buildings. Amey are responsible for holding this information and details are awaited.

- 5.13 With flexible working across different sites now the norm for many, there are new arrangements in place for fire wardens and their training. This new style of training is commonly used in commercial office environments. It allows the trained person to know what to do in an event of fire regardless of office location and ensures sufficient cover always. The new online health and safety training for all staff will incorporate the fire plans for each Category one site helping staff familiarise themselves with the muster points.

- 5.14 Corporate Health and Safety is working to have as many staff trained as Fire Evacuation officers as possible. Directors must ensure 1 in 4 staff attend training, which commenced in July 2016. By March 2017 191 staff booked to attend and 111 received training.

Corporate Premises

- 5.15 Building safety compliance

The team have worked closely with the LINK to ensure that Amey undertakes the duties laid out in the contract. The LINK monitors the performance of Amey for LBHF, RBKC and WCC. As part of the inspection and auditing process, they must check all compliance issues such as asbestos, electrics, fire safety, gas, and water hygiene.

- 5.16 Corporate Health and Safety undertook eight themed based audits across LBHF and RBKC during 2016/2017 including fire safety management and

water hygiene management. The team were unable to undertake the asbestos audit as documentation was not available from Amey.

- 5.17 To date, suitable and sufficient compliance data is unavailable. We can therefore not give definitive health and safety assurance that suitable controls are in place to control hazards. The matter has been escalated to the Director of Corporate Property Services (RBKC).
- 5.18 The LINK (via the Director of Corporate Property (RBKC)) has escalated the matter to the Chief Executive of Amey. Senior Amey personnel attached to the contract have been replaced and Amey have brought in its top technical team of over 20 people to reach a compliant position. The LINK have engaged external auditors, Croners, paid for by Amey to undertake a full review of compliance across the portfolio. The work programme to review and enable compliance across the Amey contract is tabled for completion 16-October 2017. The LINK has exercised its contractual right to 'step in' and are undertaking work in connection with fire compliance.
- 5.19 The Corporate Health and Safety audit programme for 2017/18 will monitor the LINK and its management of the contract. A TFM Compliance board and Fire Safety Management Group have been set up by Corporate Safety to monitor and report on arrangements.
- 5.20 Facilities Management

Premises controllers' information for category 1 sites (principal buildings, including Town Halls) was under review with the LINK and Amey but due to staff changes in Amey, this has been delayed. Moving forward Corporate Health and Safety will work with Amey and LINK to agree roles and responsibilities of staff in relation to site management.

- 5.21 Corporate Health and Safety are working with LINK, and reviewing compliance issues reported. An issue log has been compiled to track progress on identified issues. Corporate Health and Safety manager has fortnightly meetings with the LINK to ensure ongoing improvement and collaborative working.
- 5.22 Management of contractors

The management of contractors is a key risk for the Council. With many services provided by third parties, there must be robust monitoring arrangements in place by those services of the Council responsible for managing contracts, such as Serco and Amey. This is a key part of the corporate health safety business plan for 2017 – 2018.

- 5.23 The law requires the Council to control risk from potential hazards so that it is as low as reasonably practicable. To manage risk, we profile hazards, their potential consequence, and the existing controls in place. Where required, we recommend additional controls. The Tri-borough Audit, Risk, Fraud, and Insurance service hold the risk register centrally and review quarterly.

Policy and procedure review

- 5.24 The updated Corporate Health and Safety Policy, was signed by the Leader and the former Chief Executive, with minor amendments, in January 2017 and the new interim Chief Executive signed in April 2017. Corporate Health and Safety undertook a review of many key health and safety policies and procedures (annual process) to reflect regulatory and process changes, for example Asbestos and Water Management. We adopted a new, simplified style to help staff and managers clearly know what to do. We continue to review further procedures to maintain a complete library of helpful and accurate guidance

Organisational Health and Safety Auditing

- 5.25 Previous outstanding audit recommendations are complete. RBKC internal audit and MAZAR's will be auditing on Corporate Health and Safety in 2017/2018.

Accident and Incident Reporting System

- 5.26 The organisational structure in TRI-B AIRS, the Council's accident/incident reporting system, relies on Agresso. Managers may not receive notification of an incident affecting a member of their staff or in their service area due to the incorrect reporting lines on Agresso. Work is in progress to ensure both the Corporate Health and Safety Team and the relevant manager suitably follows-up all incidents. Communications such as 'message of the day', will remind staff.
- 5.27 During this period, 322 accidents and incidents were reported for LBHF, of which there were no dangerous occurrences. No reports were made under Reporting of Injuries, Diseases, and Dangerous Occurrences Regulations (RIDDOR) 1995.
- 5.28 The Corporate Health and Safety team review every incident logged to ensure it is recorded accurately, the manager reviews cause of incident and control measures. Procedures are updated as necessary, and staff members receives sufficient support. This approach has helped in accurate reporting of incident type and follow up actions.
- 5.29 Violence and Intimidation was the main accident type reported last year. Violence and Intimidation has several incident types and aggressive behaviour and verbal abuse/threat had the highest number reported.
- 5.30 Corporate Health and Safety will be auditing lone working, violence, and aggression as part of the themed audits.
- 5.31 Statistics are in **appendix 1** of this report

Training

- 5.32 **Training is a requirement in law** to ensure all staff are aware of their responsibilities in relation to health and safety. It is a key part of our corporate policy to effectively manage safety.
- 5.33 Following the death of MP Joe Cox murder in 2015 lone working risk assessment was reviewed with colleagues in Governance. A guidance note was also issued to cabinet members advising on good safe practice when meeting members of the public. Training is being reviewed for members in 2017 -2018.
- 5.34 We have procured a new E-learning system and a new face to face health and safety training provider. The E-learning health and safety modules by Awaken was rolled out in April 2017.
- 5.35 Staff must complete a minimum level of mandatory training when joining and thereafter on a routine basis to remain compliant. Senior managers must ensure that their staff complete mandatory on-line training and attend face-to-face training as required (e.g. mandatory health and safety training for managers).

6 HEALTH AND SAFETY PERFORMANCE: HOUSING

Regulatory authorities update

- 6.1 There were no Health & Safety Executive prosecutions, prohibition, or improvement notices issued to the housing service between April 2016 and March 2017.

Fire safety

- 6.2 During the year, 11 deficiency notices and 3 enforcement notices were received. The enforcement notices relate to the following properties:
- Veralum House
 - Poynter House [now 9/17 downgraded to a deficiency notice]
 - 1-26 St Andrews Court, 50 Vereker Road
- 6.3 Works have been done or are in progress to deal with issues relating to the notices.
- 6.4 Corporate Health and Safety undertook an audit of fire safety processes in Housing & Property Services to identify areas requiring improvement. The draft audit results were issued in March 2017. Recommendations form part of a wider compliance action plan which is monitored weekly.

Lift servicing

- 6.5 LBHF has a contract to modernise the existing passenger lifts at Ellen Wilkinson House and Stafford Cripps House lift A.
- 6.6 The work will modernise the existing passenger lifts as components have reached their life span of 25 years.

- 6.7 The works do not include renewal of the existing guides and counter weights which can be serviced and will remain. The new equipment selected is more energy efficient.

Gas safety compliance

- 6.8 All sites have had their annual gas servicing / inspection carried out and where access attained, have a valid certificate and 100% compliance for gas safety. Where access has not been provided we are routinely taking action to ensure we achieve the necessary compliance.
- 6.9 The Gas Safe Team (GST) reported 2 potential RIDDOR related compliance cases to the HSE but they were both confirmed as concerns instead of RIDDORs. A procedure makes sure senior management see all RIDDOR gas safety cases before submission to the HSE.
- 6.10 Pressure vessels, associated with communal boiler plant are inspected as part of the council's insurance programme and a gas service improvement plan is in place. All actions have been completed and are reported through our strategic core group and updates go to the audit and pensions committee. There were also 2 other gas safety audits and the recommendations form part of the compliance action plan, which is monitored weekly. One of the audits took place after an officer raised some concerns about gas safety. There was a total of 15 recommendations from the audit, which whilst forming part of the overall compliance action plan, will also be monitored separately to ensure all actions are carried out and evidenced.

Water hygiene

- 6.11 Blocks with 7 dwellings or more have water risk assessments and monthly temperature monitoring. This is up to date apart from circa 25 dwellings where access is needed to the loft space and the householder has not given access. This is being progressed and the most up to date position of outstanding dwellings will be provided at the committee meeting (20 September 2017).
- 6.12 Blocks with a pressurised heating system are deemed to be low risk and there are no compliance issues to report.
- 6.13 Sheltered schemes all have water risk assessments and monthly temperature monitoring which are up to date. The quarterly shower head cleans & thermostatic mixing valve (TMV) temperature checks are in progress and a new programme is being developed with the sheltered housing officers to gain access to properties.
- 6.14 The annual TMV maintenance is in progress for 2017. There are non-compliances for Michael Stewart House and Cedar Lodge, which both have issues with the mains pressure passing into the domestic hot water systems. [8/9 resolved by our maintenance contractor Mitie].

- 6.15 Hostel accommodation all have up to date water risk assessments and monthly temperature monitoring. The quarterly shower head cleans are in progress.
- 6.16 Street properties with 2-6 flats where there are communal water tanks have a scheme of control in place. Access to the loft space can take some time as the resident needs to be at home. As and when we get access to individual flats we are arranging for these properties to be connected to the main water supply.
- 6.17 A new programme to revisit properties not accessed during previous surveys has been put in place with a new water hygiene contractor.
- 6.18 Non-residential properties such as community halls are considered low risk by the HSE guidelines. All blocks with communal water tanks have had risk assessments and are covered by monthly temperature monitoring.
- 6.19 The annual clean and disinfection of communal hot water generators are up to date and temperature monitoring is in progress.
- 6.20 There is a programme of works that covers water hygiene related defects such as water tank cleaning, disinfection, and removal of redundant piping, plus insect screens and seals.

Electrical safety

- 6.21 The information regarding electrical safety is provided for the period covered by the annual report, to March 2017. In order to provide additional assurance the most up to date position across all electrical testing will be provided to the committee at the meeting (20 September 2017)
- 6.22 Portable appliance testing (PAT) – Testing takes place every six months and the current round of testing is completed and recorded on our contractor's customer relations system (CRM).
- 6.23 Electrical safety compliance checks – 60% of the domestic testing programme and 50% of the communal testing programme is complete. The full programme is on target to be completed by November 2018. A review of certification is on-going. Communal site visits are carried out to make sure that tested installations are compliant.
- 6.24 Fire alarms & emergency lighting – A full testing programme for both lighting and fire alarms was completed in April 2017. Communal fire alarm systems installed in certain tower blocks, sheltered housing and hostels have 25% checked every quarter. This makes sure that 100% have been checked annually. For communal lighting systems, our contractor carries out monthly tests to ensure the back-up lights come on when the main switch is turned off. They check that all systems are fully compliant with British Standards (BS). An annual check is done to check back-up batteries work for up to 3 hours for all communal lighting systems.

- 6.25 Service Improvement Plan – A service improvement plan for the Electrical Installation Condition Reports (EICR's) was put in place in February 2017, with 20 actions to be carried out before July. By March 2017, 15 of the actions had been completed. An electrical policy was written to support the action plan and was signed off in February 2017.

Risk register

- 6.25 The last review of the risk registers was October 2016. This will now be done quarterly in 2017/18 by the management team meetings.

Asbestos management and compliance

- 6.26 The Control of Asbestos Regulations 2012 require surveys to be undertaken to the non-domestic areas of council properties. Where these surveys have been carried out they have been forwarded to our repairs and maintenance contractor MITIE, who arrange the asbestos removal work identified on the surveys. As part of our asbestos management plan, we have carried out further stock condition surveys from October 2016. Gradient, our consultant, has reviewed asbestos management compliance, and with the recently employed asbestos manager, are working to deliver the improvement action plan by March 2018.

Shepherds Court Fire

- 6.28 In August 2016, there was a fire in Shepherds Court, which was caused by a tumble dryer catching fire. Residents affected were temporarily rehoused while works were carried out to repair their homes and the communal areas. The London Fire Brigade (LFB) has asked us to commission a specialist to determine whether there are any issues to address with the window panels. Experts were appointed to test the panels, which were found to be compliant.
- 6.29 CS Todd was also commissioned to undertake new fire risk assessments to Shepherds Court and the other three blocks at the same estate.
- 6.30 During 2017 Turner & Townsend will carry out further fire risk assessments to all blocks 6 storey high and above plus all sheltered housing units.

7 HEALTH AND SAFETY PERFORMANCE: SCHOOLS

- 7.1 The school's health and safety building compliance standards document was issued to all schools in September 2016 and again after the Christmas term. A procedure on better communication between the schools, Corporate Health and Safety and Children's Services was issued. This outlines the process followed should there be any non-compliance issues in the school.
- 7.2 Following Amey's audit of Community Schools in 2015, the team has:
- reviewed Amey's audit findings in relation to statutory non-compliance;
 - worked with community schools to, as far as possible, ensure they are statutorily compliant; and
 - all mandatory requirements have been actioned and completed.

These actions will coincide with Corporate Health and Safety school audit plan.

- 7.3 Corporate Health and Safety audited 22 schools last year and there has been two non-compliance. Corporate Health and Safety have provided the schools with the recommendations and offered assistance and support in achieving compliance. All audit recommendations will be followed up systematically. The audits are timetabled on the school calendar, which runs from September to August.
- 7.4 A continuing number of establishments have or are moving to Academy status where, subject to building lease arrangements, the Council will no longer have legal responsibilities, which passes in its entirety to the Trust/Governing Body. We have invited schools moving to Academy status to buy-back into the service level agreement. The service is communicated to schools via the school's bulletin. In addition to the bulletin Corporate Health and Safety contact every school advising them of the service we offer.
- 7.5 3BM (mutual company) continue to manage the on-going asbestos management system for schools. Corporate Health and Safety will be including this contract as part of the audit of contractor management.

8 CONSULTATION

- 8.1 The Council has a legal duty to consult with staff and their representatives. We achieve this through Safety Committees attended by departmental representatives -for Corporate, Adults, Children's Services, and Libraries, at least three times a year.
- 8.2 We publish minutes and actions on the internal website to communicate information throughout the organisation.

9 EQUALITY IMPLICATIONS

- 9.1 The Council has a legal obligation to ensure its services and buildings are accessible to all in and that there are suitable safety arrangements in place. The Corporate Health and Safety team monitor this as part of their audit programme.

10 LEGAL IMPLICATIONS

- 10.1 All legal implications are contained within the body of the report.
- 10.2 *Joyce Golder, Principal Solicitor, 020 7361 2181*

11 FINANCIAL IMPLICATIONS

- 11.1 N/A

12 RISK MANAGEMENT

- 12.1 The Health and Safety at Work Act 1974, often referred to as HASAW or HSW, this Act of Parliament is the main piece of UK health and safety legislation. It places a duty on all employers "to ensure, so far as is reasonably practicable, the health, safety and welfare at work" of all their employees. Other governing legislation acts as the main driver of Health and Safety activity across the Council's services. Managing statutory duty is a Corporate risk and a good Health and Safety culture is seen as business critical. The importance of managing and implementing health & safety measures remains a top priority for the council and compliance with statutory undertakings must be sustained. Improved health and safety standards help services become more effective to finish projects on time and improve their business profile with customers and clients. By maintaining and improving basic health and safety standards, services can understand and maximise the human capital benefits this has across the council.
- 12.2 Risk Implications verified by Michael Sloniowski, Risk Manager telephone 020 8753 2587

13 BACKGROUND PAPERS USED IN PREPARING THIS REPORT

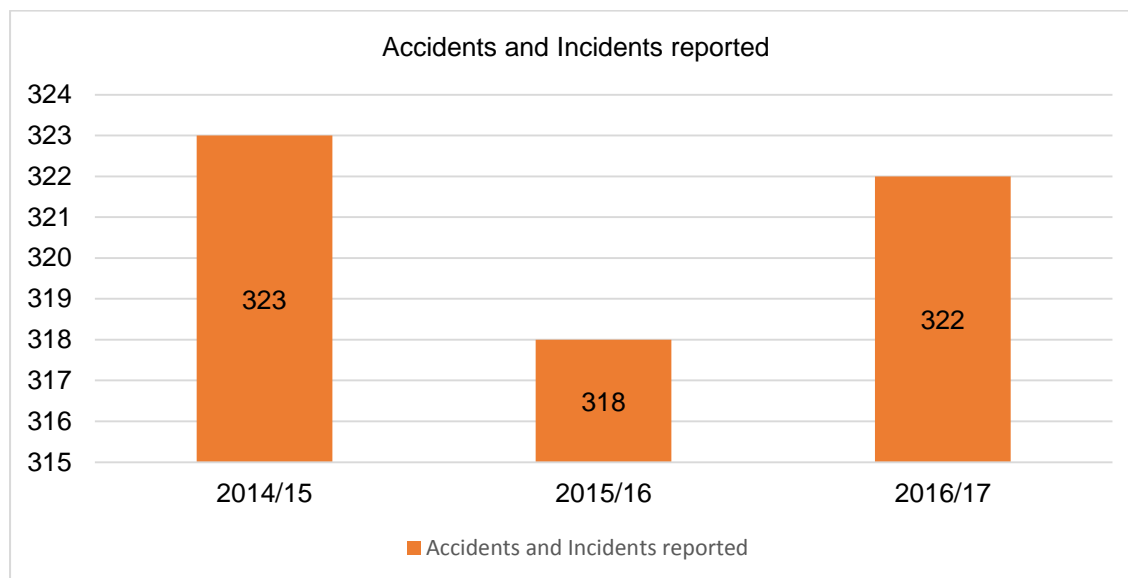
No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
	N/A		

Appendix 1: Accident / incident statistics

Total number of Accident and Incident reports per year. (table 1)

The number of incidents has remained broadly static over the past three years. Given the relatively low numbers, small increases or decreases will have a disproportionate statistical effect. It should be noted there have been changes to services provided in-house and change in headcount.

Table 1



Accident and Incident type by department. (table 2 and 3).

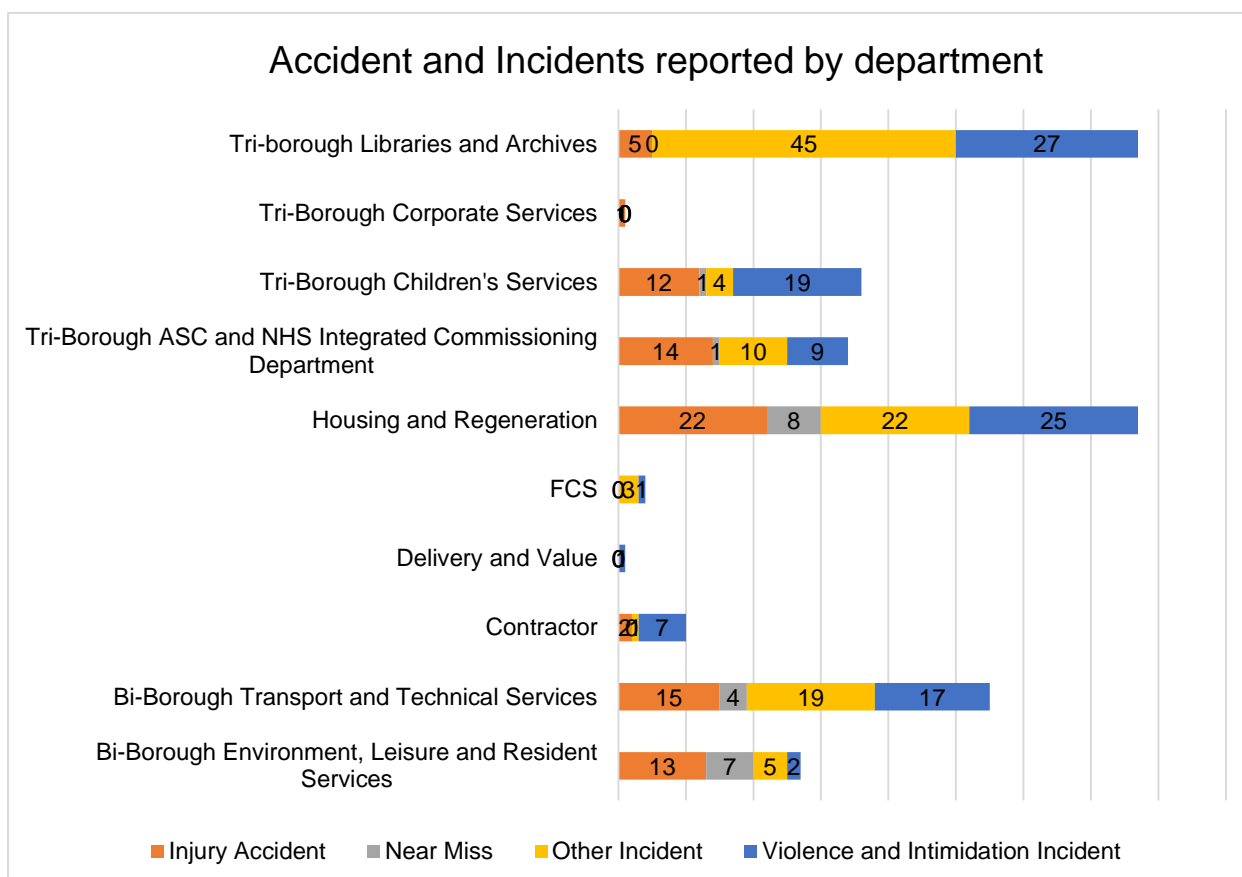
Housing and Regeneration followed by Libraries service have reported the most incidents. Due to the type of service offered and vulnerable service users, the causes of these incidents is sometimes impossible to remove entirely. Majority of these are recorded as Violence and Intimidation incidents followed by Other Incident.

Table 2

Departments	Injury Accident	Near Miss	Other Incident	Violence and Intimidation Incident	Total
Bi-Borough Environment, Leisure and Resident Services	13	7	5	2	27
Bi-Borough Transport and Technical Services	15	4	19	17	55
Contractor	2	0	1	7	10
Delivery and Value	0	0	0	1	1
FCS	0	0	3	1	4
Housing and Regeneration	22	8	22	25	77

Tri-Borough ASC and NHS Integrated Commissioning Department	14	1	10	9	34
Tri-Borough Children's Services	12	1	4	19	36
Tri-Borough Corporate Services	1	0	0	0	1
Tri-borough Libraries and Archives	5	0	45	27	77
Total	84	21	109	108	322

Table 3



Primary cause by year. (Table 4)

There has been a noticeable increase in the category Other/ Not Known. There are incidents which can be difficult to categorise as anything else. For example, when staff in Libraries have had to deal with inappropriate IT use by service users or where vulnerable adults in ASC have severe learning difficulties and obsess over tying knots. Managers must check that where possible the incident is recorded with a specific primary cause as this helps identify where further controls/training may be required.

Several primary causes have previously been used which were not in line with HSE guidance and these have been removed from the system, these are marked with *do not have any incidents reported against these in the past year.

Table 4

Primary Cause	2014/15	2015/16	2016/17
Animal/Insect Bites & Stings	5	0	3
Contact with Electricity	0	1	2
Contact with Moving Object/Person	6	2	12
Contact with Stationary Object/Person	9	4	13
Contact with/Exposure to Water/Air Pressure	3	0	0
Contact/Exposure to Biological Hazards	0	1	2
Contact/Struck by Person	7	0	14
Cuts/Sharp objects	2	2	8
Entrapment/Entanglement	1	1	2
Expose to Extreme Heat/Cold	4	0	4
Exposure to Noise/Vibration	1	0	0
Exposure/Contact with Hazardous Substance	1	0	11
Fall from Height	3	0	0
Fall whilst Ascending/Descending	2	4	14
Fire	1	0	4
Hit by Moving/Flying Object	1	2	10
Ill health	3	0	19
Manual Handling (Object)	7	2	2
Manual Handling (Person)	1	2	1
Other/Not Known	11	3	127
Repetitive Movement Injury	1	0	0
Road Traffic Accident	5	4	3
Security Incident*	0	0	0
Slip/Trip	10	7	25
Stress*	0	0	0
Theft/Security*	0	0	0
Violent Act	0	0	46
Total	151	103	322

Violent or abusive incident type by year. Table 5 and 6. Compared to previous years there is an increase in the number of reported violent or abusive incidents. There is a significant increase in the number of violence without injury incidents followed by verbal abuse/threat. Housing and Regeneration and Libraries have reported most of these incidents. As before, due to the nature of the service provided and the vulnerable service users, it is unfortunate but inevitable that these incidents will take place. It is important that control measures in risk assessments are reviewed and appropriate support and training is in place for staff to deal with such incidents. Work is ongoing with Libraries and training is ongoing for conflict management and lone working. Corporate Safety will be assisting Housing and Regeneration Health and Safety team on follow up action on incidents reported.

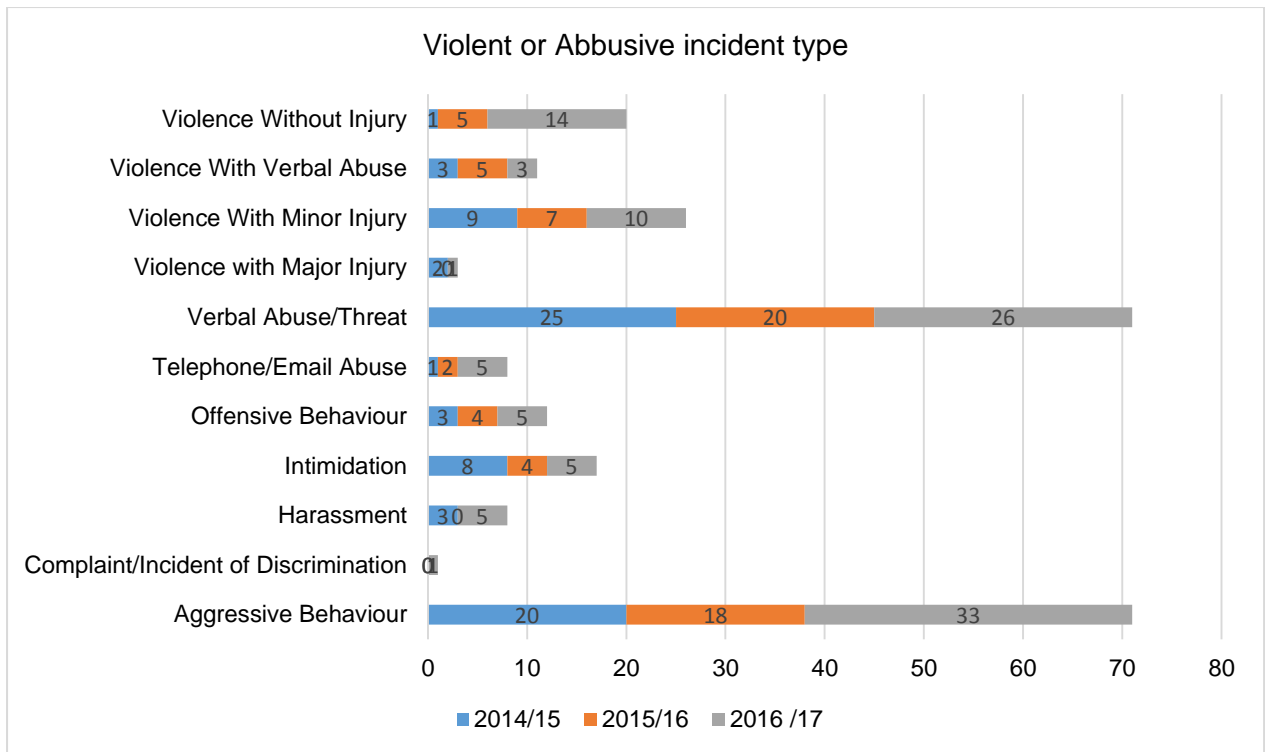


Table 6

Violent or Abusive incident type	2014/15	2015/16	2016 /17
Aggressive Behaviour	20	18	33
Complaint/Incident of Discrimination	0	0	1
Harassment	3	0	5
Intimidation	8	4	5
Offensive Behaviour	3	4	5
Telephone/Email Abuse	1	2	5
Verbal Abuse/Threat	25	20	26
Violence with Major Injury	2	0	1
Violence with Minor Injury	9	7	10
Violence with Verbal Abuse	3	5	3
Violence Without Injury	1	5	14
Grand Total	75	65	108

Appendix 2 Shared Services Corporate Health and Safety Business Plan

Business Plan 2016 to 2018			Corporate Health and Safety		
Strategic Aim	Objective Description	Business Plan Action	Timeline	Owner	Status
Page 419 Acting Together	Corporate Health and Safety Policy and responsibilities to reflect 'Aim'	Review all health and safety related policies, procedures, and guidance with the aim of simplification through a focus on significant risks and staff responsibilities. Update as required. Sign off by Bi-B safety committee and senior management team	Sep-16	CST	Completed
		Review, with the aim of simplification, the corporately required H&S training, documentation, assessments etc. needed per team / Service	Jun-16	CST	Completed
		Once reviewed agree then issue clear guidance on updated corporate requirements for H&S training, documentation, assessments etc.	Jul-16	CST	Completed
	All staff 'Job Descriptions' to include a health and safety requirement	Confirm with HR health and safety statement.	May-16	CST / HR	Outstanding. Aiming for Nov 2017
		Ensure staff H&S responsibility is highlighted in online induction and refresher training	Jun-16	CST	Completed
	Consistent departmental representation at quarterly held Safety Committee to promote good health and safety	Departmental representatives to nominate substitute in their absence. All representatives required to update the committee on any issues on a quarterly basis.	Apr-16 & ongoing	CST	Continuing objective
		Details of those departments who do not attend Safety Committee to be raised at JMT	Apr-16 & ongoing	Bi-B H&S Lead Director	
	All managers to lead by 'example' by reviewing accidents and incidents that involve their team members or relate to their team work activities, ensuring staff have completed a health and safety induction/refresher and that the risk assessment for their team is updated annually or when required.	Monthly report to be issued to SMT giving details of any incident/accident records which have not been reviewed as required by the relevant manager. In addition follow up undertaken with specific managers	May-16	CST	Quarterly - ongoing
		Sample audit of risk assessments undertaken to ascertain strength of control measures	Jul-16	CST	Completed
		Risk assessments to be collated centrally and areas of non-compliance highlighted	May-16	CST	Completed

		Training records to reviewed quarterly and areas of non-compliance highlighted	Jun-16	CST / L&D	Completed. Live monitoring by managers through Awaken.
Page 420 Tackling Ill-Health	Analyse ill-health across the Council with focus on improving mental well-being and healthy upper body	Analyse Your Voice and Occupational Health data and sickness reports. Identify hotspots or potential hotspots for targeting.	Aug-16	CST / HR	Completed
	Ensure all staff complete Workrite DSE assessments	DSE management actions to sampled audited and reported to senior management	Aug-16	CST	Completed. New self assessment through Awaken.
	Ensure all accidents / incidents are suitably reviewed by the relevant managers and action taken where needed	Run a monthly report on void manager incident/accident comments and follow up.	May-16 & ongoing	CST	HS lead advisors follow up with departments.
	Target higher risk areas	Sections of organisation risk assessed to ascertain areas for additional focus. Assign officer to assist management with relevant training and local initiatives	Jul-16	CST	Through themed based audits and review of incidents. Ongoing.
	Proactive well-being initiatives	Work with HR on well-being strategy to encourage activities throughout the organisation including yoga, mindfulness, mediation, use of leisure centres etc.	Aug-16	CST / HR	Ongoing. Member of health and wellbeing group. New health and wellbeing module in Awaken. Mandatory training.
	All office moves to have account of health and safety	Establish contact with relevant board and obtain information on planned moves	Sep-17	CST	
Managing risk well	Organisational Risk Management Profile	Analyse, monitor and report on corporate risk register for people, management, and buildings. Risk register to be reviewed on at least a quarterly basis and routinely scrutinised by committee.	July 16 & ongoing	CST	On-going

Focus on raising awareness of 4 key hazards and controls: DSE, stress, lone working and violence and aggression	Visual cues to be placed on desks, message of the day and noticeboards for staff. Agree mandatory training for staff on DSE and Stress. Roll out through Learning and Development.	Sep-16	CST / L&D	Regular comms via Intranet, emails and Yammer.
Mandatory core training for all staff based on health and safety matrix	Draft and approve matrix with safety committee. Senior management to sign off. Review and update on-line training package, fire safety training and manager induction training. Engage with managers to coordinate training via Learning and Development. Training records to be reviewed quarterly.	Sep-16 & ongoing	CST	Launched April 2017 new Awaken ongoing health and safety training.
Senior management to be given specific training on managing safety and health	Programme to ensure all senior managers have received health and safety training for senior managers	Sep-16 & ongoing	CST	Arranged via new training provider
Training 4 th tier managers on managing safety	Identify half day programme covering key risks and coordinate delivery programme: monitor and report to senior management teams. Drive through with Learning and Development	Sep-16 & ongoing	CST / L&D	FEO training ongoing
Suitable fire evacuation arrangements in place for corporate buildings	Category 1 building fire warden's numbers to be calculated. At least twice that number to be trained owing to flexible working and holiday leave to ensure suitable cover. Training to be reviewed to ensure it is specific. Training to be rolled out for EVAC chairs and Personal Emergency Evacuation Plans (PEEPS). Visual cues to be placed on desks and noticeboards for staff	Jul-16	CST	As above.
To ascertain compliance with legally required standards in the main areas of property management risk undertake a sample audit across all Service areas of safety management arrangements in place and where appropriate make recommendations:	Audit across service areas of asbestos management	Dec-16	CST	Have tried but struggling due to lack of AMP and ARA
	Audit across service areas of fire safety management	Dec-16	CST	HRD audit undertaken. Several category 2 sites scheduled for audit Autumn 2017.
	Audit across service areas of gas safety management	Mar-17	CST	Outstanding
	Audit across service areas of lifting equipment maintenance and testing arrangements	Mar-17	CST	Outstanding
	Audit across service areas of the control measures in place to manage the risk to staff and others during lone working / from violence and aggression	Mar-17	CST	On-going

Managing risk well		Audit across service areas of the management of work related stress / ill health	Mar-17	CST	Several audits undertaken 2016 - 2017.
	Sufficent number of first aiders in place for corporate buildings	Category 1 building first aider numbers to be calculated. At least twice that number to be trained owing to flexible working and holiday leave to ensure suitable cover.	Sept -17 & ongoing	CST	
	Health and Safety management arrangements for client function	Monitor client H&S management arrangements	Oct 17 & ongoing	CST	Audits arranged for Autumn 2017.
Sharing Our Success	Publicising Safety Committee results	Message of day: quarterly, report on minutes and key action	ongoing	CST	Continuing.
	Message of the Day	Quarterly and ad-hoc publicity of health and safety messages	ongoing	CST	Continuing
	Visual cues to promote fire safety, work station set up and staff well-being	Use of highly visible visual cues to raise health and safety awareness in core risk areas	Jun-16	CST	Work in progress with Amey and LINK.
	Report to senior management on performance	Twice yearly report on health and safety performance including accident/incident stats, training, developing areas of legislation and potential impacts, service level performance, benchmarking with other sector organisations	Quarterly	CST	Via six-month update report
	Annual report to Audit and Pensions Committee on the organisation's performance	End of year report for challenge by scrutiny	Annual	CST	Ongoing
	Key Performance Measures	Agree performance measures for corporate health and safety. Sign off with safety committee and senior management. Report 6 monthly.	6 monthly	CST	On-going. Included in six month report
Keeping Pace with Change	Health and safety advisor's weekly updates from British Safety Council on latest changes	Circulate message to health and safety personnel and individuals with responsibility.	As/when needed	CST	
	Health and safety advisors to maintain CPD	Annual appraisal and emerging issues to shape continual professional development. IOSH/CIEH approved.	Annual	CST	On-going
	Maintain Risk management profile	Reviewed and updated quarterly to reflect any legislative changes or major impacts	As/when needed	CST	On-going
	Review the council's policy and procedures annually	Review list of procedures annually for accuracy and relevance	Jun-16 & ongoing	CST	On-going

<p align="center">London Borough of Hammersmith & Fulham</p> <p align="center">AUDIT PENSIONS AND STANDARDS COMMITTEE</p> <p align="center">20 September 2017</p>	
<p>RISK MANAGEMENT UPDATE</p>	
<p>Report of the Director for Audit, Risk, Fraud and Insurances – David Hughes</p>	
<p>Part Exempt Report Exempt elements of this report can be found in the exempt agenda.</p>	
<p>Classification: For review and comment Key Decision: No</p>	
<p>Consultation: <i>All service departments were consulted as part of the quarterly review.</i></p>	
<p>Wards Affected: None</p>	
<p>Accountable Director: David Hughes, Director for Audit, Risk, Fraud and Insurances</p>	
<p>Report Author: Michael Sloniowski, Risk Manager</p>	<p>Contact Details: Tel: 020 8753 2587 michael.sloniowski@lbhf.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1. The purpose of this report is to provide members of the Audit, Pensions and Standards Committee with an update on risk management within the Authority, and present them with the corporate and service risk registers for consideration.

2. RECOMMENDATIONS

- 2.1. That the Committee review and consider the contents of the Corporate and Service Risk Registers.

3. REASONS FOR DECISION

- 3.1. The Accounts and Audit Regulations 2015 states that the Council must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk. It is paramount that all risks are

clearly identified, managed and reported through the relevant channel. Risks can never be entirely eliminated but proportionate and targeted action can be taken to reduce risks to an acceptable level. It is essential that managers and their teams manage risks to:

- achieve council priorities to put residents first;
- ensure robust financial management;
- protect staff and residents;
- protect valuable assets;
- maintain and promote the council's reputation.

4. PROPOSAL AND ISSUES

4.1. Risk is the uncertainty of an event occurring that could have an impact on the achievement of objectives, and is measured in terms of impact and likelihood. For the London Borough of Hammersmith and Fulham, risk management is the process whereby the council methodically addresses these risks to achieving its vision, corporate and operational objectives.

4.2. The Strategic Leadership Team and Chief Executive needs a full understanding of the Councils' risks to fulfil its fiduciary duty. Managing risk is therefore part of everyday business for the Council and is a process that involves the early identification of risks, assessing their potential consequences and determining the most effective way to reduce the likelihood and/or impact of the risk.

4.3. The Council's approach to risk management requires managers and staff, through their Senior Management Teams, to:

- identify risks;
- assess the risk;
- agree and take action to manage the risk;
- monitor and review risks.

4.4. A greater level of scrutiny of risk is now becoming normal practice. Expectations have increased internally and by the public on how risks are identified, measured, and mitigated. This has resulted in a higher level of scrutiny of registers at Corporate and Service Level and it is anticipated that this focus will continue for the foreseeable future. Following the June meeting of the Council's Audit, Pensions and Standards Committee a commitment was made to undertake a thorough review of the Council's Corporate and Service risks facilitated by the Council's Internal Audit, Risk, Fraud and Insurances Service. That has been achieved and the process undertaken to review risk registers in this quarter is attached as **Appendix 1**.

Corporate Risk Register

4.5. The changes from the June 2017 version which was approved by the Audit, Pensions and Standards Committee are summarised below. No risks have been deleted, although Committee should note that Corp 15, which relate to the Managed Services, are relevant at the time of writing this report but are likely to be deleted from the corporate risk register following the close of the Programme and completion of any related operational work. The high risks

extracted from the Corporate, Service and themed registers are attached as **Appendix 3**.

4.6. The detailed Corporate Risk Register is attached as **Appendix 4**.

Additions:

4.6.1. Corp. 16; **Compliance with statutory Risk Assessments**
(Housing and non-Housing Property)

The Council has duties to ensure that buildings under our control comply with appropriate statutory, regulatory and corporate standards. This new entry covers property compliance areas where the Council has an obligation to undertake risk assessment in connection with, for example, Asbestos, Legionella and electrical safety rules for dwellings in the Building Regulations for England and Wales.

Following the appointment of the interim Chief Executive, reviews were instigated of property compliance. The reviews commenced prior to the Grenfell Tower fire, but were given added impetus by the tragedy.

The reviews identified weaknesses in record keeping, quality assurance and assessment.

In July 2017, to ensure a corporate approach was taken, the interim Chief Executive formed a Property Compliance Task Force, made up of the most senior officers with responsibility for property health and safety.

The Task Force has overseen rapid improvements in property compliance. As reported to the Economic, Regeneration, Housing and the Arts Policy and Accountability Committee on 06 September 2017, a new standard in fire safety has been implemented, with Full Council approving the Fire Safety Plus programme which will see £20m invested into the stock over the next two years, all targeted at making sure residents' homes are safe.

The Task Force has looked at compliance standards across all of the types of property that the council owns, leases or commissions services from. Pressure continues to be applied to ensure the compliance of corporate property under the Amey Total Facilities Management contract. The Task Force is ensuring the right policies, practices and contracts are in place to meet the council's ambition to go beyond the duties required of us, for our residents, businesses that occupy commercial premises, providers of services to the council and our staff.

In parallel, an investigation is underway outside of the remit of the Task Force to determine how and why weaknesses in the arrangements occurred.

4.6.2. Corp. 17; **Co-ordination and response to calls on the Council for Mutual Aid in a crisis**

Councils have a duty to ensure Co-operation between organisations and this is fundamental to emergency preparedness. Many organisations will need to co-operate when responding to emergencies, so it is right that organisations co-operate closely in preparedness and planning as well. Following the experience of the Grenfell Tower the procedures surrounding the accepting, processing and storing gifts and donations require revised procedures.

4.6.3. Corp. 18; **Change Readiness**

Change Management risks associated with, for example, readiness for SmartWorking 2 and Moving On.

4.6.4. Corp. 19; **Recruitment and retention**

Recruitment and retention of the best staff becomes a challenge resulting in higher agency costs, lower productivity and higher turnover of staff, in turn resulting in lower performance in delivery.

4.6.5. Corp. 20; **Moving On**

Failure to deliver "Moving On" programme and extricate LBHF from legacy shared service arrangements with RBKC and WCC.

4.6.6. Corp. 21; **Procurement of replacement HR, Payroll and Finance Services**

This entry is exempted as there are commercial and procurement processes being undertaken in association with this entry.

4.6.7. Corp. 22; **King Street Regeneration Programme**

This entry is exempted as there are commercial processes being undertaken in association with this entry.

Minor Changes:

4.6.8. Corp 1; **Financial Management in year budget 2017/2018 and Medium Term Planning**

Risk has been altered to better reflect the nature of the risk e.g. Reduced Funding Levels, Managed Services, and the move away from Shared Services arrangements for Adults Social Care and Children's Services. The pressures on local authority budgets in the current economic climate mean that despite mitigating actions, the risk levels are high.

4.6.9. Corp 2; **Business Continuity/ Disaster Recovery Plans not in place or inadequate**

Description of the controls in place have been updated to reflect changes to business continuity threats, which have been updated to consider the 2017 structure of the organisation, the sovereign IT function and the risks to service delivery in the event of Cyber attacks and of Supply Chain exposures. A report proposing a software solution

to assist in Business Continuity has been presented to the Council's Business Delivery Team.

4.6.10. Corp 7; **Information Management and Digital Continuity**

Both the risk description and the descriptions of the controls in place have been updated to reflect current circumstances and to include risks around non-compliance with the General Data Protection Regulations.

Issues

Access to risk registers for the Strategic Leadership Team.

- 4.7. Corporate and Service Risk Registers have recently been migrated across to a controlled Office 365 site and are available to all Members of the Strategic Leadership Team for review.

Escalation of risks.

- 4.8. Timely escalation of risks ensures that managers have a clearer picture on risks or issues facing their service areas. This helps in the overall decision making process by allowing senior staff to allocate resources, or review areas of concern. The council's risk management process has evolved to improve this area and help drive Service Delivery forward in the knowledge that the key risks now faced are being effectively identified, assessed and managed. **Appendix 2** set out how risks the principles of how key risks should be escalated.

Future risks and opportunities for Audit, Pensions and Standards Committee discussion.

- 4.9. New risks are always emerging. Following engagement with Services and professional organisations regarding the content of registers a number of observations on future key risks were made.
- 4.10. **Cognitive technologies** that in the future may augment human decision-making. Driven by developments in artificial intelligence (AI) and easy access to huge amounts of data, smart systems will assist, and at times even replace, human-led decision making. Presents both opportunities and risks.
- 4.11. **Rapid pace of proliferation of innovations by breaking away from traditional industry norms and established assumptions built into regulations.** Examples may already be seen in the IT Applications enabling access to General Practitioners for consultations and prescriptions via Smartphones.
- 4.12. **Reputation risks rapidly accelerate and are amplified.** Driving this trend is the convergence of mobile and social media that is intensifying the impact of reputation risks for Councils as seen during the Grenfell Tower incident and is driving a fundamental rethink to the approaches in communication and training proactively addressing these accelerated, amplified risks.

- 4.13. **Heightened exposure to cyber risks as business processes rely more heavily on the Internet.** Rising threat of nation states investing significant resources into disruptive activities.
- 4.14. **Greater availability of data** revealing risks in areas that were formerly considered safe, resulting in new obligations to manage those risks or increased liability.
- 4.15. **Rising privacy concerns** from employees, customers, and business partners because of pervasive monitoring.
- 4.16. **Advancements in driverless technology, drones.** Drones, also known as “unmanned aerial systems” or UASs, are poised to become ubiquitous in coming decades. Drones are projected to provide enormous productivity gains and cost savings in output, product delivery, mapping and data gathering, as well as to provide another outlet as a hobby. **Autonomous vehicles or driverless cars** are automotive technologies that permit automobiles to operate without human assistance. Driverless cars are expected to dramatically reduce the number of highway deaths and injuries while lowering the costs of transportation.
- 4.17. Vigilance and resilience of Council Officers will become increasingly important in managing the new emerging risk landscape. Opportunities to better identify and test cutting-edge, commercially available tools focused on vigilance and resilience will need to be appraised. We can expect risks like these to rise in importance, as a result, the monitoring of emerging threats, identifying anomalies in business processes, managing stoppages from third-party vendors, and preparing for risk-related workplace disruptions due to cyber-crime will become business critical.

5. OPTIONS AND ANALYSIS OF OPTIONS

Improving the system of Risk Escalation.

- 5.1. A key element to effective risk management is on-going vigilance and the communication and escalation of risk information to the appropriate management level in a timely fashion. The framework for the reporting and escalation of risk within the Council is based on the organisational structure and normal reporting lines and which also recognises the increasing role of our residents. Improvements in this area can be made by setting out clearer guidance on risk escalation and for this to be communicated to those involved in the administration of risk register information. Whilst Programmes and Projects can ensure communication by reporting and escalating risks to their respective Boards/Committees through the appropriate channels, Officers who administer Service Registers are not always clear of the key principles that they should follow. To that extent the key principles for risk escalation are set out more clearly in **Appendix 2** and will be communicated to Officers.

6. CONSULTATION

- 6.1. Consultation has taken place with Service Department Risk Representatives and Subject Matter Experts in Business Continuity, Insurances, Health and Safety, Commercial and Procurement, Internal Audit and Information Management.

7. EQUALITY IMPLICATIONS

- 7.1. There are no direct Equality implications associated with the presentation of Risk Registers to the Strategic Leadership Team and Audit, Pensions and Standards Committee.

8. LEGAL IMPLICATIONS

- 8.1. There are no direct Equality implications associated with the presentation of Risk Registers to the Strategic Leadership Team and Audit, Pensions and Standards Committee.

9. FINANCIAL IMPLICATIONS

- 9.1. There are no direct Finance implications associated with the presentation of Risk Registers to the Strategic Leadership Team and Audit, Pensions and Standards Committee.

10. IMPLICATIONS FOR BUSINESS

- 10.1. There are no direct implications for business associated with the presentation of Risk Registers to the Strategic Leadership Team and Audit, Pensions and Standards Committee.

11. COMMERCIAL IMPLICATIONS

- 11.1. There are no direct implications for business associated with the presentation of Risk Registers to the Strategic Leadership Team and Audit, Pensions and Standards Committee.

12. IT IMPLICATIONS

- 12.1. There are no direct implications for Information Technology associated with the presentation of Risk Registers to the Strategic Leadership Team and Audit, Pensions and Standards Committee.

13. OTHER IMPLICATION PARAGRAPHS

- 13.1. Risk Management is a statutory responsibility under the Accounts and Audit Regulations 2015. A relevant authority, the Council, must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk.
- 13.2. *Implications completed by Michael Sloniowski, Risk Manager, telephone 020 8753 2587.*

14. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None.

LIST OF APPENDICES

Appendix 1, Quarterly review of risk registers.

Appendix 2, Escalation of risk, key principles.

Appendix 3, Services High Level Risk Dashboard (High Corporate, Service and Themed risks)

Appendix 4, Corporate Risk Register.

Quarterly review of Risk Registers

- 1.1. Strategic Leadership team recognise that there should be regular assessment and internal challenge of the effectiveness of management actions put in place in registers to reduce the likelihood / impact of adverse risk events occurring. Alternative action will need to be taken if the initial action has proved ineffective. Management assurance that controls are in place and are continuing to work effectively to mitigate risk is a key part of the review process and can be conducted as part of the quarterly cycle. During the period 185 risks were reviewed by Council Officers both corporately and in services.
- 1.2. Although the exact process used differs between management teams, the following is an example of how Council Officers in Services approached the review this quarter:
- 1.3. Services were encouraged to go through the risks listed in their register to consider:
 - whether each risk is still valid;
 - reviewed ownership of the risk;
 - if the situation has changed in the interim period regarding the mitigating actions / controls in place or if it stays the same;
 - record descriptions of any further mitigating actions that are being carried out now;
 - move any actions from the “further agreed control measures” column if they have been implemented and update this column as necessary;
 - use the likelihood and impact definitions to determine the amended residual risk if appropriate.
 - if a risk should be escalated, if in the light of the review it is more serious than was first thought and requires more senior management action.
 - if a risk should be delegated e.g. to service level, if in the light of the review it is relevant to that service and can be managed at a local level.
 - if any risks should be deleted, and if so record the deleted record in a separate area for the record, and to;

identify if any new risks have arisen, for example:

 - from an adverse event occurring;
 - by something new happening, e.g. a new partner organisation to work with, a new project starting, new / different way of delivering services;
 - as a result of ongoing management review, e.g. unexpected demand for a service, etc.
 - from changes in legislation;
 - use the likelihood and impact definitions to determine the inherent and residual risk associated to any new risks, and capture the mitigating actions /controls currently in place.

Escalation of risk, key principles

Risk escalation is based on the following key principles:

- 1.1. All Directors, managers, staff and residents are empowered to escalate. Importantly, escalation should not be not seen as a failure. Escalation is a tool to ensure that risks that cannot be resolved at one level are relayed to the next level to ensure that every effort is made to mitigate the risk.
- 1.2. Escalation needs to be timely. It is important that risks are escalated early and in good time to affect a resolution.
- 1.3. Escalation needs to be managed. It is not sufficient to simply escalate a risk to the next management level. It is important that when a risk is escalated, it is reassessed as to its impact on the achievement of objectives at that next level.
- 1.4. Escalation should be documented. It is important that all risks are recorded, where appropriate, in risk registers or risk action plans. Any escalation should be followed up with written or email documentation detailing the risk and retained. Office 365 can be used for this purpose as individual sites can be set up to specifically address this.

Source: Corporate Risk Register Quarter 1

<u>Risk</u>	<u>Category and Context</u>	<u>1. Action/ 2. Mitigation</u>	<u>Owner</u>	<u>Rating</u>
<p>1. Financial Management</p> <p>In year budget 2017/2018 and Medium Term Planning</p>	<p>Financial</p> <p>The ongoing challenge of reshaping and delivering council services, within significantly reduced funding levels and increased demand pressures, remains a significant risk. This is both an in year risk and one going forwards over the medium term. As such, our approach to identifying savings includes undertaking specific service reviews, identifying and delivering savings through transformation portfolios and identifying other savings and income opportunities.</p> <p>In addition to gaps in revenue funding there are also some significant risks to funding the capital programme with reduced capital receipts and uncertainties on significant projects.</p> <p>Specific risks that will need to be reflected in the medium term financial strategy include continued additional costs of the Managed Services Provider and costs of the transition from the current Managed Services Provider for Finance and Human Resources to a new provider.</p>	<p>1. Challenge meetings to challenge 2018/19 budget process scheduled take place in July and September 2017.</p> <p>2. The council manages its financial risks through a range of controls including budget preparation, budget setting and a Budget Accountability Framework which updated the roles and responsibilities for managing, monitoring and forecasting income and expenditure against approved budgets. The level of reserves and balances are also regularly reviewed to ensure that account is taken of any financial risk. Financial Regulations and Financial Scheme of Delegation are in place. Regular in-year monitoring and reporting, review of future financial plans and assessment of financial risks and reserves are undertaken to ensure the financial plans are delivered. Corporate Revenue Monitoring Reports with identified risks reported to Cabinet, overspending departments prepare action plans with responsible Directors identified. 2017/18 Budget and Capital Programme agreed by Full Council in February 2017. Medium Term Financial Strategy reported to Finance and Delivery, Policy and Accountability Committee February 2017 detailing savings, growth, and risks.</p>	<p>Strategic Leadership Team</p> <p>Hitesh Jolapara, Strategic Finance Director, London Borough of Hammersmith and Fulham.</p>	<p>HIGH</p>

Risk	Category and Context	1. Action/ 2. Mitigation	Owner	Rating
<p>4. Market testing risks.</p> <p>1. Failure to deliver high quality commissioned services at the best cost to the taxpayer. Inadequate forward planning risks (commissioning and procurement).</p> <p>2. Failure to comply with public procurement regulations, potential legal action, and lack of robust Member oversight.</p> <p>3. Not achieving Social Value through procurement.</p> <p>4. Contract performance management.</p>	<p>Commercial and Procurement</p> <p>Restructuring of the Corporate Commercial and Procurement Management is underway with jobs recently advertised. Hammersmith & Fulham Amendments to Contract Standing Orders have been approved by full Council to facilitate earlier Cabinet visibility and approval of commissioning and procurement strategies before competitive tendering exercises commence. The Cabinet Member for Commercial Revenue and Resident Satisfaction has also requested regular Cabinet Member monitoring of all departments 3-year forward commissioning and procurement plans.</p> <p>LBHF have appointed a Commercial Director who also leads on procurement. Work is currently being undertaken to review the Contracts Register.</p>	<p>1. Undertaking a review of strategic contracts in order to identify potential contract improvements, establish contract standards and identify any further contract savings. Implemented improvement plans on a number of resident facing service contracts to ensure service delivery to contract standards. Renegotiation of contracts that were procured on a tri borough basis. This main contract s with Amey and will be soon on a sovereign basis within H&F. Introduced a gateway approach for cabinet, CMD and procurement strategy sign off. This ensures there is a checking of commercial activity across the departments and the start of challenging a culture of direct awards seen in some departments.</p> <p>2. Adult Social Care and Childrens Services Departments have established contract and commissioning boards. A Shared Services Contracts Approval Board had been established but will now only be used for Westminster City Council sovereign procurement decisions. Contract registers are now managed through the CapitalESourcing e-procurement system hosted by Westminster City Council and have recently been audited. Training is being provided on Contract Management across the Shared Services. Annual Governance Statement Action Plan monitoring. (See Actions) BDT have corporate oversight on procurement. Maintain a watching brief on the financial and commercial stability of major contractors. In addition to all decision reports going through at H&F they are subject to 2 additional key controls: Cabinet Member Briefing Boards, Cabinet (via Cabinet Briefing) Revised Contract Standing Orders for LBHF took effect on 1 July 2016 for all procurements advertised on or after this date. This ensured that Cabinet see forward Commissioning Plans and a Procurement Strategy on each procurement. Commercially led Significant Contract reviews. Update of the Commercial Director to Finance and Delivery, Policy and Accountability Committee.</p>	<p>Strategic Leadership Team</p> <p>Michael Hainge Commercial Director Chief Executives Department</p>	<p>HIGH</p>

<u>Risk</u>	<u>Category and Context</u>	<u>1. Action/ 2. Mitigation</u>	<u>Owner</u>	<u>Rating</u>
<p>5. Public Health Budgets</p> <p>Going forward, if the Shared Services Councils are to achieve significant improvements in population health outcomes in the current economic climate, choices need to be made about how best to allocate Public Health resources to specific programmes or work/ services. In order to support these decisions, the Public Health team is in the process of developing and testing a prioritisation framework tool.</p>	<p>Financial</p> <p>The Director of Public Health is in the process of reviewing the Public Health team's operating model, structure and plans in order to ensure the Public Health function can work to maximise the impact on population health within available resources. A key milestone is to have an effective staff structure in place in time for the next financial year. A staff consultation on the proposed Public Health re-structure is taking place during November 2016.</p>	<p>1</p> <p>2. For 2016-17 the public health ring-fence remains in place, with any underspends in the year being carried forward as a receipt in advance, or any overspends matched with a draw-down from prior years' receipts in advance as appropriate.</p> <p>The Public Health team are continually working to improve Public Health services through performance monitoring, service improvements and re-tendering.</p> <p>2017 2018 Public Health Priorities and the Public Health Prioritisation Framework.</p>	<p>Dr Mike Robinson, Director of Public Health</p>	<p>HIGH</p>

<u>Risk</u>	<u>Category and Context</u>	<u>1. Action/ 2. Mitigation</u>	<u>Owner</u>	<u>Rating</u>
<p>6. Business Continuity</p> <p>1). Limited joined up systems, processes and resources in the event of a Royal Borough of Kensington and Chelsea and London Borough of Hammersmith and Fulham Business Continuity internal / external incident.</p> <p>2) Non-availability of I.T. systems, cyber attacks.</p> <p>3) Significant accommodation moves.</p>	<p>Resilience</p> <p>There have been a number of events in the last reporting period; Westminster Bridge 22/03/17. NHS Cyber ransomware attack 12/05/17 Manchester Arena Terrorism incident 22/05/17 London Bridge and Borough Market Terrorism 06/06/17 Grenfell Road response to fire. 14/06/17 Finsbury Park Mosque 21/06/17. Petya Cyber ransomware attack 27/06/17</p> <p>Service Resilience Group Terms of reference being reviewed and re-articulated following the multiple recent incidents by 01 August 2017</p> <p>Identify all key Officers suitable for crisis management training and agree a format and delivery vehicle for their training</p>	<p>1. Review of all Service Continuity Plans in August 17. Report to Finance and Delivery Policy and Accountability Committee in September 17. Supply Chain Resilience guidance to be issued for review and approval by Business Delivery Team. Business Continuity software report to be taken to Cabinet Member for decision.</p> <p>2. Corporate Business Continuity Policies and Strategies have been agreed at the former Business Board at Hammersmith and Fulham and Management Board at the Royal Borough of Kensington and Chelsea, and updated accordingly, ensuring commonality for incident management.</p> <p>London Borough of Hammersmith and Fulham use Creditsafe for the assessment of contractor credit and liquidity risks, with The Royal Borough of Kensington and Chelsea, Westminster City Council utilising Creditsafe via CapitalEsourcing.</p> <p>Owners of Priority 1 and Priority 2 classified services have been requested to ensure a their service continuity plans have a strategy in place to cater for the loss of service and critical suppliers, are self-tested and authorised by Directors.</p> <p>Risks are being identified and managed through the Service Resilience Group at Hammersmith and Fulham and via a themed Business Continuity Register including horizon scanning.</p>	<p>Environmental Services</p> <p>Nick Austin, Borough Director for Environmental Health, London Borough of Hammersmith and Fulham</p>	<p>HIGH</p>

<u>Risk</u>	<u>Category and Context</u>	<u>1. Action/ 2. Mitigation</u>	<u>Owner</u>	<u>Rating</u>
<p>8. Managing statutory duty</p> <p>Non-compliance with laws and regulations. Breach of a duty of care. Non-compliance with Health and Safety at Work. Equalities and Human Rights. Integrated Transport for London Programme (Funding Highways Improvements).</p>	<p>Legal, Governance</p> <p>Internal Audit of Organisational Health and Safety undertaken. Internal Audit of LBHF gas safety arrangements undertaken. Corporate Safety Team business plan and audit programme established. Departmental and statutory Corporate Safety committee established and meeting regularly. Regular Health and Safety performance reports to the Management Team. Shared Service Building Compliance Board established.</p>	<p>1</p> <p>2. Shared Services Incident reporting on-line software. Shared Services training software, Workrite. A separate Health and Safety service is provided in the Housing Service. Legislative changes are adopted and reflected in amendments to the Councils constitutions and budgets allocated through a unified business and financial planning process. Amey now manage a number of statutory and regulatory procedural and record management processes. Statutory returns to, for example, the Food Standards Agency, Health and Safety Executive</p>	<p>Strategic Leadership Team</p> <p>Kim Dero, Interim Chief Executive, London Borough of Hammersmith and Fulham Council.</p>	<p>HIGH</p>

<u>Risk</u>	<u>Category and Context</u>	<u>1. Action/ 2. Mitigation</u>	<u>Owner</u>	<u>Rating</u>
<p>13. Failure to identify and address internal and external fraud.</p> <p>Potential exploitation of Managed Services Agresso systems during implementation and towards business as usual delivery.</p> <p>(Links to risk number 7, perceived threats and vulnerabilities in association with Cyber-crime activities)</p> <p>Employee related Tenancy and Housing (incl Right to Buy) Benefits (Legacy cases) Concessionary travel and Blue Badge</p>	<p>Financial, reputational</p> <p>The Shared Services Corporate Anti-Fraud Service (CAFS) implements a counter fraud and corruption strategy which is supported by a policy framework.</p> <p>Plans and operations are aligned to the strategy and contribute to the overall goal of maintaining resilience to fraud and corruption. The service employ a mixture of reactive and pro-active techniques to combat fraud, including subscription to national initiatives such as the National Fraud Initiative and the National Anti Fraud Network.</p> <p>The service reports regularly to Audit Committees on performance against the counter fraud strategy and the effectiveness of the strategy.</p>	<p>1</p> <p>2.The Council's Anti-Fraud and Corruption Strategy is aligned to the national strategy, Fighting Fraud and Corruption Locally. Shared Services Corporate Fraud function. Risk assessment is used to assist in targeting fraud and for workload prioritisation.</p> <p>Fraud Resilience Action Plan 2017/2018 which includes the Fraud Resilience Triangle: Fraud Risk Register, Pro-active work programme and Reactive referrals to increase the likelihood of indentifying fraud. Review of Corporate Anti-Fraud Performance at Management Team meetings.</p> <p>Data Analytics – the service have begun to conduct regular reviews of data using data analytic tools, including Benford's Law trend analysis, to identify areas of potential risk. Participating in the National Fraud Initiative, as well as offering counter fraud tools to frontline services to prevent fraud entering the system.</p> <p>Whistleblowing policy, Bribery policy, Officer Codes of Conduct.</p> <p>Procurement teams have attended Counter Fraud training.</p>	<p>Strategic Leadership Team</p> <p>Hitesh Jolapara, Strategic Finance Director, London Borough of Hammersmith and Fulham.</p>	<p>HIGH</p>

<u>Risk</u>	<u>Category and Context</u>	<u>1. Action/ 2. Mitigation</u>	<u>Owner</u>	<u>Rating</u>
<p>15. Managed Services. Financial and Human Resources Managed Services Systems</p>		<p>1</p> <p>2. London Borough of Hammersmith and Fulham, Update reports have been provided to the Finance & Delivery Policy & Accountability Committee and Audit, Pensions and Standards Committee.</p> <p>Programme Stabilisation Plan.</p> <p>Intelligent Client Function.</p>	<p>Strategic Leadership Team</p> <p>Senior Responsible Officer Kim Dero, Interim Chief Executive</p> <p>Sponsors Hitesh Jolapara, Strategic Finance Director, Mark Grimley Director of Human Resources. London Borough of Hammersmith and Fulham</p>	<p>HIGH</p>

Risk	Category and Context	1. Action/ 2. Mitigation	Owner	Rating
NEW RISK Compliance with statutory Assessments (Housing and non-Housing Property)	<p>The council has been undertaking extensive reviews of health and safety risk assessment processes given the added impetus of the fire at Grenfell Tower. These reviews have highlighted weaknesses in record keeping and in providing assurance that the council is meeting its statutory requirements covering risk assessments.</p> <p>Current regulatory requirements are not, in themselves, adequate in ensuring the highest fire safety standards are met and that more detailed assessments are required beyond the statutory minimum.</p> <p>The Council and responsible persons will be liable to prosecution if inadequate arrangements are in place (relating to risk assessments for fire, asbestos, water/ legionella, electrical, gas and plant equipment across the range of buildings it owns, leases and commissions services from) and people are placed at risk of death or injury. Equally any one carrying out statutory assessments for the responsible person has the same liability. The legal responsibility for the ensuring appropriate arrangements and assessments are in place cannot be delegated.</p>	<p>1. The interim Chief Executive formed a Property Compliance Task Force, meeting fortnightly, made up of the most senior officers with responsibility for property health and safety across. The Task Force is reviewing and overseeing a range of actions covering all statutory areas.</p> <p>2. The Task Force is ensuring the right policies, practices and contracts are in place to meet the council's ambition to go beyond the duties required of us, for our residents, businesses that occupy commercial premises, providers of services to the Council and our staff.</p> <p>The Task Force provides monthly reports to the Strategic Leadership Team on progress to ensure appropriate action is being taken and quarterly reports will be provided to the Audit Pensions and Standards Committee.</p> <p>The Council has approved the Fire Safety Plus programme which will see £20m invested into the housing stock over the next two years, all targeted at making sure residents' homes are safe.</p> <p>Officers are implementing an improvement action plan in response to an externally-commissioned review of asbestos management arrangements.</p> <p>In parallel, an investigation is being conducted to determine how and why failures in the existing arrangements came about.</p>	<p>Strategic Leadership Team</p> <p>Kim Dero, Interim Chief Executive and SLT members including: Jo Rowlands Lead Director of Regeneration, Planning and Housing Services Jane Martin Director for Property Services (Housing) Maureen McDonald Khan Director for Building and Property Management (Corporate Property) Nick Austin Bi-Borough Director for Environmental Health (Health and Safety)</p>	HIGH
NEW RISK Co-ordination and response to calls on the Council for Mutual Aid in a crisis	<p>The Council did not have a set of themed response plans that provided guidance on assessing and then handling impacts of delivering support to a neighbouring area.</p>	<p>We have a Service Level Agreement with London Local Authority Control that should it be deemed necessary that the Council can request mutual aid. Mutual aid will be; Resources (Unique skilled Officers), equipment and direction.</p> <p>There is a protocol in place that determines a responsible person for example the Chief Executive to activate a call for mutual aid.</p>	<p>Environmental Services</p> <p>Alistair Ayres, Head of Emergency Services</p>	HIGH

<u>Risk</u>	<u>Category and Context</u>	<u>1. Action/ 2. Mitigation</u>	<u>Owner</u>	<u>Rating</u>
NEW RISK Change Readiness	As the Council designs and implements new ways of working in relation to Moving On and Smarter Working 2 there is a risk that the organisation is not ready for change or resistant to change delaying the benefits realisation of the change required.	Programmes should undertake an assessment of readiness and build in communications and engagement streams. the use of staff surveys, consultation and engagement events and post-implementation learning to be fed back to corporate boards.	Strategic Leadership Team Mark Grimley, Director of Human Resources & Organisational Development	HIGH
NEW RISK Recruitment and retention	Recruitment and retention of the best staff becomes a challenge resulting in higher agency costs, lower productivity and higher turnover of staff, in turn resulting in lower performance in delivery.	Management of Moving On resourcing requirements with improved candidate experience to quickly cover gaps identified in new structures. People Strategy to cover longer-term approach to the recruitment and retention of staff, including creating attractive workplaces, smarter working 2, and developing our own.	Strategic Leadership Team Mark Grimley, Director of Human Resources & Organisational Development	HIGH

Source: Quarter 1, registers submitted by Services.

<u>Service and Risk</u>	<u>Category and Context</u>	<u>1. Action and 2. Mitigations</u>	<u>Owner</u>	<u>Rating</u>
<p>1. Adult Social Care</p> <p>Complexity of change programmes in Adult Social Care and the National Health Service.</p>	<p>Programme</p> <p>The three core change programmes in Adult Social Services that were defined during 2016/17 (Front Door and Demand Management, Commissioning and Whole Systems Integration) are increasingly complex and there are risks arising from underlying assumptions and modelling, inter-dependencies, misalignment of projects and double counting of benefits. There are also risks of slippage due to the need for significant leadership, management capacity and additional programme resources to deliver. There are also risks of delays in decision making due to complex bureaucracy. [Strategic Risk]</p>	<p>1. The designated Review Board for this risk is the Adult's Leadership Team and will be reviewed quarterly. Monthly Transformation Portfolio Review is also undertaken.</p> <p>Complete work to optimise prospects for success across the three programmes following portfolio review work in June 17</p> <p>2• Continued strong governance and portfolio management with a focus on delivery of intended benefits led by a dedicated Head of Transformation post that sits within Finance and Resources.</p> <ul style="list-style-type: none"> • Workforce management and communications resources have been aligned to transformation, programme and project delivery. • The Customer Journey programme restructure is now close to completion and delivery of required key changes to services is underway. • Commissioning programme has now defined the tactical priorities for delivery in 2016/ 2017 and is close to completing the definition stage of a three year transformation programme. • Whole systems programme is developing at pace through the Sustainability and Transformation Planning Process. • Associated controls for risk 1 relating to the definition and agreement of future transformation and savings. • Continued use of dedicated transformation budget resource to enhance capacity and capability for delivery programmes. • Review and proof of concept stages in all complex projects and mid year reviews of savings plans. 	<p>Rachel Wigley, Director of Finance and Resources</p>	HIGH
<p>2. Adult Social Care</p> <p>Complexity of geographical boundaries for developing integrated services could lead to inconsistent Multi Disciplinary Team service designs in local Clinical Commissioning Groups.</p>	<p>Customer/Citizen, Reputation</p> <p>There is a risk that because the Central London Clinical Commissioning Group Whole Systems model of geographic 'villages' is not consistent with the Better Care Fund proposals in West London and Hammersmith and Fulham, there will be a negative impact on the potential to develop single models of service (e.g. Community Independence Services, Long Term Social Work service, Home Care) across the Adult Social Care Shares Service.</p> <p>Risk that social care included in three Clinical Commissioning Group Multi Disciplinary Team models will vary; inconsistent involvement and influence of Adult Social Care in design of Multi Disciplinary Teams. [Strategic Risk]</p>	<p>1. Redefine BCF programme and associated joint strategy for delivering service and shared financial benefits in a collaborative way.</p> <p>2. • Ensure positive engagement with Whole Systems Early Adopters design processes by operational Heads of Service.</p> <ul style="list-style-type: none"> • Adult Social Care Community Independence Service, Hospital Discharge and long term social work teams all part of Customer Journey redesign. • New Whole Systems Adult Social Care Director is fully involved in the Sustainability and Transformation planning process. • Full participation in the development of the Governance and Delivery Structure for the new 5 year Sustainability and Transformation Plan <p>[Independent Assurance and Controls through Internal Audit]</p>	<p>Rachel Wigley, Director of Finance and Resources</p>	HIGH

Service and Risk	Category and Context	1. Action and 2. Mitigations	Owner	Rating
<p>3. Childrens' Services</p> <p>If Managed Services/Agresso is unable to provide H.R. & Finance services (e.g. Starters / Leavers, payment to suppliers etc) then the ability for the Dept. to deliver an effective service will be reduced.</p>	<p>Reputation</p> <p>Failure to deliver service as suppliers/customers not paid Failure to deliver a statutory service Reputational harm</p>	<p>2. Keep risk under review</p>	<p>Steve Miley - Director Children's Services for LBHF Childrens Services and Senior Leadership team.</p>	<p>HIGH</p>
<p>4. Childrens' Services</p> <p>Delays in the delivery of the Childrens and Families Act (CFA) Change Programme: The requirements of the Act in relation to children with special educational needs and disabilities have led to challenges in ensuring that children's needs are identified and met across a wider age range, following integrated planning with a wide range of agencies.</p>	<p>Customer/Citizen</p> <p>- EHC Plan Delivery: A key risk facing the SEN service to ensure we deliver our statutory responsibility around Education and Health Care (EHC) Plans to ensure the 813 children or young people with a Statement SEN are transferred onto new Education, Health and Care plans and assessed by the 31st March 2018 national deadline.</p> <p>- Local Area Inspection: The authority may be notified of an Ofsted / CQC Local area inspection of the SEND services (0-25) on a weekly basis, (excl. school holidays). This inspection (covering the SEN Service, Schools, Health partners and parents) will gauge how well agencies fulfil their statutory responsibilities for children and young people with special educational needs and or disabilities. Performance in both these areas could result in failure to meet the needs and expectations of our customers and politicians, and reputational harm.</p>	<p>Delivery - There are a number of actions to support the building of capacity in the service to avoid service failure. These include:</p> <ul style="list-style-type: none"> - Plans in place and resources reviewed to ensure the required numbers of transfers take place and new assessments are completed in time. - The SEN Service has been re-organised to provide additional management, casework capacity and a discrete Transfer Review Team. - The SEN Service 'New Ways of Working' initiative has been in operation since April 2017, streamlining internal processes for Education, Health and Care (EHC) needs assessments and transfer review and improving our performance tracking against statutory targets. - The SEN Service Improvement Plan identified six key priorities, including: compliance, communication, culture, collaboration, good quality data and people. A number of improvement actions linked to these priorities are currently being implemented by the service during this financial year. - Improvements have been delivered over the last quarter which now need to be sustained. <p>Inspection -</p>	<p>Ian Heggs - Director of Schools, Quality and Standards</p>	<p>HIGH</p>
		<p>. The Ofsted framework is now published and a Programme Manager is in place to drive self evaluation forward.</p> <ul style="list-style-type: none"> - Quarterly self-evaluation of The effectiveness of SEND provision is used to ensure that resources are focused on agreed priority areas for improvement as identified by parents, staff and partner agencies. - This is underpinned by regular monitoring of service performance against statutory targets by The Director of Education, to understand impact of changes. - a multi-agency Executive Board provides a forum to support integrated service development and 		
<p>5. Childrens' Services</p> <p>Notice being served on the S113 agreement between the three Councils</p>	<p>Reputation</p> <p>A large scale and intensive period of service reconfiguration will be required to deliver the disaggregation of the shared service arrangements that are currently in place, which could result in:</p> <ul style="list-style-type: none"> • Failure to meet the needs and expectations of our customers and politicians, and failure to meet the needs of the service. • Potential disruption to business as usual activities and processes as services models are re-shaped. • Delays or failure to achieve existing change initiatives across the service within planned timescales. • Loss of knowledge and expertise and associated recruitment challenge. • Reputational harm. • Financial overspend. 	<p>1. Keep risk under review.</p> <p>Detail of any shared contracts / upcoming re-procurements that could be impacted by the decoupling to be drawn together.</p> <p>2'- On-going staff communications and engagement cascading key information and developments as soon as is appropriate.</p> <ul style="list-style-type: none"> - Plans are being developed around delivering the separation whilst monitoring any impact on service delivery. - Effective governance arrangements for the implementation of the programme are being developed. - For shared service areas affected, 'as-is' and 'to-be' structures are being modelled and fed-back to relevant Directors for initial approval. - Associated costing work is also being progressed based on these approved structures. 	<p>Steve Miley - Director Children's Services</p>	<p>HIGH</p>

Service and Risk	Category and Context	1. Action and 2. Mitigations	Owner	Rating
<p>5. Childrens' Services</p> <p>Grenfell Relief and Recovery: Delivering comprehensive support and relief to those affected by the tragedy, whilst actively managing and mitigating the associated additional pressure on Service resources for both front line and back-office Directorate's within Children's.</p>	<p>Financial</p> <p>Children's Services are heavily involved in the response for Grenfell. Continued allocation of resources to support the response has the potential to impact:</p> <ul style="list-style-type: none"> - Service ability to meet the needs and expectations of our customers (not affected by the fire) and politicians, causing further reputational harm. - Potential disruption to business as usual activities and processes as service resources are re-directed. - Delays or failure to achieve existing change initiatives across the service within planned timescales. - Increased budgetary pressures in providing resources to meet demands - Managing and supporting staff resilience while they continue to address the demands of the Grenfell relief effort 	<p>1- Keep risk under review.</p> <ul style="list-style-type: none"> - Fully costed delivery options to be identified - Commissioned workshops to support staff. <p>2- Officers across the department have worked hard to maintain business as usual whilst colleagues have supported the Grenfell Fire Response Team. This has enabled the provision of concentrated support to groups across the community affected by the tragedy, delivered in a variety of forms and across many areas over the last 6 weeks:</p> <ul style="list-style-type: none"> - childcare and early years support, - key worker support, - translation support, - education psychology support, - safeguarding support, - school engagement (incl. development of summer school activities) support, - mental health (CAMHS) support, - physical volunteering at various contact centres - targeted, strategic project and programme management offer to assist with the co-ordination of the wider relief effort. - Work is taking place to identify extra resources to support the response, with interim consultancy resource now being used to supplement the relief effort. 	<p>NEW</p> <p>Steve Miley - Director Children's Services</p>	<p>HIGH</p>
<p>6. Commercial and Procurement</p>			<p>Michael Hainge, Commercial Director</p>	<p>NIL RETURN</p>

Service and Risk	Category and Context	1. Action and 2. Mitigations	Owner	Rating
7. Delivery and Value Staffing - salaries and wages. Managed Services	Human Resources Organisational structures and hierarchies are not sufficiently accurate thereby expense claims are sent to the wrong line manager causing delays in paying staff. Also Human Resources staff are unable to access a particular form to allow for ad hoc payments to be made causing delays of many months in payment of specific items. The transition for contractors to IR-35 designation has resulted in significant disruption to payment of invoices and explanation of tax deductions. This has resulted in a delay of many weeks for payments to workers. Neither HR at LBHF nor BT have demonstrated a grasp of the situation, and there is a clearly a significant institutional disconnect between partners. This could result in the loss of key staff if the issue is not resolved ASAP.	Identify errors in hierarchies and notify relevant Human Resources staff and ambassadors for correction.	Mark Grimley, Interim Director for Human Resources.	HIGH
8. Delivery and Value Orders and Payments. Managed Services	Financial, Reputational Lack of information on what is being sent to suppliers. Risk that orders may not be generated, sent to wrong address (including email), with the wrong order details. Currently unable to view orders on Agresso to allow officers to correctly liaise with suppliers. Product list is unwieldy and officers are finding it difficult to select the correct items.	Products on Agresso should be selected where possible to mitigate risk of ordering the wrong thing.	Sarah Thomas, Interim Director of Delivery and Value	HIGH
9. Delivery and Value Innovation and Change Management	Human Resource, Financial, Reputational The council embarks on change without the capacity to succeed.	Do an audit of governance around key change initiatives Change Board to receive resourcing overviews and provide challenge	Sue Littleson Head of ICM, Delivery and Value	HIGH
10. Delivery and Value Equalities	Legal, Reputational Failure to comply with the Public Sector Equality Duty	Prioritising the development of the equalities objectives.	Peter Smith, Head of Policy and Strategy.	HIGH
11. Environmental Services Severe disruption to service delivery following Grenfell Tower tragedy.	Customer/Citizen, Legal, Reputational Failure to protect public and staff through carrying out statutory duties. Failure to meet increased fire related demand for services. Officers not at work fulfilling duties owing to illness/ stress resulting from negative publicity and increased demand. Impact on both LBHF and RBKC owing to Bi-Borough working	1. 'Requested additional corporate health and safety resources. Monitor complaint volumes. Monitor staffing. Prioritise work. Update web to advise public. Review emergency procedures. 2. Regular Humanitarian updates to cascade to officers in Shared Services roles. Staff able to volunteer to assist at the WestWay Centre. Counselling available for officers. Interim CEO now appointed at RBKC	Nick Austin, Lead Director Environmental Services Heads of Service and all Managers	HIGH
12. Environmental Services Private Housing Income from introduction of non-mandatory licensing is not achieved of 5 years. Estimated saving target of £1,500,000 and running costs £1,000,000	Financial Loss of income/saving target not met. Unable to fund staffing to enforce private housing standards	1. Communications strategy to promote message wider. Contact letting agents individually. Leaflet 17,000 addresses targeted during consultation 2.Publicity on website and landlord property licensing site	Mark Jones, Director for Finance and Resources	HIGH

Service and Risk	Category and Context	1. Action and 2. Mitigations	Owner	Rating
<p>13. Environmental Services</p> <p>Risk that income targets for the duct asset contract are not achieved</p>	Financial	<p>1.' After mediation there will be a legal process.</p> <p>2.Next step in the contract is mediation, which will take place on 12/7/17.</p>	Mark Jones, Director for Finance and Resources	HIGH
<p>14. Environmental Services</p> <p>Risk that debt in Commercial Waste continues to increase.</p>	Financial	<p>1.Agresso to be used to send out late payment letters in a timely manner to all customers. This will reduce the debt levels at an early stage.</p> <p>2.Officer started to ring customers to remind/ obtain payment.</p>	Mark Jones, Director for Finance and Resources	HIGH
<p>15. Environmental Services</p> <p>Internal Housing are planning to purchase their own bins and stop their hire agreements with Commercial Waste.</p>	Financial	<p>1. No further action to take place at this stage.</p> <p>2. Monitoring the situation.</p> <p>There have been no further developments in the last few months in terms of Housing purchasing bins that has been brought to our attention.</p>	Mark Jones, Director for Finance and Resources Sue Harris, Director for Cleaner Greener and Cultural Services	HIGH
<p>16. Environmental Services</p> <p>Fulham mortuary running at capacity, Need for additional storage over winter months to meet demand. Capital works agreed to increase capacity at the mortuary by October 2017, no plan has been provided.</p>	Customer/Citizen, Financial, Reputational	<p>1. Seek update from Corporate Property Services with regard to project plan and dates. If work cannot be completed, source additional storage from suppliers for winter months. Identify funding source for the additional storage as no budget provides for this in mortuary finance.</p> <p>2. Capital funding was agreed for 2017/18 to increase capacity. Instruction was given to Corporate Property Services that works must be completed by October 2017 to account for winter pressure.</p>	Nick Austin, Director for Environmental Health Alistair Ayres, Head of Emergency Services	HIGH
<p>17. Financial and Corporate Services</p> <p>VAT and Construction Industry Scheme</p>	Financial, Legal, Reputational	<p>1.Continuation of purchase to pay support by the Financial systems team to identify and resolve problem issues in liaising with BT, suppliers and managers.</p> <p>Corporate Finance to review manual payment process now system has stabilised.</p> <p>2. VAT officer in place undertaking compliance checks on known issues/ suppliers, action to move CIS contractors from Line of Business systems. Returns are largely dependent on system generated reports but manual adjustments are being made to pay correct CIS deductions over to HMRC.</p> <p>Ongoing liaison with departmental finance teams on significant projects. Mitigation is available to manage partial exemption position but has to be agreed with HMRC and is not guaranteed.</p>	Emily Hill, Head of Corporate Finance Chris Harris, Chief Accountant	HIGH

Service and Risk	Category and Context	1. Action and 2. Mitigations	Owner	Rating
<p>18. Financial and Corporate Services</p> <p>2018 MTFS Process and Financial Resilience</p>	<p>Financial</p> <p>The ongoing challenge of delivering council services, within reduced funding and increased demand pressures is a significant risk.</p> <p>The 2018/19 MTFS process identifies a £18.6m gap in 2018/19 rising to 58.9m in 2021/22. Our approach to identifying savings in 2018/19 includes identifying and delivering savings through transformation portfolios (£4.5m) and identifying other continuous improvement savings and income opportunities (£6.4m) and undertaking specific service reviews (deep dives) (£2.6m). This approach brings risks of potential duplication of savings across the different savings work streams.</p> <p>To balance the budget savings will need to identified alongside limiting growth and inflation bids. Risks that demand requiring growth, inflation will outstrip available funds and that required savings can not be identified.</p>	<p>1. Discussion at SLT of potential cross cutting savings opportunities.</p> <p>Development of an wider Council Investment Strategy.</p> <p>September challenge meetings to be scheduled.</p> <p>2. The council manages its financial risks through a range of controls including budget preparation and budget setting process.</p> <p>Medium Term Financial Strategy reported to Finance and Delivery, Policy and Accountability Committee February 2017 detailing savings, growth, and risks.</p> <p>2018/19 MTFS departmental and transformation portfolio challenge meetings to be held in July and September and regular updates made to SLT and Cabinet.</p> <p>ICM support to the Transformation Portfolios.</p> <p>EY work to identify potential cross cutting savings.</p>	<p>Hitesh Jolapara, Strategic Finance Director</p> <p>Emily Hill, Head of Corporate Finance</p> <p>Andy Lord, Head of Strategic Planning and Monitoring</p>	HIGH
<p>19. Financial and Corporate Services</p> <p>2017/18 revenue budget</p>	<p>Financial</p> <p>The ongoing challenge of delivering council services, within reduced funding and increased demand pressures is a significant risk.</p> <p>Specifically , this is leading to significant in-year pressures in Adult Social Care (ASC) and Temporary Accommodation despite growth (in ASC) and additional grant funding in these areas. Any overspends at year end will require the use of Council reserves which will be unable to fund other investment opportunities and priorities.</p>	<p>1. Meetings with Directors and relevant Cabinet members of overspending services to be held with the Strategic Director of Finance and the Cabinet member for Finance to discuss overspends and action plans.</p> <p>2. Budget Accountability Framework on roles and responsibilities for managing, monitoring and forecasting income and expenditure against approved budgets, Financial Regulations and Financial Scheme of Delegation are in place.</p> <p>2017/18 Budget agreed by Full Council in February 2017.</p> <p>Monthly Corporate Revenue Monitoring reporting (Month 2 gross overspend of £2.896m mitigating actions of £1.765m identified) reported to SLT and Cabinet. Monthly reporting of savings progress.</p> <p>Mitigating action plans is assigned to responsible Directors.</p> <p>The level of reserves and balances are also regularly reviewed to ensure that account is taken of any financial risk.</p>	<p>NEW</p> <p>Emily Hill, Head of Corporate Finance</p> <p>Andy Lord, Head of Strategic Planning and Monitoring</p>	HIGH
<p>20. Financial and Corporate Services</p> <p>Managed services - exit and transition</p>	<p>Contractor, Financial, Reputational</p> <p>Current BT contract expires in May 2019. Risks around timescales to safely implement a new solution particularly in light of the current relationship with BT.</p> <p>There may also be financial implications of a move to the new provider effecting Corporate Finance budgets, risks to delivery of BAU due to capacity of Corporate Finance to support the transition.</p>	<p>1. Ongoing commercial discussions.</p> <p>2. Cabinet agreed principles for selection of new provider in July 2017.</p> <p>Consultants and external legal advisors engaged to support the exit/ transition working to a number of key principles.</p> <p>Managed Services Programme Board in Place, with SRO (CE) and Programme Director.</p>	<p>NEW</p> <p>Emily Hill, Head of Corporate Finance</p> <p>Andy Lord, Head of Strategic Planning and Monitoring</p>	HIGH

Service and Risk	Category and Context	1. Action and 2. Mitigations	Owner	Rating
<p>21. Financial and Corporate Services</p> <p>Managed services - BT relationship</p>	<p>Contractor, Financial, Reputational</p> <p>Due to the current commercial discussions with BT formal Governance meetings have been withdrawn.</p> <p>There are risks that BT may refuse to perform essential service and change requests or other necessary functions to enable complete and accurate processing, recording and reporting of Council income and expenditure. Risks in relation to Corporate Finance capacity if carrying out additional workarounds to compensate and impact on providing a service to internal and external stakeholders.</p>	<p>1. Ongoing commercial discussions. Cabinet to consider report recommending new provider in September.</p> <p>2. Consultants and external legal advisors engaged to support the exit/ transition working to a number of key principles.</p> <p>Managed Services Programme Board in Place, with SRO (CE) and Programme Director.</p>	<p>NEW</p> <p>Emily Hill, Head of Corporate Finance</p>	<p>HIGH</p>
<p>22. Information and Communications Technology</p> <p>People - If there are not enough staff, such as Project Managers, to carry out the work</p>	<p>Human Resource, Reputational</p> <p>There is a risk that parts of the ICT service will become restricted or lost. Also the delivery of projects may be delayed which may impact the planning of services and add to costs.</p>	<p>1. Have identified 21 required JDs - 20 for the consultation and 1 for BAU role. 19 JDs in final approval stage. Head of HR has agreed we can reintroduce IT grading scheme which will address issue of specialised technical skills being appropriately graded, while keeping to overall organisational structure principles of LBHF.</p> <p>2. Must complete the Target Operating Model to enable permanent recruitment to fill any gaps. Completion scheduled for 10th August 2017.</p> <p>TOM consultation started 06/06/17, and will complete 10/08/17. End date had to be extended because 20 new graded JDs required. Will continue to use agency staff to address any temporary needs, although adds pressure to the IT budget.</p>	<p>NEW</p> <p>Veronica Barella, Interim Chief Information Officer</p>	<p>HIGH</p>
<p>23. Information and Communications Technology</p> <p>Client Relationships - If customers are not happy with ICT</p>	<p>Customer/Citizen, Reputational</p> <p>There is a risk that local client ICT teams form. The new service tower processes and TOM are still bedding in and there is a risk that this will encourage the development of ICT teams with resources within services. The Moving On programme may affect Children's and Adults' departmental IT teams which adds risk to the wider IT service. The governance of these will be unclear and may not be co-ordinated with the corporate IT service. There is also a reputational risk as any issues will be attributed to corporate IT rather than to services' actions.</p>	<p>1. ICM team already part of IT's wider communication team eg attend DLTs to communicate new desktop strategy. 2 x SRMs recruited July 2017 with start date Nov 2017. Have extended interim SRM for digital/corporate. CIO & Head of ISP will act as SRM for ASC until new post holder in place. 2. CIO discuss issue of departmental ICT with Moving On lead.</p> <p>2 approaches required:</p> <p>1. New IT service must become a valued part of the council actively engaging with the business, particularly in developing the Desktop Strategy and the ICT Strategy. The new service must put forward a unified front and build awareness through good news stories etc. More rigorous governance of new IT projects also required. IT Services taking proposed IT Gateway proposal to BDT mid August 2017. Cabinet paper template already amended to include IT Comments as mandatory.</p> <p>2. LBHF to decide whether it wants to continue with current departmental IT model. It is possible that LBHF and WCC/RBKC may take different approaches which will fragment the wider IT service.</p>	<p>NEW</p> <p>Veronica Barella, Interim Chief Information Officer</p>	<p>HIGH</p>

Service and Risk	Category and Context	1. Action and 2. Mitigations	Owner	Rating
<p>24. Information and Communications Technology</p> <p>Client Relationships - If services purchase IT applications without consultation with ICT Services</p>	<p>Customer/Citizen, Financial, Policy (Local Governance), Procurement, Technological</p> <p>Need to work closely with Procurement to update the Council's Standing Orders to require consultation with ICT services before any purchases or ICT software or hardware are made. Services to be advised via IT Operational Group of the need to ensure that ICT services are consulted prior to any ICT related purchase. Need to ensure that Senior Management Team and Councillors are aware of need to ensure that ICT services have been consulted in relation to ICT purchases. Strategic Relationship Managers to encourage services to consult with ICT services before making any purchase of ICT hardware or software.</p>	<p>1. More robust IT governance is required as there is increasing tendency for point solutions to be purchased by depts. in trying to support savings targets.</p> <p>2. LBHF need to review departmental IT as part of Moving On programme.</p> <p>3. IT Services taking paper to BDT mid Aug 2017 recommending IT Gateway board for all new IT systems.</p> <p>CIO to feed into Moving On programme requirement to confirm future role of departmental IT.</p>	<p>NEW</p> <p>Veronica Barella, Interim Chief Information Officer</p>	<p>HIGH</p>
<p>25. Information and Communications Technology</p> <p>Managed Services - If Corporate Finance do not make a decision on which payment system the council will use</p>	<p>Human Resource, Legal</p> <p>There is risk of claims against the council as the staff providing support for Capita Axis will continue to face uncertainty about whether their roles will be retained as they already have for a number of years.</p>	<p>1. Debbie Morris agreed HR can provide letter for 2 individuals confirming this and that there are no plans to change their jobs until new procurement carried out. CIO to progress.</p> <p>CIO and Applications Manager to meet HR best way to inform the 2 members of staff of this development.</p> <p>2. CIO has confirmed with Finance that no further development of interfaces into Agresso will happen, therefore existing support function required for at least 18 months pending reprocurement of Capita Axis solution.</p>	<p>NEW</p> <p>Veronica Barella, Interim Chief Information Officer</p>	<p>HIGH</p>
<p>26. Information and Communications Technology</p> <p>If we are unable to recruit good quality interim staff The current Pertemps framework has several issues which are making it difficult to recruit good quality interim staff in a timely manner. Issues include poor response times of Pertemps system itself to the point that tasks take several hours to complete; agencies referring to out of date JDs even though new ones have been uploaded; salary levels being offered means in some roles it is very difficult to recruit good quality staff eg BAs, Security & Information Governance officers; new IR35 guidance has brought in many agency staff under IR35 and pool of available people has decreased significantly.</p>	<p>Customer/Citizen, Human Resource, Legal, Reputational</p> <p>There is a risk that the IT service and IT project delivery will fall below the required standard and affect cyber security, IM case management, project deadlines/budgets, improvements to IT service.</p>	<p>1. Completion of IT consultation will allow recruitment of full time staff providing continuity for the service, with better VFM.</p> <p>2. IT consultation being completed 10th August. Will then be able to recruit permanently.</p>	<p>NEW</p> <p>Veronica Barella, Interim Chief Information Officer</p>	<p>HIGH</p>

Service and Risk	Category and Context	1. Action and 2. Mitigations	Owner	Rating
<p>27. Human Resources</p> <p>Inland Revenue 35 Personal Services Companies</p> <p>Two risks remain. 1 As new Ltd Coy agency workers are engaged in 'In' IR35 roles, there is still the potential for market rates to increase. 2 The decision making process and audit trail surrounding IR35 decisions remains open to audit / challenge from HMRC and requires to continue to be robust.</p>	<p>Contractor, Financial, Legal</p> <p>Changes to legislation for contractors in the public sector came into effective in April 2017. Employer's NI (approx. 13%) will be added to the cost of each engagement. Apprenticeship Levy at 0.5% of paybill will also apply. Reduction of net income for the worker of around 30% in most cases. Some workers may decide to cease offering their services to the public sector. This could cause a skills shortage in key areas. Service continuity may be affected in some critical areas (e.g. Social Workers).</p>	<p>There may be opportunities for some workers to become employees.</p> <p>London Councils made a collective decision not to raise rates as 'compensation' for workers' potential loss of net income.</p> <p>Report to LBHF Senior Leadership Team Feb 2017 endorsing strategy</p> <p>Comprehensive proforma for managers to complete in all cases – questions are consistent with HMRC's prototype tool.</p> <p>Early Feb 2017 - HRBPs to work with departmental Directors of Finance & Resources and managers to gather the proforma data and cross-check each case against current agency records.</p> <p>Mid-to-late Feb 2017 - Completed proformas returned to the HRBP for assessment under new IR35 rules. Results of each assessment given to managers together with guidance on next steps.</p> <p>Initial concerns regarding the immediate impact of the implementation of IR35 have been managed out of the system. Concerns of a mass exodus of certain categories of Agency Worker coupled with significant rate increase requests have on the whole been contained.</p>	<p>Mark Grimley Human Resources Director</p>	<p>HIGH</p>

Service and Risk	Category and Context	1. Action and 2. Mitigations	Owner	Rating
<p>31. Regeneration, Planning and Housing</p> <p>Delivering the savings and income required to balance the budget</p>	<p>Financial</p> <p>Risk in 2021 rents continue to be enforced by statute, and the council is unable to return to the rent policy agreed in 2014/15 with tenants, of Consumer Price Index plus 1% plus £1. This would reduce income at a time when most commentators expect inflation rates to increase (most of our contract costs in the Housing Revenue Account (HRA) are linked to CPI). In addition welfare reform, especially the Universal Credit roll out is likely to impact on rent collection rates and fixed term tenancies imposed by government will impact void rates. The Welfare reform risks are considered in full under risk above. All of these items put an upwards pressure on HRA borrowing when the current business plan over the next ten years predicts we will remain close to our HRA debt cap. There is a risk that we will have to cut services to save costs.</p>	<p>1.Continue to build on existing actions, focus on improving non rent income and efficiencies which do not impact on services to residents, see also the actions noted above re Welfare reform in risk above.</p> <p>2.Monthly financial monitoring in place; finance team work each month with budget managers. Monthly reporting on the financial position of the HRA, both revenue and capital to the Departmental Management Team. Heads of Service also meet monthly and are able to pick up jointly on operational issues impacting on costs and revenue. Business plan is regularly updated (it's not just an annual process).</p> <p>As a strategic management team continue to seek ways to reduce costs and generate additional income, focus on opportunities for increasing advertising and commercial income, reducing garage voids and on ensuring we are spending money on communal and planned repairs effectively and efficiently. Have embedded Head of Financial Investment and Strategy into planned works budget monitoring meetings. In the most recent business plan our work has meant we've been able to bring forward £12m of the £74m of planned works we'd previously had to postpone because of the 1% rent reduction but we now have the additional pressures from the requirement for significant additional major works which are covered below and delays in the current planned works programme which will add to inflationary pressures in the business plan. Welfare reform mitigations are covered by risk above.</p>	<p>Kathleen Corbett, Director of Finance & Resources Regeneration, Planning and Housing Services</p>	<p style="background-color: red; color: white; text-align: center; padding: 5px;">HIGH</p>

Service and Risk	Category and Context	1. Action and 2. Mitigations	Owner	Rating
<p>32. Regeneration, Planning and Housing</p> <p>Delivering the savings and income required to balance the budget</p>	<p>Financial</p> <p>Future Medium Term Financial Strategy savings not delivered. Inherited bought forward undelivered MTFS savings in planning that had historically been covered from under spends elsewhere that service can not be delivered. We are experiencing increasing pressure on Temporary Accommodation Costs as a result of rent inflation in the wider market as well as the other significant risks which come out of the various welfare reforms and the recent preventing homelessness bill that could result in both an increase in the case load and in reduced rent collection. The Welfare reform risks are considered in full under Risk referred above. Note risk has been split this quarter between GF and HRA.</p>	<p>1.Continue to build on existing actions, focus on improving non rent income and efficiencies in service that do not impact on residents, see also the actions noted above re Welfare reform in risk 1 above. Likelihood rating remains increased until there is clarity on how much if any of the new burdens from the homelessness bill will be funded</p> <p>2.As a strategic management team continue to seek ways to reduce costs and generate additional income. To deal with Temporary Accommodation cost inflationary cost pressures we're looking to procure longer term temporary accommodation (again covered in risk 1 above). Welfare reform mitigations are covered by risk 1 above.</p> <p>Monthly financial monitoring in place; finance team work each month with budget managers. Monthly reporting on the financial position on our GF budgets to the Departmental Management Team. Heads of Service also meet monthly and are able to pick up jointly on operational issues impacting on costs and revenue.</p>	<p>Kathleen Corbett, Director of Finance & Resources Regeneration, Planning and Housing Services</p>	<p>HIGH</p>
<p>33. Regeneration, Planning and Housing</p> <p>Earls Court Regeneration</p> <p>The scheme is currently under review following the change of Administration, this may lead to either the loss of receipts or to receipts being received as realisable capital receipts later than currently predicted in the Housing Revenue Account business plan. Receipts in the Housing Revenue Account business plan had been reprofiled to reflect the lower expected initial realisable receipt based on recent phasing information and the remainder of the receipts have been pushed out to later years and further reprofiling is being done as well as further sensitivity work, however there remains a significant risk of a reduced or delayed receipt until negotiations conclude and the S34A application is concluded.</p>	<p>Customer/Citizen, Financial</p> <p>There's also a significant risk around uncertainties in terms of timing as the business plan numbers are very sensitive to this project</p>	<p>1.Management controls and impact on the HRA business plan to be reviewed regularly and following the outcome of ongoing CLSA negotiations and progress on the next phase</p> <p>2.Project Management Team meets regularly, monthly finance reporting to project team, original scheme project risk register held by project manager . CAPCO paid a fee of £15m on entering into the exclusivity agreement. Governance Structure included in the Conditional Land Sale Agreement £10m is refundable only in restricted circumstances and £5m is not refundable under any circumstances. Sensitivity modelling has been done on the Housing Revenue Account business plan for this and to date some rephasing of realisable receipts has been contained. There is however a significant risk if no receipts are received or if there is further rephasing required or if LBHF costs including those of buying back leasehold homes continue to escalate that this would render the Housing Revenue Account business plan unviable without either income from sales or significant cuts in the capital programme. Scenario modelling on this was shared with the Cabinet member for Finance as part of the preparation of the Housing Revenue Account business plan agreed by Cabinet in February 2016 and risk has continued to be highlighted in subsequent reports and business plan modelling.</p> <p>Expenditure controlled within budgets and growth required in budgets minimised, good governance arrangements in place and complied with. This means Members involved in the review are fully aware of the risk.</p>	<p>Mark Brayford Head of Regeneration Regeneration, Planning and Housing Services</p>	<p>HIGH</p>

Service and Risk	Category and Context	1. Action and 2. Mitigations	Owner	Rating
<p>33. continued</p> <p>The Housing Revenue Account business plan is very sensitive to movements on this project and there are also significant cost risks. If the scheme was for any reason not to be likely to proceed there's a short term risk to the HRA capital programme of £21m and the Council would have to write off the costs of disposal held on the balance sheet, we'd be able to deduct from this the £5m to £15m of the receipts the Council could retain (the amount depends on the circumstances) By the end of 17/18 these are predicted to be £6.2m for housing land and £0.2m for the General Fund, a net risk of write off of between £nil and £1.4m.</p>		<p>The New Regeneration team reengaged with Capco in December 2016 and are currently negotiating an improved deal and associated changes to the CLSA to fulfil the councils commitment to delivering a better deal for residents of west Kennington and Gibbs Green estates. The deal is also intended to significantly limit the councils costs in delivering vacant possession and to protect the 760 replacement homes.</p> <p>At the same time the regeneration team is working with Capco through the project delivery group to ensure the next phase commences if an improved deal on the current CLSA is unachievable. This will ensure the relevant proportions of land payments can be drawn down and used by the Council as per the HRA account business plan.</p> <p>While negotiations are ongoing the regeneration team continue to hold vacancies in the project team to minimise costs and the buyback of leasehold and freehold properties has been limited to acquisitions where residents can demonstrate hardship or other special circumstances</p>		
<p>34. Regeneration, Planning and Housing</p> <p>Investing and maintaining our Council Homes</p>	<p>Customer/Citizen, Financial, Legal</p> <p>Delivery of major work on time and to specification, to maintain and enhance the value of our property. If the major works programme is not delivered to specification and on time then there is a risk that the homes will fall into disrepair and / or they will not be safe and /or will become hard to let potentially resulting in: danger to residents health and safety; a loss of income stream and in additional costs.</p>	<p>1.Embed a true Value For Money culture focusing on quality and timeliness of the work more into the repairs team . Work with residents on this to ensure we deliver both our statutory requirements, keep the fabric of the buildings in good condition, comply with Health and Safety requirements and deliver the service residents want based on what we can afford</p> <p>2.To continue to undertake a review of the existing Asset Management Strategy & long term financial investment plan - stock condition survey update has recently been completed and business plan updated, controls under risk 2 above need to be considered in conjunction with this.</p> <p>Review of service to improve processes and ensure timely delivery. The requirement for significant additional major works and our possible lack of ability to recharge leaseholders for these may impact on our ability to deliver the current works programme</p>	<p>Mark Brayford Head of Regeneration Planning and Housing Services</p>	<p style="background-color: red; color: black; text-align: center; padding: 5px;">HIGH</p>

Service and Risk	Category and Context	1. Action and 2. Mitigations	Owner	Rating
<p>35. Regeneration, Planning and Housing</p> <p>Delivering new homes Joint venture has been reconfigured to deliver the Affordable homes as Social Housing in as far as possible rather than Low Cost Home Ownership. This is being achieved by developing Edith Summerskill House as 100% genuinely affordable housing and funding this using the land receipt from Watermeadow Court (which would be 100% private sale), retained RTB receipts and some s106 commuted sums.</p>	<p>Financial</p> <p>There is a risk that some of the S106 receipts may not be received before the grant is payable to the housing association who will be developing Edith Summerskill House. This will put a short term borrowing pressure on the Council. There is a risk that the scheme may again need reviewing as a result of the government proposals on starter homes and a risk associated with the costs underwrites given to the JV by the council as part of the changes to the agreement. Cost underwrite exposure is up to £8m excluding remediation costs and in excess of £18m including remediation.</p>	<p>1.Continue to monitor and review. Continue to review legislative position on the sale of high value voids, ensure homes designed can be used for either social rented or shared ownership</p> <p>2.Housing Revenue Account business plan now does not include the receipt for Edith Summerskill House. If Government announcements on selling vacant high value social rented homes put the programme at risk we could revert to shared ownership and need to watch the risk re starter homes. The original contracts entered into included different proposals to those now being delivered. The proposals differ from those included in the OJEU tender exercise so there a potential risk of challenge which could render the new arrangements void. We have attempted to limited the changes to reduce the likelihood of a challenge, which officers believe is pretty low. If a challenge is successful the council can revert back to the original documents and provide low cost home ownership on both site. ESH requires significant investment in the form of grant funding for the appointed RP to deliver out the site, s.106 commuted sum payments are required for this and are being closely monitored. Revised JV contracts were entered into in December 2016. There is some planning risk and the current WMC proposal as a result of the impact on rights of light on some surrounding properties should the density of the scheme be reduced the land value and/or the affordable housing contribution would be reduced. WMC contamination risk is now £5m from £25m. Flytipping increases demolition budget by £40,000.00.</p>	<p>Jo Rowlands, Regeneration, Planning & Housing Services Lead Director</p>	<p>HIGH</p>
<p>36. Regeneration, Planning and Housing</p> <p>Managed Services</p>	<p>Customer/Citizen, Financial, Reputational</p> <p>Managed services implementation continues to impact significantly on both our service delivery for Regeneration, Planning & Housing to residents and on our ability to collect both rents and leaseholder service charges. We have had on-going issues with missing rent payments which makes it hard for us to firmly chase debt and take cases to court, it also makes it hard for our tenants to keep control of their finances. We have been unable to properly chase service charge arrears since March 2015 (and only very recently have been able to see balances on screen and raise invoices), we do not know the accuracy of the service charge balances but it is very possible that there are issues with payments similar to those we have had with rents. There is a very significant risk that bad debts will increase .</p>	<p>1.Continue with arrears letters for tenants and pushing Westminster project team to resolve the issues remaining. For Leaseholders we will need to carry out a similar calling around exercise before the first Dunning letters are sent if we manage to get this far. For all other issues we need to continue to push and feedback to BT and the project team</p> <p>2.Project is managed by a team based in Westminster who have implemented the system across LBHF, RBKC and Westminster. We continue to experience missing payment files for rents but these are now picked up quickly and arrears letters are going out. We now have access to suspense account on Agresso, we've been able to access rents for some time so this issue is now resolved and have recently had access for leaseholder service charges and all obviously transactions should now be posted. Progress has been made on Leaseholder bills, we have issued successfully the annual estimate and actual invoices and are now issuing major repairs bills although the process is not as we'd like as we have to send the detailed supporting info separately from the invoice. We have some good Dunning letters ready but there is an issue with the way the process picks up invoices and it is not picking up the annual service charge invoices which were raised by uploads onto Agresso, therefore we have not been able to start sending these out as we'd be sending out incomplete lists of overdue invoices to leaseholders. Allocation of money to leaseholders accounts is now up to date</p>	<p>Kathleen Corbett, Director of Finance & Resources Regeneration, Planning and Housing Services</p>	<p>HIGH</p>
<p>37. Libraries</p>			<p>Mike Clarke, Director for Libraries and Archives</p>	<p>NO HIGH RISKS IN THIS PERIOD</p>
<p>38. Public Health</p>			<p>Dr Mike Robinson Director of Public Health</p>	<p>NO HIGH RISKS IN THIS PERIOD</p>

<u>Service and Risk</u>	<u>Category and Context</u>	<u>1. Action and 2. Mitigations</u>	<u>Owner</u>	<u>Rating</u>
Service Registers				
<u>Service</u>	<u>Quarterly return submitted</u>	<u>Additional Information</u>	<u>Owner</u>	<u>Risk</u>
1. Risk Management Compliance and Corporate risk register	Yes	Internal Audit Reviews of Risk Management, Framework and Information Management - 2014 2015 Satisfactory Assurance Compliance Audit - 2015 2016, Satisfactory Assurance Compliance Audit - 2016 2017, Satisfactory Assurance	Director, Audit, Risk, Fraud and Insurances, David Hughes	LOW
2. Risk Management Business Continuity	Yes	Internal Audit Review of IT Disaster Recovery, - 2015 2016, Satisfactory Assurance Internal Audit Review of Business Continuity Planning - 2014 2015, Satisfactory Assurance Internal Audit Review of Adult Social Care Supplier Resilience - 2015 2016, Satisfactory Assurance Internal Audit Review of Adult Social Care Supplier Resilience - 2016 2017, Satisfactory	Lead Director, Nick Austin, Environmental Health	LOW
3. Risk Management Health and Safety	Yes	Internal Audit Review of Bi-borough Organisational Health and Safety - 2014 2015, Satisfactory Assurance	Lead Director, Nick Austin, Environmental Health	LOW
4. Adult Social Care	Yes	Scrutiny of Risk Management in ASC and PH at LBHF Audit, Pensions and Standards Committee 2015 Internal Audit Review of Adult Social Care Supplier Resilience - 2015 2016, Satisfactory Assurance Internal Audit Review of Adult Social Care Supplier Resilience - 2016 2017, Satisfactory Scrutiny of Risk Management in ASC and PH at RBKC Audit and Transparency Committee April 2017	Lisa Redfern, Director of Adult Social Care	LOW
5. Children's Services	Yes	Internal Audit Review of Childrens Services Risk Management - 2014 2015, Satisfactory Assurance	Steve Miley, Director of Children's Services	LOW
6. Commercial and Procurement	No		Commercial Director, Michael Hainge	MEDIUM
7. Delivery and Value	Yes		Sarah Thomas, Director of Delivery and	LOW
8. Environmental Services	Yes	Internal Audit Review of Transport and Technical Services Risk Management - 2014 2015, Satisfactory Assurance Internal Audit Review of Environment, Leisure and Residents Services Risk Management - 2015 2016, Satisfactory Assurance Scrutiny at LBHF Audit and Transparency Committee 2016	Lead Director, Nick Austin, Environmental Health	LOW
9. Financial and Corporate Services	Yes	Internal Audit Review of Corporate Services Risk Management - 2015 2016, Satisfactory Assurance	Strategic Finance Director, Hitesh Jolapara	LOW
10. Regeneration, Planning and Housing	Yes	Internal Audit Review of Risk Management - 2017 2018	Lead Director, Jo Rowlands, Housing Strategy and Options	LOW
11. Human Resources	Yes	Internal Audit Review of Corporate Services Risk Management - 2015 2016, Satisfactory Assurance	Director of Human Resources, Mark Grimley	LOW
12. Information Technology and Communications	Yes	Internal Audit Review of IT Disaster Recovery, - 2015 2016, Satisfactory Assurance Internal Audit Review of IT Risk Management - 2016 2017 Satisfactory Assurance	Chief Information Officer, Veronica Barella	LOW
13. Libraries and Archives	Yes	Internal Audit Review of Risk Management - 2017 2018 Satisfactory Assurance	Mike Clarke, Director for Libraries and Archives	LOW

Source: BUSINESS CONTINUITY, Quarter 1, register.

Service and Risk	Category and Context	1. Action and 2. Mitigations	Owner	Rating
<p>1. Business Continuity</p> <p>Cyber attack - Denial of Service</p>	<p>Customer/Citizen, Human resources, Financial, Legal, Reputational, Technological</p> <p>The threat of malicious attacks, hacking, malware such as worms, trojan horses, spyware and adware. Denial of service attacks by saturating computer systems with a large number of communication requests. This risk is driven by increase in reliance of technology to be better connected and to make more use of data.</p>	<p>1. CT are seeking to implement multi-factor authentication to increase the protection against malicious attacks.</p> <p>2. LBHF/ RBKC Firewall controls. Disabled PC ports and encrypted USB sticks. Users guidance for internet use, and file transfer. Open Systems Interconnection (OSI) model in-built integrity, confidentiality and availability controls (CIA) at all levels. I</p>	<p>Veronica Barella Interim Chief Information Officer London Borough of Hammersmith and Fulham</p> <p>Ben Goward, Interim Chief Information Officer Royal Borough of Kensington and Chelsea</p>	<p>HIGH</p>
<p>2. Business Continuity</p> <p>Act of terrorism</p>	<p>Customer/Citizen, Human resources, Financial, Legal, Reputational, Technological</p> <p>Individual act, Organised act</p>	<p>1. Tannoy message for alerting staff of a potential terrorist incident.</p> <p>2. Gated receptions, barriers, Amey and reception staff training, identification badges, maintenance of key physical security systems, Presentation to Safety Committee on organisation response to terrorism alerts.</p> <p>Insurance cover, £10 million indemnity with £250,000 excess. Zurich Select Policy covers Fire, Lightning, Aircraft, Explosion, Earthquake, Storm, Flood, Malicious Damage including riot or Civil Commotion, Impact and Terrorism.</p> <p>The Council also has a general Contingencies Management Plan and a Office Hubs disruption Management Plan.</p>	<p>RBKC Management Board, Hammersmith and Fulham Strategic Leadership Team</p>	<p>HIGH</p>

<u>Service and Risk</u>	<u>Category and Context</u>	<u>1. Action and 2. Mitigations</u>	<u>Owner</u>	<u>Rating</u>
<p>3. Business Continuity</p> <p>Failure of a contractor, sub-contractor or large financial institution</p>	<p>Customer/Citizen, Human resources, Financial, Legal, Reputational, Technological</p> <p>Supply chain - failure due to performance, liquidity of contractor or other reason. Failure of financial institution due to performance in the financial markets (Treasury Investments and Pensions) Failure of Care Provider, Care Home</p>	<p>1.Business Continuity Software report approved by LBHF Business Delivery Team July 2017 and Cabinet Member Decision report being prepared.</p> <p>Supply Chain Resilience guidance in progress to be issued to LBHF Business Delivery Team for comment/approval.</p> <p>2.LBHF, financial liquidity checks are undertaken on a monthly basis. Alerts are sent out to service departments on high risk contractors. Services are to respond if necessary by engaging with their Contractor then escalating the issue to the service management team ultimately making a decision to activate their service continuity plan and/or call a Service Resilience Group meeting.</p> <p>Treasury Management Protocols, Pensions risk register, Quarterly Reports to Audit (Pensions) (Sub) Committee</p> <p>Continuity Plans, Contracts and Commissioning Boards.</p>	<p>Michael Hainge, Commercial Director</p> <p>Lisa Redfern, Director of Adult Social Care,</p>	<p>HIGH</p>
<p>4. Business Continuity</p> <p>Building Closures</p>	<p>Customer/Citizen, Human resources, Financial, Legal, Property, Reputational, Technological</p> <p>The building closure programme is having a severe impact on the council's ability to provide alternative sites for a denial of access / devastation of a main service premise. The risk for a large first point of contact service (H&F Advice) to re-locate to an alternative site and continue to deliver the service is severely restricted.</p>	<p>1.Fundamental review of property availability to be undertaken in a refresh of Asset needs in the event of a major denial of access incident.</p> <p>2.Local first point of contact Service Continuity Plans were exercised in 2011. Gaps were identified for the first point of contact activities, background activities could use Smart areas / Lynx. Using RBKC locations is not a viable option due to H&F Advice resident profiles, and the complexity of the work in the service provided.</p>	<p>Maureen McDonald Khan, Director for Building and Property Management</p>	<p>HIGH</p>

Service and Risk	Category and Context	1. Action and 2. Mitigations	Owner	Rating
<p>5. Business Continuity</p> <p>Delivery of the Business Continuity Programme and Shared Services Back Office Functions</p>	<p>Customer/Citizen, Human resources, Financial, Legal, Reputational, Technological</p> <p>Business Continuity Programme of work. There is a risk that due to organisational change / service delivery drivers, the programme will be watered down leading to various operational compromises - a 50% FTE resource is split across LBHF / RBKC that seriously hinders a full and effective capability of meeting the principles in ISO22301. This lean approach has resulted in a recent RBKC BC audit, RBKC IT audit and LBHF Supplier Chain audit all with a Limited Assurance rating. Business Continuity processes for the categorisation of services are the same across the three boroughs. However, service information is stored in 3 separate locations and is becoming fragmented. There is a risk that during an incident it will be difficult to centrally collate impact information to assist in a corporate response across a bi / tri borough incident.</p>	<p>1. Essential Crisis Management training is advised to counter Major Incidents Communications and other Response issues.</p> <p>Lessons Learned exercise post Grenfell Tower</p> <p>2. LBHF Service Resilience Group / RBKC Policy and Performance Unit Contingency Planning Service act as the governing boards.</p> <p>Both Councils have independent sovereign policies recently approved by Management.</p> <p>3 boroughs operate their normal Business Continuity processes for dealing with incidents. RBKC and LBHF have a similar process using Senior Management to dynamically deal with a serious incident along with supporting staff and documentation.</p>	<p>Nick Austin Director of Environmental Health</p>	<p>HIGH</p>

Source: HEALTH AND SAFETY , Quarter 1, register.

<u>Service and Risk</u>	<u>Category and Context</u>	<u>1. Action and 2. Mitigations</u>	<u>Owner</u>	<u>Rating</u>
1. Health and Safety Asbestos Management - Council Operational Buildings	Safety Management system failure/inadequate controls/inadequate resources/inadequate monitoring/lack of awareness/No appointed person/No asbestos management plans/No training	<p>2.Tri-borough Asbestos management policy in draft, both RBKC and LBHF sovereign policies currently in use. Permit to work systems operated and asbestos survey programme created. Appointed Person assigned to AMEY by LINK to oversee the asbestos management of operational buildings. Asbestos management plans for individual buildings contained on the premise log books, awareness training on asbestos. Corporate Health and Safety Team have regular building compliance audit planned.</p> <p>May 2017 Corporate Health and Safety have been unable to carry out audit on asbestos management as documentation from Amey has been difficult to obtain. As above, LINK have consultants in to assist in this and other health and safety compliance areas.</p> <p>August 2017 Audit undertaken by Corporate Health and Safety of two corporate buildings. Report to be produced by Corporate Safety. As above waiting for report from LINK.</p>		HIGH

Score	Key	Action
16-25	Red	High risk, immediate management action is required.
11-15	Amber	Medium risk, review controls for appropriateness and effectiveness
1-10	Green	Low risk, monitor and if escalates quickly check controls

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Review date 13/09/17

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	Risk cause and context					Likelihood	Impact	Overall	Likelihood		Impact	Overall	Likelihood		Impact	Overall	Management comments on measures.	Planned action(s)	Date / in place	
LBHF	✓	RBKC		WCC	OFFICER(S)	3	4	12	⇒	4	4	16	↓	3	3	9	Updated 12/07/17			July 2017
1	Financial Management in year budget 2017/2018 and Medium Term Planning					Management controls						Comments			Actions					
Page 461	<p>The ongoing challenge of reshaping and delivering council services, within significantly reduced funding levels and increased demand pressures, remains a significant risk. This is both an in year risk and one going forwards over the medium term. As such, our approach to identifying savings includes undertaking specific service reviews, identifying and delivering savings through transformation portfolios and identifying other savings and income opportunities.</p> <p>In addition to gaps in revenue funding there are also some significant risks to funding the capital programme with reduced capital receipts and uncertainties on significant projects.</p> <p>Specific risks that will need to be reflected in the medium term financial strategy include continued additional costs of the Managed Services Provider and costs of the transition from the current Managed Services Provider for Finance and Human Resources to a new provider.</p> <p>In addition any financial implications Moving On from our shared services arrangements will also impact on the medium term financial strategy.</p>				<p>Hitesh Jolapara, Strategic Finance Director, London Borough of Hammersmith and Fulham.</p>	<p>The council manages its financial risks through a range of controls including budget preparation, budget setting and a Budget Accountability Framework which updated the roles and responsibilities for managing, monitoring and forecasting income and expenditure against approved budgets. The level of reserves and balances are also regularly reviewed to ensure that account is taken of any financial risk.</p> <p>Financial Regulations and Financial Scheme of Delegation are in place.</p> <p>Regular in-year monitoring and reporting, review of future financial plans and assessment of financial risks and reserves are undertaken to ensure the financial plans are delivered. Corporate Revenue Monitoring Reports with identified risks reported to Cabinet, overspending departments prepare action plans with responsible Directors identified.</p> <p>2017/18 Budget and Capital Programme agreed by Full Council in February 2017. Medium Term Financial Strategy reported to Finance and Delivery, Policy and Accountability Committee February 2017 detailing savings, growth, and risks.</p> <p>Mid-Year Treasury Report for 2016/17 presented to Finance and Delivery, Policy and Accountability Committee November 2016 in accordance with the Council's Treasury Management Practices.</p> <p>Challenge meetings to challenge 2018/19 budget process scheduled take place in July and September 2017.</p>						<p>The wider ramifications of the decision to leave the European Union are yet to be fully realised and felt in the national and local economy. Whilst there will be some opportunities there is also uncertainty that may affect areas of the economy, financial markets, interest and exchange rates, construction, grants from the EU, investment and other non-financial aspects such as staffing of Council services.</p> <p>The election and government focus on Brexit has also had implications for government policy in relation to local government finance, specifically the devolution of business rates and there is significant uncertainty whether/ when this will occur.</p> <p>All of this is set in the context of continuing reductions in public funding and increased demand.</p>			<p>Challenge meetings to include Transformation portfolio savings (July 2017 and September 2017).</p> <p>SLT to consider broader Council investment strategy Sept 2017.</p> <p>SLT to consider EY cross cutting savings proposals Sept 2017.</p> <p>Cabinet to consider financial implication of Management Services report September 2017.</p>					

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LBHF	✓	RBKC	✓	WCC		OFFICER(S)	3	4	12	⇒	3	4	12	⇒	3	3	9	Sent to Sue Redmond and Rachel Wigley for July update		February 2017	
3	Management of the Better Care fund.					Management controls										Comments			Actions		
	Compliance with the Care Act legislation underpinning the Better Care Fund; <ul style="list-style-type: none"> • the accountability arrangements and flows of funding; • the reporting and monitoring requirements for 16-17; • arrangements for the operation of the payment for performance framework; • how progress against plans will be managed and what the escalation process will look like; and • the role of the Better Care Fund Task Force / Better Care Support Team going forward. 					Lisa Redfern, Director of Adult Social Care	NHS England require regular updates against original Better Care Fund submission on benefits and performance reported to the Health and Wellbeing Board. Review of Adults Social Care financial position at Finance and Delivery, Policy and Accountability Committee. The Care Act implementation programme was successfully completed. Measures to monitor impact of Care Act implementation built into new routine Key Performance Indicator monitoring to Senior Managers and members. This covers expected increases in demand and new duties and responsibilities under the Act. Demand and benefits model developed and being implemented for Community Independence Service as part of Better Care Fund. Routine reporting of impact of new service reported to senior managers and members as part of regular reporting. Multi agency Better Care Fund steering group receives progress reports and reports upwards to the Joint Executive Team and Better Care Fund Board which includes members and senior managers from Adult Social Care, Clinical Commissioning Groups etc. Shared governance with Imperial around change programme for the Community Independence Service. Redesign of reablement part of Customer Journey programme. Risks are regularly monitored by the programme and major risks logged on a risk register.										A report outlining issues associated with the Better Care Fund was considered by the Hammersmith and Fulham Finance, Policy and Accountability Committee in November 2016. There is a £2m MTFS efficiency measure that has been built into the 2016/17 base budget following discussions with health over the second year of the Better Care Fund. There are several efficiency targets attached to delivering this £2m saving. At this stage of the year, the Department is projecting the delivery of £1.379m of this target, this leaves a shortfall of £621,000 from of the £2m target efficiency.			Review at Business Delivery Team, London Borough of Hammersmith and Fulham. Continued regular monitoring through performance and joint governance arrangements	

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	Risk cause and context					Likelihood	Impact	Overall	Likelihood		Impact	Overall	Likelihood	Impact		Overall	Management comments on measures.	Planned action(s)	Date / in place							
LBHF	✓	RBKC	✓	WCC		OFFICER(S)	4	4	16	⇒	4	4	16	⇒	3	3	9			August 2017						
4	Market testing risks.					Management controls										Comments			Actions							
	<p>1. Failure to deliver high quality commissioned services at the best cost to the taxpayer. Inadequate forward planning risks (commissioning and procurement).</p> <p>2. Failure to comply with public procurement regulations, potential legal action, and lack of robust Member oversight.</p> <p>3. Not achieving Social Value through procurement.</p> <p>4. Contract performance management.</p>					<p>Michael Hainge Commercial Director Chief Executives Department</p> <p>Barry Quirk, Chief Executive , The Royal Borough of Kensington and Chelsea.</p>					<p>Adult Social Care and Childrens Services Departments have established contract and commissioning boards.</p> <p>A Shared Services Contracts Approval Board had been established but will now only be used for Westminster City Council sovereign procurement decisions.</p> <p>Contract registers are now managed through the CapitalESourcing e-procurement system hosted by Westminster City Council and have recently been audited.</p> <p>Training is being provided on Contract Management across the Shared Services.</p> <p>Hammersmith & Fulham</p> <p>Annual Governance Statement Action Plan monitoring. (See Actions)</p> <p>Business Delivery Team have corporate oversight on procurement.</p> <p>Maintain a watching brief on the financial and commercial stability of major contractors.</p> <p>In addition to all decision reports going through at H&F they are subject to 2 additional key controls: Cabinet Member Briefing Boards, Cabinet (via Cabinet Briefing)</p> <p>Revised Contract Standing Orders for LBHF took effect on 1 July 2016 for all procurements advertised on or after this date. This ensured that Cabinet see forward Commissioning Plans and a Procurement Strategy on each procurement.</p> <p>Commercially led Significant Contract reviews.</p> <p>Update of the Commercial Director to Finance and Delivery, Policy and Accountability Committee.</p> <p>The Royal Borough of Kensington & Chelsea.</p> <p>Procurement regulations for the Royal Borough of Kensington and Chelsea.</p> <p>Procurement Review conducted by the Procurement Scrutiny Working Group, Cabinet and Corporate Services Scrutiny Committee. Report from the Working Group issued to Cabinet.</p> <p>A presentation of the reports findings has been made to the Senior Managers in the Council.</p> <p>Councillor Warrick is responsible for procurement policy, including monitoring and oversight of the letting of Council contracts.</p>										<p>Appointment of Head of Commercial Management to look at the approach and skills for both contracts and procurement.</p> <p>Undertaking a review of significant contracts across the Council contracts register to identify improvement opportunities and any other potential contract savings. Make available commercial management qualifications to those involved in commercial activity as part of their day to day roles. Identified the need to reduce direct awards and Standing Order waivers to ensure effective procurements and contract management is undertaken and removing the risk of challenge further down the line.</p>			<p>Undertaking a review of strategic contracts in order to identify potential contact improvements, establish contract standards and identify any further contract savings. Implemented improvement plans on a number of resident facing service contracts to ensure service delivery to contract standards. Renegotiation of contracts that were procured on a tri borough basis. This main contract is with Amey and will be soon on a sovereign basis within H&F. Introduced a gateway approach for cabinet, CMD and procurement strategy sign off. This ensures there is a checking of commercial activity across the departments and start challenging a culture of direct awards seen in some departments.</p>		

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	LBHF	✓	RBKC	✓		WCC	OFFICER(S)	4		4	16	⇒		4	4	16	⇒	1	1
5	Public Health Budgets					Management controls						Comments			Actions			February 2017	
Page 464	Going forward, if the Shared Services Councils are to achieve significant improvements in population health outcomes in the current economic climate, choices need to be made about how best to allocate Public Health resources to specific programmes or work/ services. In order to support these decisions, the Public Health team is in the process of developing and testing a prioritisation framework tool.				Dr Mike Robinson, Director of Public Health	<p>For 2016-17 the public health ring-fence remains in place, with any underspends in the year being carried forward as a receipt in advance, or any overspends matched with a draw-down from prior years' receipts in advance as appropriate.</p> <p>The Public Health team are continually working to improve Public Health services through performance monitoring, service improvements and re-tendering.</p> <p>2017 2018 Public Health Priorities and the Public Health Prioritisation Framework.</p>						<p>The Director of Public Health is in the process of reviewing the Public Health team's operating model, structure and plans in order to ensure the Public Health function can work to maximise the impact on population health within available resources. A key milestone is to have an effective staff structure in place in time for the next financial year. A staff consultation on the proposed Public Health re-structure is taking place during November 2016.</p>			<p>Going forward, the Public Health team will focus on Leading cross cutting programmes of work to tackle priority health outcomes, System leadership across the local health system, Prioritising Public Health resources (staff and finance) Understanding population health trends, Identifying gaps in service provision Using evidence and analysis to re-design services, Contribute Public Health funding to achieve greatest impact on population health, Contribute specific skills in health economics, forecasting, epidemiology (the study of diseases) and statistics and evidence reviews to the commissioning process.</p>				

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LBHF	✓	RBKC	✓	WCC		OFFICER(S)	3	4	12	⇒	4	4	16	↓	2	3	6	Updated by Ian Cairns			July 2017
6	Business resilience.						Management controls								Comments			Actions			
	1). Limited joined up systems, processes and resources in the event of a Royal Borough of Kensington and Chelsea and London Borough of Hammersmith and Fulham Business Continuity internal / external incident. 2) Non-availability of I.T. systems, cyber attacks. 3) Significant accommodation moves. 4) Increase threat of Cyber risks				Nick Austin, Borough Director for Environmental Health, London Borough of Hammersmith and Fulham	Corporate Business Continuity Policies and Strategies have been agreed at the former Business Board at Hammersmith and Fulham and Management Board at the Royal Borough of Kensington and Chelsea, and updated accordingly, ensuring commonality for incident management. London Borough of Hammersmith and Fulham use Creditsafe for the assessment of contractor credit and liquidity risks, with The Royal Borough of Kensington and Chelsea, Westminster City Council utilising Creditsafe via CapitalEsourcing. Owners of Priority 1 and Priority 2 classified services have been requested to ensure a their service continuity plans have a strategy in place to cater for the loss of service and critical suppliers, are self-tested and authorised by Directors. Risks are being identified and managed through the Service Resilience Group at Hammersmith and Fulham and via a themed Business Continuity Register including horizon scanning. London Borough of Hammersmith and Fulham Business Continuity Manager is liaising with the ICT Transformation Manager on IT Change risks, including on Data Migration and Telephony. Given the fragility of the care market we are beginning to make contingency plans for a sudden collapse of a provider – in reality the only viable option would be for the Councils to step in and to manage the service – the Care Act provides step in rights. Housing Emergency Planning Internal Audit review 2016 2017, satisfactory assurance attained. GOLD training has been provided to senior management in both boroughs, to enhance the ability to deal with serious incidents, plus additional Emergency Planning training delivered in London Borough of Hammersmith and Fulham.					There have been a number of events in the last reporting period; Westminster Bridge 22/03/17. NHS Cyber ransomware attack 12/05/17 Manchester Arena Terrorism incident 22/05/17 London Bridge and Borough Market Terrorism 06/06/17 Grenfell Road response to fire. 14/06/17 Finsbury Park Mosque 21/06/17. Petya Cyber ransomware attack 27/06/17			Reviewed at July Strategic Leadership Team at the London Borough of Hammersmith and Fulham. Disaster Recovery Plan review for IT Services A review of Continuity2 software has been arranged to assess if their system would enhance the Council's Service Resilience Planning and Response arrangements. Next scheduled meeting of the LBHF Service Resilience Group Sep 17. Service Continuity Plans reviewed and to be approved by 25 July 17. SRG Terms of reference being reviewed and re-articulated following the multiple recent incidents by 01 August 2017 Identify all key Officers suitable for crisis management training and agree a format and delivery vehicle for their training							

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LBHF	✓	RBKC	✓	WCC	✓	OFFICER(S)	3	4	12	⇒	3	4	12	⇒	3	3	9	To send to Veronica Barella for July update			July 2017				
7	Information management and digital continuity.					Management controls										Comments			Actions						
Page 466	<p>a) Information created, accessed, handled, stored, protected and destroyed by the service areas and departments across the three partner councils is not managed in compliance with information rights legislation or local policies, e.g. the Data Protection Act 1998, Freedom of Information Act 2000, Environmental Information Regulations 2004 and the Protection of Freedom Act 2011;</p> <p>b) The service areas and departments do not fully understand or manage the risks such non-compliance involves therefore not making informed, risk based decisions;</p> <p>c) Insufficient staff resources, both corporately and departmentally, to mitigate the above risks;</p> <p>d) Potential breach of information rights legislation resulting in a monetary penalty of up to £500,000 plus costs of the staff/ICT resources to remedy the breach and reputational damage to the three partner councils (estimates based on average ICO fines in last 12 months and cost of H&F ICO Undertaking, £100,000 (fine) and £270,000 (staff/ICT resources @ £90,000 per council).</p>					<p>Veronica Barella, Interim Director of Information and Communications Technology, London Borough of Hammersmith and Fulham</p> <p>Ben Goward Interim Director of Information and Communications Technology, The Royal Borough of Kensington and Chelsea and Westminster City Council</p>					<ul style="list-style-type: none"> * Shared Services Information Management Board. * Shared Services Information Management Strategy * Shared Services Information Sharing Register * Shared Services Information Management work programme, including the following workstreams: Governance, Information Asset Management, Learning and Development * Shared Services Information Management Toolkit, e.g. Information Governance Checklist, Information Sharing Protocol template, Information Sharing Agreement template, Confidentiality Agreement template * Shared Services Privacy Impact Assessment process. * Shared Services Information Security Policy Framework and Personal Commitment Statement * NET Consent software used by all three boroughs to communicate Information Security Policy Framework to all Information Technology users and capture user acceptance of the Shared Services Personal Commitment Statement. * Offsite Records Storage Service Framework Agreement for three boroughs and their partners (currently H&F and WCC only) * Onsite records storage - records management function delivered by the Corporate Information Governance Team * Sovereign information management and security risk logs, compliance monitoring, incident management and reporting protocols * All three boroughs use the same local authority Retention Schedule * Caldicott Guardians for Adult Social Care and Children's Services * Sovereign Senior Information Risk Owners (SIRO's) * Potential breaches of policy can be treated as a potential disciplinary matter and referred to Human Resources or the Corporate Fraud team for investigation * Head of Information, Strategy & Projects role established in the H&F Information and Communications Technology Service. 										<p>* Organizational changes to the delivery of Information and Communications Technology services to the three boroughs occurred in late October/early November 2016. The H&F Information and Communications Technology Service is bedding down as a new sovereign service and future risk reporting arrangements are in the process of being established.</p> <p>* Regular contract monitoring of H&F Information & Communications Technology contracts identified one supplier with potential liquidity concerns. A meeting has been held with the supplier and a plan has been put in place to monitor the situation.</p> <p>* A Working group was established in preparation for the voluntary Information Commissioner's Office Audit of H&F, undertaken in February 2017, now completed and awaiting the results of the Audit.</p>			<p>* Shared Services Information Management work programme to be progressed to deliver the Shared Information Management Strategy across the three boroughs.</p> <p>An Internal Audit review of ITC risk management is being undertaken in Q4.</p>	

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LBHF	✓	RBKC		WCC				0	↑		3	4	12	New	3	3	9	To send to Veronica Barella for July update			July 2017	
7	Information management and digital continuity (continued)					Management controls									Comments			Actions				
Page 467	Introduction of the General Data Protection Regulations Fines increasing from up to £500,000 to 10-20m Euros of 2-4% of global turnover, enforced by the Information Commissioners Office on behalf of the European Union					Project Group has been set up and an Office 365 area designation for driving through the Project. Corporate information Management Board have been alert to this piece of legislation and policies are under review. Project now has a designated Senior Responsible Officer Individual Management Controls have been rolled out previously (see above) these are in place but are actively being reviewed.									Project group covers Risk Management, IT Services and Information Management, Legal, and business areas. IT Services assessing London CIO proposal to engage a third party to drive more efficient working across London councils thereby delivering better VFM.			Gap Analysis requested through Internal Audit London CIOs council have commissioned Global Data to develop a package of support and tools for London Councils costing £5,000, LBHF to decide on value of joining Briefing note to BDT Review Privacy Impact Assessment to apply a weighting to the results				
LBHF	✓	RBKC	✓	WCC	✓			4	4	16	⇒	4	4	16	⇒	3	3	9	Strategic Leadership Team to review			July 2017
8	Managing statutory duties.					Management controls									Comments			Actions				
Page 467	Non-compliance with laws and regulations. Breach of a duty of care. Non-compliance with Health and Safety at Work. Equalities and Human Rights. Integrated Transport for London Programme (Funding Highways Improvements).					Kim Dero, Interim Chief Executive, London Borough of Hammersmith and Fulham Council. Capital Programme. Local Codes of Corporate Governance, constitutions and schemes of delegation. Officers codes of conduct. Shared Health and Safety Service between the Royal Borough of Kensington and Chelsea and London Borough of Hammersmith and Fulham Council. Shared Services Incident reporting on-line software. Shared Services training software, Workrite. A separate Health and Safety service is provided in the Housing Service. Legislative changes are adopted and reflected in amendments to the Councils constitutions and budgets allocated through a unified business and financial planning process. Amey now manage a number of statutory and regulatory procedural and record management processes. Statutory returns to, for example, the Food Standards Agency, Health and Safety Executive.									Internal Audit of Organisational Health and Safety undertaken. Internal Audit of LBHF gas safety arrangements undertaken. Corporate Safety Team business plan and audit programme established. Departmental and statutory Corporate Safety committee established and meeting regularly. Regular Health and Safety performance reports to the Management Team. Shared Service Building Compliance Board established.			Reviewed at February 2017 Business Delivery Team and Senior Leadership Team, London Borough of Hammersmith and Fulham Capital Programme 2016-2017 to 2018 2019 An Internal Audit review of Housing risk management is being undertaken in Q4.				

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	Risk cause and context					Likelihood	Impact	Overall	Likelihood		Impact	Overall	Likelihood	Impact		Overall	Management comments on measures.	Planned action(s)	Date / in place							
	LBHF	✓	RBKC	✓																WCC	✓	OFFICER(S)	3	3	9	⇒
9	Standards and delivery of care.					Management controls										Comments			Actions							
Page 468	<p>Breach in the standard of delivery of care, caring services and care homes.</p> <p>The Care Act 2014</p> <p>The legal duties and responsibilities of the Local Authority in respect to the protection of children are set out in the Children Act (1989).</p> <p>Child Protection (CP) involves the identification and multi-agency assessment of the care provided to children and young people who may be at risk of harm from their parents or carers, together with the development of a plan to reduce the risk of harm to those children by the coordination and provision of services. Child protection also requires the continuous monitoring of the effectiveness of this plan, and prompt action to seek legal advice to consider the removal of children via the application for a court order in those circumstances where the level of risk cannot be satisfactorily mitigated.</p>					<p>Lisa Redfern Director of Adult Social Care</p> <p>Steve Miley Director of Childrens Services</p>					<p>Safeguarding Adults Executive Board Annual Report to Committees. Adults Safeguarding Strategy 2016- 2019</p> <p>Multi-Agency-Safeguarding-Hub (MASH), The purpose of a Multi-Agency Safeguarding Hub (MASH) is to gather information from various professionals in order to make a brief assessment of a child and/or a family, or an adult, who is at risk of harm, to ensure their immediate safety and meet their welfare, or care and support needs.</p> <p>Local Safeguarding Children Board (LSCB) Annual Report The publication of such a report is a requirement following statutory guidance.</p> <p>Child Protection Report of the Director of Family Services. Royal Borough of Kensington and Chelsea.</p> <p>Insurance cover in place in the event of a claim for a breach of duty of care. Legislative changes are adopted and reflected in the Councils constitutions. Contract monitoring includes assessment of quality of standards of care. Regular Chartered Institute of Purchasing and Supply meetings brings together commissioners, operational, safeguarding and Care Quality Commission staff to discuss and detect breaches in quality of care. Budget allocation is made through a unified business and financial planning process.</p>										<p>The Safeguarding Adults Executive Board is operating under Schedule 2 of the Care Act 2014, and overseeing the statutory duties of conducting Safeguarding Adult Enquiries (Section 42) and Safeguarding Adults Reviews (Section 44). The Board is required to report on progress on its strategic priorities, and particularly, on the work it has carried out reviewing deaths and serious harm, of people with care and support needs, as a result of abuse and neglect, and where agencies may have worked better together to prevent harm or death.</p> <p>There have been 22 safeguarding alerts raised related to home care provision in RBKC since August 2016; 11 against MiHomecare and another 11 against Mears.</p>			<p>LBHF Service Improvements following Ofsted Inspection of Services for Children in need of help and protection, children in care and care leavers. Report of the Director of Family Services. Ofsted's overall conclusion was that Children's Services in Hammersmith & Fulham are good.</p>		

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LBHF	✓	RBKC	✓	WCC		OFFICER(S)	3	4	12	⇒	3	4	12	⇒	3	3	9	Strategic Leadership Team to review		February 2017															
10	Failure of partnerships and major contracts.					Management controls										Comments			Actions																
Page 469	Loss of grant, non-delivery of objectives, service continuity to the client is of primary importance in these cases.					Kim Dero, Interim Chief Executive, London Borough of Hammersmith and Fulham Council.					Barry Quirk Managing Director, The Royal Borough of Kensington and Chelsea.					Charlie Parker, Chief Executive, Westminster City Council.					<p>Management controls</p> <p>Contract Standing Orders, Regulations and Financial Procedure rules. Directors are responsible for ensuring a contractor's financial viability. Significant Tenderers are to be asked to provide copies of their latest audited accounts or other evidence of their financial standing. For the Royal Borough these should be forwarded to Brookes Bates with an order for the standard report requesting a statement on the tenderer's risk of financial failure, its financial strength and an assessment of whether the candidate is suitable to be awarded the contract. For Hammersmith and Fulham Council the Corporate Finance Team provide this service. All reports should be stored on capitalEsourcing. Contractor liquidity checking through Creditsafe. The Royal Borough have an Organisations in Difficulties Procedure should a Grant aided organisation encounter financial or other pressures. Shared Services Board. The Link Intelligent Client Function (ICF) manages the AMEY Total Facilities Management contract but a London Borough of Hammersmith and Fulham Risk and Compliance Manager has been seconded to review FM functions. Procurement and commissioning is undertaken through CapitalEsourcing software, to hold contract information and provide a workflow for the procurement process.</p>										<p>Comments</p> <p>LBHF undertake periodic checking of contractors liquidity. Credit safe is now embedded in capitalEsourcing thus enabling the Royal Borough access to credit checking along with WCC. LBHF have served notice to terminate the agreement with the Link for the management of the TFM contract. LBHF Joint Venture for ICT formerly the HF Bridge Partnership has successfully transferred back into Council ownership.</p>			<p>Actions</p> <p>Reviewed at February 2017 Business Delivery Team and Senior Leadership Team, London Borough of Hammersmith and Fulham</p>	

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LBHF	✓	RBKC	✓	WCC		3	4	12	⇒	3	4	12	⇒	3	3	9	Strategic Leadership Team to review			
Page 470	11	Increase in complexity of working with partners.				Management controls					Comments					Actions			February 2017	
		Working with the National Health Services, Clinical Commissioning Groups, Police, General Practitioners., 3BM and Epic CIC Public Service mutuals.			Kim Dero, Interim Chief Executive, LBH&F. Lisa Redfern, Director of Integrated Care, LBH&F. Barry Quirk Managing Director, The Royal Borough of Kensington and Chelsea. Charlie Parker, Chief Executive, Westminster City	Information sharing protocols and agreements. Members scrutiny of partners risk management is undertaken by the Scrutiny Committees at the Royal Borough of Kensington and Chelsea and Policy and Accountability Committees at LBHF. London Borough of Hammersmith and Fulham Joint Health and Wellbeing Strategy 2016-21 North West London Sustainability and Transformation Plan. Sustainability and transformation plans (STPs) were announced in the NHS planning guidance published in December 2015 as a vehicle to support the delivery of the Five Year Forward View. The NHS and local authorities across North West London have agreed to work together to deliver a better health and care system. Patient groups and other stakeholders have been involved in developing the plan. The North West London Plan describes the shared ambition of partners across health and local government to create an integrated health and care system that enables people to live well and be well.				At its meeting in March, the King's Fund Chief Executive Chris Ham facilitated a discussion with the Health and Wellbeing Board about place-based systems of care and the solution they offer to the challenges facing the local health and care system. At that meeting the Health and Wellbeing Board considered the progress made by Health and Wellbeing Boards to date nationally, the changing needs of the Hammersmith & Fulham population and a suggested framework and timeline for refreshing the Joint Health and Wellbeing Strategy in 2016. The Health and Wellbeing Board approved the framework and timeline for a new 5-year strategy.										
LBHF	✓	RBKC		WCC		3	4	12	⇒	3	4	12	⇒	3	3	9	Strategic Leadership Team to review			
Page 470	12	Decision making and maintaining reputation and service standards.				Management controls					Comments					Actions			July 2017	
		Corporate Governance of the Council(s); - insufficient notice to Officers providing input on implications (Legal, Financial, Procurment, Risk , IT) in Committee reports from report writers. - Pre-determination of policies or contract reviews. - Breach of Officer or Member code of conduct. - Breach of Information Security or Governance or Confidentiality leading to Information Commissioner review. - Ombudsman, Ofsted, External Audit, The Care Quality Commission reviews and reports. - Poor quality data internally or from third parties.			Kim Dero, Interim Chief Executive, London Borough of Hammersmith and Fulham Council	The Constitution of the Council(s). Annual Governance Statement. Executive and Director's Management Assurance Statements. Risk Management arrangements in Services. Feasibility studies and options appraisals. Members induction programme. Capacity building of I.T. and Staff. Business planning and performance management and information. Complaints and compliments reviews reported to Committees. Reports of the Council's Monitoring Officer.				A review of this years evidence for the Annual Governance Statement 2016 2017 has yet to consider the Head of Internal Audit Statements that is normally produced after year end. Corporate Risk Management compliance has been reviewed by Internal Audit in January 2017 and was assessed as satisfactory. Executive Directors and Directors Management Assurance Statements have been issued and all returns considered for the 2016 2017 Annual Governance				Review at July Business Strategic Leadership Team, London Borough of Hammersmith and Fulham. Corporate Governance reviews undertaken by Internal Audit are awaited to contribute to the Council's Annual Governance Statement self-assessment.						

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LBHF	✓	RBKC		WCC		4	4	16	⇒	4	4	16	⇒	3	3	9	Updated by Andy Hyatt for July update			July 2017	
13	Failure to identify and address internal and external fraud.					Management controls							Comments	Actions							
	<p>Potential exploitation of Managed Services Agresso systems during implementation and towards business as usual delivery.</p> <p>(Links to risk number 7, perceived threats and vulnerabilities in association with Cyber-crime activities)</p> <p>Employee related Tenancy and Housing (incl Right to Buy) Benefits (Legacy cases) Concessionary travel and Blue Badge Parking fraud Theft of assets (incl cash theft) Bribery, Contract/Procurement</p>					<p>Hitesh Jolapara, Strategic Finance Director, London Borough of Hammersmith and Fulham.</p> <p>Steve Mair, City Treasurer, Westminster City Council</p> <p>Kevin Bartle, Director of Finance, The Royal Borough of Kensington and Chelsea.</p>					<p>The Council's Anti-Fraud and Corruption Strategy is aligned to the national strategy, Fighting Fraud and Corruption Locally. Shared Services Corporate Fraud function. Risk assessment is used to assist in targeting fraud and for workload prioritisation.</p> <p>Fraud Resilience Action Plan 2017/2018 which includes the Fraud Resilience Triangle: Fraud Risk Register, Pro-active work programme and Reactive referrals to increase the likelihood of identifying fraud.</p> <p>Review of Corporate Anti-Fraud Performance at Management Team meetings.</p> <p>Data Analytics – the service have begun to conduct regular reviews of data using data analytic tools, including Benford's Law trend analysis, to identify areas of potential risk. Participating in the National Fraud Initiative, as well as offering counter fraud tools to frontline services to prevent fraud entering the system.</p> <p>Whistleblowing policy, Bribery policy, Officer Codes of Conduct.</p> <p>Procurement teams have attended Counter Fraud training.</p> <p>Internal Audit review 2016-2017 of the Shared Corporate Anti-Fraud Service was assessed as satisfactory.</p> <p>E-Learning suite of fraud awareness training modules has been completed and publicised via the Corporate Anti-Fraud Service quarterly newsletter Fraud In Brief.</p>							<p>The Shared Services Corporate Anti-Fraud Service (CAFS) implements a counter fraud and corruption strategy which is supported by a policy framework.</p> <p>Plans and operations are aligned to the strategy and contribute to the overall goal of maintaining resilience to fraud and corruption. The service employ a mixture of reactive and pro-active techniques to combat fraud, including subscription to national initiatives such as the National Fraud Initiative and the National Anti Fraud Network.</p> <p>The service reports regularly to Audit Committees on performance against the counter fraud strategy and the effectiveness of the strategy.</p>	<p>The Fraud Resilience Plan 17/18 places greater emphasis on the pro-active work programme and focus on the completion of this programme remains on track. There was some slippage in Q1 due to resources but this should be recovered by the end of Q2.</p>		

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LBHF	✓	RBKC		WCC		4	4	16	⇒	4	4	16	⇒	3	3	9	Updated information Via Moira Mackie, George Lepine and John Quinn			July 2017
Page 472	15 Managed Services					Management controls										Comments			Actions	
	Financial and Human Resources Managed Services Systems					Senior Responsible Officer Kim Dero, Interim Chief Executive Sponsors Hitesh Jolapara, Strategic Finance Director, Mark Grimley Director of Human Resources. London Borough of Hammersmith and Fulham					London Borough of Hammersmith and Fulham, Update reports have been provided to the Finance & Delivery Policy & Accountability Committee and Audit, Pensions and Standards Committee. Programme Stabilisation Plan. Intelligent Client Function.					Entry made on 2016 2017 Annual Governance Statement			Planned Internal Audit Programme of Key Financial Systems to take place in 2017 2018. HR – Recruitment & Selection HR: Absence Management MS: Intelligent Client Function MS: Budgetary Control and Financial Management MS: General Ledger MS: Income Management MS: Benefits Management MS: Payroll MS: Accounts Payable MS: Accounts Receivable VAT IT Audit -: MS Systems Development Lifecycle (IT) MS: Organisational Structure MS: Manual payments MS: Journals	

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LBHF	✓	RBKC		WCC				0	⇒		4	5	20	New	1	3	3	RISK RAISED by Chief Executive June 2017			June 2017			
New	Compliance with Statutory Assessments (Housing and non-Housing Property)				Management controls										Comments			Actions						
Page 473	<p>The council has been undertaking extensive reviews of health and safety risk assessment processes given the added impetus of the fire at Grenfell Tower. These reviews have highlighted weaknesses in record keeping and in providing assurance that the council is meeting its statutory requirements covering risk assessments.</p> <p>Current regulatory requirements are not, in themselves, adequate in ensuring the highest fire safety standards are met and that more detailed assessments are required beyond the statutory minimum.</p> <p>The Council and responsible persons will be liable to prosecution if inadequate arrangements are in place (relating to risk assessments for fire, asbestos, water/ legionella, electrical, gas and plant equipment across the range of buildings it owns, leases and commissions services from) and people are placed at risk of death or injury. Equally any one carrying out statutory assessments for the responsible person has the same liability. The legal responsibility for the ensuring appropriate arrangements and assessments are in place cannot be delegated.</p>				<p>Kim Dero, Interim Chief Executive and SLT members including: Jo Rowlands Lead Director of Regeneration, Planning and Housing Services Jane Martin Director for Property Services (Housing) Maureen McDonald Khan Director for Building and Property Management (Corporate Property) Nick Austin Bi-Borough Director for Environmental Health (Health and Safety)</p>				<p>The interim Chief Executive formed a Property Compliance Task Force, meeting fortnightly, made up of the most senior officers with responsibility for property health and safety across the council. The Task Force is reviewing and overseeing a range of actions covering all statutory areas.</p> <p>In parallel, outside of the work of the Task Force, an investigation is being conducted to determine how and why failures in the existing arrangements came about.</p> <p>The Council has approved the Fire Safety Plus programme which will see £20m invested into the housing stock over the next two years, all targeted at making sure residents' homes are safe.</p> <p>Officers are implementing an improvement action plan in response to an externally-commissioned review of asbestos management arrangements.</p>										<p>The Task Force is ensuring the right policies, practices and contracts are in place to meet the council's ambition to go beyond the duties required of us, for our residents, businesses that occupy commercial premises, providers of services to the Council and our staff.</p> <p>The Task Force provides monthly reports to the Strategic Leadership Team on progress to ensure appropriate action is being taken and quarterly reports will be provided to the Audit Pensions and Standards Committee.</p>			<p>The Task Force continues to review the actions being implemented to ensure that improvement areas identified are addressed and reporting on compliance is embedded across the Council, giving assurance to SLT and Members.</p>		

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LBHF	✓	RBKC		WCC				0	⇒	4	5	20	New	1	3	3	RISK RAISED by Chief Executive June 2017		June 2017		
New	Co-ordination and response to calls on the Council for Mutual Aid in a crisis					Management controls					Comments				Actions						
Page 474	The Council did not have a set of themed response plans that provided guidance on assessing and then handling impacts of delivering support to a neighbouring area.				Alistair Ayres, Head of Emergency Services	We have a Service Level Agreement with London Local Authority Control that should it be deemed necessary that the Council can request mutual aid. Mutual aid will be; Resources (Unique skilled Officers), equipment and direction. There is a protocol in place that determines a responsible person for example the Chief Executive to activate a call for mutual aid.					Areas that were in the need of review identified by the Service Resilience Group were; Accepting, processing and storing gifts and donations. Procedures for the accepting, processing and secure storage of cash donations.				Review of lessons learned following recent multiple incidents in London being undertaken by Emergency Services Team. Service resilience group meeting in September will have the multiple incidents as an agenda item for corporate discussion.						
LBHF	✓	RBKC		WCC		OFFICER(S)		0	↑	4	4	16	New	2	3	6			July 2017		
New	Change Readiness					Management controls					Comments				Actions						
	As the Council designs and implements new ways of working in relation to Moving On and Smarter Working 2 there is a risk that the organisation is not ready for change or resistant to change delaying the benefits realisation of the change required.				Mark Grimley, Director of Human Resources & Organisational Development	Programmes should undertake an assessment of readiness and build in communications and engagement streams. the use of staff surveys, consultation and engagement events and post-implementation learning to be fed back to corporate boards.					This is a new risk for July 2017.				Consistant Change Management Methodology to include change methods and engagement / stakeholder maangement approaches						

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LBHF	✓	RBKC		WCC			0	↑	4	4	16	New	2	3	6				October 2017 and then March 2018		
New	Recruitment and retention					Management controls					Comments			Actions							
	Recruitment and retention of the best staff becomes a challenge resulting in higher agency costs, lower productivity and higher turnover of staff, in turn resulting in lower performance in delivery.				Mark Grimley, Director of Human Resources & Organisational Development	Management of Moving On resourcing requirements with improved candidate experience to quickly cover gaps identified in new structures. People Strategy to cover longer-term approach to the recruitment and retention of staff, including creating attractive workplaces, smarter working 2, and developing our own.					This is a new risk for July 2017.			Development of short-term Moving On R&R approach / Development of longer-term people strategy							
LBHF	✓	RBKC		WCC			0	→	2	4	8	New	1	1	1				July 2017		
New	Moving on Programme					Management controls					Comments			Actions							
	Failure to deliver objectives of "Moving On" programme to meet organisational priorities and ensure continuity in service to residents and stakeholders.				Sarah Thomas, Interim Director of Delivery and Value	Corporate governance arrangements, including refreshed Change Board, being tasked with oversight. Regular internal comms, including email updates from Kim Dero.					New Strategic Leadership Team Members announced: 28 July 2017 Steve Miley, Director of Children's Services Lisa Redfern, Director of Adult Social Care Rachel Wright-Turner, Director of Public Services reform •Mark Grimley, Director of Human Resources										
Further items are covered in the exempt appendix																					

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