London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee

Agenda

Tuesday 17 July 2018 at 7.00 pm
COMMITTEE ROOM 1 - HAMMERSMITH TOWN HALL

MEMBERSHIP

Administration	Opposition
Councillor Iain Cassidy (Chair) Councillor Jonathan Caleb-Landy Councillor Rebecca Harvey Councillor Asif Siddique	Councillor Alex Karmel Councillor Matt Thorley

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Date Issued: 09 July 2018

London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee
Agenda

London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee

Minutes

Wednesday 14 March 2018

PRESENT

Committee members: Councillors Iain Cassidy (Chair), Vivienne Lukey, PJ Murphy, Guy Vincent, David Morton, Michael Adam, Nicholas Botterill and Donald Johnson

Officers: Kim Dero (Chief Executive), Hitesh Jolapara (Strategic Finance Director), Emily Hill (Head of Corporate Finance), Rhian Davies (Monitoring Officer), David Hughes (Director of Audit, Risk, Fraud and Insurance), Nick Austin (Director for Environmental Services), Lisa Redfern (Director for Adult Social Care), Prakash Daryanani (Head of Finance), Rachael Wright-Turner (Director for Public Service Reform), Geoff Drake (Senior Audit Manager), Mike Sloniowski (Risk Manager), and David Abbott (Scrutiny Manager)

External guests: Andrew Sayers (KPMG) and Jennifer Townsend (KPMG)

1. MINUTES OF THE PREVIOUS MEETING

RESOLVED
The minutes of the meeting held on 6 December 2017 were approved.

2. APOLOGIES FOR ABSENCE

Apologies for lateness were received from Councillor Michael Adam.

Apologies for absence were received from Councillor Mark Loveday.

3. DECLARATIONS OF INTEREST

There were no declarations of interest.

4. EXTERNAL AUDIT PLAN 2017-18

Hitesh Jolapara (Strategic Finance Director) introduced the report which detailed the plan of the Council's external auditor, KPMG, for the audit of the 2017/18 Statement of Accounts.

Andrew Sayers (KPMG) addressed the Committee and noted that the plan described how the auditor would deliver the financial statements audit opinion. The audit would take place during June and July 2018 and the final accounts will be presented to the Committee in July 2018 to meet the earlier statutory deadline of 31 July 2018.

Andrew Sayers then drew the Committees attentions to those risks requiring specific audit attention:

- **Valuation of land and buildings** – due to their size and the judgements involved.
- **Pension liabilities** – again due to their size and the judgements involved.
- **Managed Services** – due to the history of control issues.
- **The faster close of accounts** – now that the deadline for the sign-off of the accounts was 31 July 2018 the increased pace of work required to meet that earlier deadline represented a risk.
- **Value for money** – there were no significant risks but the auditor would focus on financial resilience and contract monitoring.

Councillor Nicholas Botterill questioned the rigour of the audit of the teachers' pension contribution return – given that the auditor was charging just £3,750 to cover contributions in the millions. Andrew Sayers noted that this was an area with agreed upon procedures and the fee reflected the work required.

Councillor David Morton asked what the consequences of not completing the audit by the agreed deadline were for the authority. Andrew Sayers said the Government publicised authorities that didn't meet the date so there was potential reputational damage. Hitesh Jolapara added that, last financial year, H&F closed its accounts early as a trial run and he was very confident that the authority would close its accounts by the end of May. Andrew Sayers agreed and said he was confident that KPMG would be able to deliver their audit by 31 July.

Councillor PJ Murphy noted that this was the last year of KPMG's contract and asked if the Council would be going out to tender for a new contract shortly. Hitesh Jolapara noted the Council had used Public Sector Audit Appointments to procure Grant Thornton to auditing the following year's accounts. Councillor Murphy asked what their fees would be and how they compared to the current fees, and to fees in other comparable London boroughs. Emily Hill (Head of Corporate Finance) noted that next year's fees represented a reduction of 23 percent compared with this year's fees – and further information would be provided after the meeting.

ACTION 1: Emily Hill

The Chair (Councillor Iain Cassidy) asked what the additional non-audit fee of £7,000 on page 20 related to. Andrew Sayers said this was H&F's element of the fee for an on-site visit to the BT managed services centre and additional control work carried out there. The Chair suggested BT should pay that fee.

Councillor Donald Johnson asked if very Council had to have the same risk around land valuation or if it was just H&F. Andrew Sayers said all Councils with significant housing stock should have that risk due to the size of the balance involved and the complexity of the area.

Councillor Nicholas Botterill, referring to the risk around management override of controls, asked if cost assessment should also be a risk. Andrew Sayers said the auditor did look at year-end invoices and levels of accruals etc.

RESOLVED
That the Committee noted the 2017/18 Audit Plan as put forward by KPMG in Appendix 1 of the report.

5. MEMBERS' CODE OF CONDUCT - MONITORING OFFICER'S UPDATE

Rhian Davies (Monitoring Officer) presented the report advising the Committee of complaints received since March 2017 and a consultation being undertaken by the Committee for Standards in Public Life as part of their review of ethical standards in local government.

The Monitoring Officer would write to all Councillors inviting them to comment on the consultation – then a draft response would be circulated to the Committee seeking further comments before the Council submitted its final response by the closing date of 18 May 2018. Once the Committee on Standards in Public Life has concluded its review and made recommendations the Committee will be asked to consider those recommendations and to propose any changes to the Code.

RESOLVED
That the Committee noted the report and asked the Monitoring Officer to contact Councillors for feedback on the consultation as soon as possible.

6. INTERNAL AUDIT QUARTERLY UPDATE

David Hughes (Director of Audit, Risk, Fraud and Insurance) presented the report that summarised internal audit activity during the period 1 October to 31 December 2017. He noted that there were six audit recommendations outstanding and an updated list of those recommendations (Appendix E) had been tabled.

Recommendation 1 had been completed since publication of the agenda. Nick Austin (Director for Environmental Services) was in attendance for recommendations 2 to 5. Regarding recommendation 2, future facilities management models were being discussed, including using the current in-house CCTV monitoring of the Council's streets to include 'on building' CCTV. Nick Austin assured members that the outstanding actions would be completed by the next Committee meeting.

Councillor PJ Murphy noted that at the Finance & Delivery Policy and Accountability Committee they had discussed senior manager's appraisals and 70-80 percent were reported as 'exceeding expectations'. But, with so many outstanding recommendations there seemed to be a disconnect between the appraisals and operational performance and delivery. He asked that this be flagged with the senior leadership team.

ACTION 2: Mark Grimley

Jo Rowlands reported to the Committee that recommendation 6, concerning planning enforcement, would be completed once the Local Enforcement Plan as approved at Cabinet in June.

Councillor Guy Vincent asked for the audit report 'MITIE Repairs Walkthrough' to be circulated to the Committee.

ACTION: Geoff Drake

RESOLVED
That the Committee noted the report.

7. LIMITED ASSURANCE REPORT – ADULT SOCIAL CARE – ACCOUNTS RECEIVABLE

Lisa Redfern (Director for Adult Social Care) and Prakash Daryanani (Head of Finance) presented the limited assurance report. Lisa Redfern noted that the issues raised in the report were due to problems with BT managed services and Agresso that meant a very small team had to manually deal with a huge volume of invoices across the three boroughs. Since the audit the team had reduced the debt by 38 percent and the action plan had been completed – apart from two BT dependent actions which the Finance team were following up. The automatic processes that were supposed to have been in place since the beginning of the contract had only just gone-live the day of the meeting.

Councillor Guy Vincent asked what was the average debt that the service carried at any one time. Prakash Daryanani said the current outstanding debt (as of the end of February) was £1.1m. Councillor Vincent asked that the oldest debt was. Prakash said circa £500k of that was over one year old and the team was reviewing the option of write-offs. Councillor Vincent asked if the department should tighten up its debt controls. Prakash agreed they should, and now that the automatic processes were in place, staff would have more time to focus on that.

Councillor PJ Murphy asked how much of the debt was recoverable and how long it would take to recover it. Prakash Daryanani said he would circulate information on this to the Committee.

ACTION 3: Prakash Daryanani

Councillor PJ Murphy asked what the position was like before BT managed services. Prakash Daryanani said prior to BT the service used Abacus and invoicing was consistent and reliable. He would circulate more detailed comparative information to the Committee.

ACTION 4: Prakash Daryanani

Lisa Redfern made a commitment that after April, when H&F became a sovereign borough again, she would review the debt on a monthly basis and significantly tighten the controls over debt management and recovery.

8. LIMITED ASSURANCE REPORT – CONTRACTOR RESILIENCE

Rachael Wright-Turner (Director for Public Service Reform) presented the report and reported to the Committee that the recommendations related to improving compliance with controls and procedures, centralisation of procurement and managing supplier resilience, and ensuring departments were complying with the Council's requirements with regards to contractor resilience. She noted that the department had spent time reviewing corporate guidance, standards, and advice to departments – and were planning to carry out further dip-sampling and testing. A number of improvements had been made, including getting the information in the corporate procurement system up to date and improving data quality. She said she would report back to the Committee at a future meeting on progress completing the actions in the report.

Councillor Michael Adam stressed the need for regular health checks of contractors – there shouldn't just be a one-off test at the procurement stage. Rachael Wright-Turner agreed and said regular monitoring would take place. David Hughes added that the Council did monitor a range of credit alerts on key suppliers and if there were particular concerns officers would take action. Councillor Adam said this had to be built into the contracts from day-one. Rachael Wright-Turner said her department would check the terms and conditions of contracts and ensure it was written in going forward.

Councillor Nicholas Botterill said the key to making this area work was ensuring the interests of both parties were aligned. Officers should have regular contact with its suppliers.

Councillor PJ Murphy noted that the Council had 300 contracts and 125 contractors – and asked if that was too many and hard to manage. Rachael Wright-Turner said it was a consequence of the local authority's broad range of service lines. She added that there was now an opportunity to look across those service lines and understand where one contractor was delivering for multiple departments so the Council could be more strategic. This was an area where officers expected to release efficiencies over the coming years.

Councillor PJ Murphy, referring to Appendix 1 of the report, said there needed to be more rigour in terms of the internal processes. He felt there wasn't enough of a grip on contract checking and monitoring. Rachael Wright-Turner said it was both about ensuring officers were properly recording activity on the system and changes within the range of officers working with contracts. With the new centralised approach these aspects should improve.

The Chair asked officers to come back to the Committee to report on progress.

ACTION 5: Rachael Wright-Turner

9. RISK MANAGEMENT UPDATE

David Hughes (Director for Audit, Risk, Fraud and Insurance) presented the report that updated the Committee on risk management within the Council including the Corporate Risk Register.

Councillor Guy Vincent commented that the work of the Chief Executive and the Director for Audit, Risk, Fraud and Insurance seemed to be raising the profile of risk within the organisation which was very encouraging to see.

Councillor PJ Murphy noted that it seemed counter-intuitive that – with continual reductions in Government funding and increased pressures in ASC and other areas – the risks weren't increasing. He asked officers for a sense-check on that.

Councillor Murphy also felt it was surprising that risk 9 concerning the failure of major contractors didn't increase following the failure of Carillon and other issues in the sector.

Mike Sloniowski (Risk Manager) said officers had been actively monitoring the health of major contractors and were sharing alerts with contract managers and the central procurement team. The Council's business continuity manager had also put on a number of workshops with service departments specifically around supply chain issues.

Councillor Murphy asked, if MITIE went into administration tomorrow, was there sufficient capacity to keep services running? Mike Sloniowski replied that service continuity and resilience arrangements had improved substantially and supply chain issues were being were codified in service guidance and plans. By the end of March all arrangements should be updated and in place.

Councillor Michael Adam asked why financial management had jumped two notches within a quarter. Mike Sloniowski said it was due to an enhanced description of controls and recognition of risk reporting embedded in Corporate Revenue Monitoring reporting. Hitesh Jolapara added that risk 1 should be medium as money was getting tighter and the financial environment was increasingly difficult.

Councillor Nicholas Botterill asked why the coroner office risk was so high. Nick Austin said the risk referred to the large backlog of cases due to the suspension of the coroner. He noted that a service improvement plan was in place and officers were working with the Chief Coroner to resolve this issue.

RESOLVED
That the Committee reviewed and commented on the contents of the report and the Corporate Risk Register.

10. INTERNAL AUDIT PLAN 2018-19

David Hughes (Director for Audit, Risk, Fraud and Insurance) presented the report that outlined the Internal Audits planned to be undertaken in 2018-19. The Audit Plan included sufficient audit coverage to enable the Council to provide an overall opinion on the Council's control framework.

Councillor Nicholas Botterill asked for an update on GDPR, the new data protection regulations. David Hughes said H&F had a good programme in place to make officers aware of the changes required to internal systems and processes. Given the scale of the potential fines officers would be carrying out deep-dives in high risk areas like Children’s Services and Adult Social Care.

RESOLVED
That the Committee noted the contents of the Internal Audit plan for the 2018/19 year.

11. ANNUAL GOVERNANCE STATEMENT ACTION PLAN AND OUTSTANDING RECOMMENDATIONS

Hitesh Jolapara (Strategic Finance Director) presented the report that summarised progress on implementing recommendations arising from the ‘External Audit Report 2016/17’ and the Annual Governance Statement.

RESOLVED
That the Committee noted the report.

The Chair noted that this was the last meeting for Councillors Vivienne Lukey, Nicholas Botterill, and Michael Adam. On behalf of the Council, he thanked them for their hard work and dedication over the years and wished them well in their future endeavours. He then took a moment to thank Geoff Drake who was retiring later this year. He had worked with the Committee for many years and would be a great loss to the organisation. The Committee thanked him for his service and wished him well in retirement.

Meeting started: 7.00 pm
Meeting ended: 8.40 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.

Audit, Pensions and Standards Committee – Action Tracker

REF	ACTION	OFFICER	STATUS
21 June 2017, 20 September 2017, 6 December 2017 – All actions complete			
14 March 2018			
1.	**External Audit Plan (Item 4)** – Councillor Murphy asked for a comparison of the new auditor's fees with previous years at H&F - and how they compared to other similar London boroughs.	Emily Hill	**Complete**
2.	**Internal Audit Quarterly Update (Item 6)** - Councillor PJ Murphy noted that at the Finance & Delivery Policy and Accountability Committee they had discussed senior manager's appraisals and 70-80 percent were reported as 'exceeding expectations'. But, with so many outstanding recommendations there seemed to be a disconnect between the appraisals and operational performance and delivery. He asked that this be flagged with the senior leadership team.	Mark Grimley	**Complete**
3.	**Internal Audit Quarterly Update (Item 6)** - Councillor Guy Vincent asked for the audit report 'MITIE Repairs Walkthrough' to be circulated to the Committee.	Geoff Drake	**Complete**
4.	**Limited Assurance Report – Adult Social Care – Accounts Receivable (Item 7)** - Councillor PJ Murphy asked how much of the debt was recoverable and how long it would take to recover it. Prakash Daryanani said he would circulate information on this to the Committee.	Prakash Daryanani	**Complete**
5.	**Limited Assurance Report – Adult Social Care – Accounts Receivable (Item 7) –** Councillor PJ Murphy asked what the position was like before BT managed services. Prakash Daryanani said prior to BT the service used Abacus and invoicing was consistent and reliable. He would circulate more detailed comparative information to the Committee.	Prakash Daryanani	**Complete**
6.	**Limited Assurance Report – Contractor Resilience (Item 8) –** The Chair asked officers to come back to the Committee to report on progress.	Rachael Wright-Turner	**Pending**

For more information on these actions please read the minutes of the meetings – available here:
http://democracy.lbhf.gov.uk/ieListMeetings.aspx?CommitteeId=338

Updated – 28 June 2018

Agenda Item 5

London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 17 JULY 2018	
LONDON BOROUGH OF HAMMERSMITH AND FULHAM STATEMENT OF ACCOUNTS, INCLUDING PENSION FUND ACCOUNTS FOR 2017/18	
Report of the Strategic Director of Finance and Governance	
Open Report	
Classification: For Decision **Key Decision: No**	
Consultation: N/A	
Wards Affected: None	
Accountable Director: Hitesh Jolapara, Strategic Director of Finance and Governance	
Report Author: Emily Hill, Assistant Director, Corporate Finance Christopher Harris, Chief Accountant	**Contact Details:** Tel: 020 8753 3145/6440 E-mail: emily.hill@lbhf.gov.uk christopher.harris@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report presents the London Borough of Hammersmith and Fulham's 2017/18 Statement of Accounts, including the Pension Fund Accounts and Annual Governance Statement for approval.

2. RECOMMENDATIONS

2.1. To note the content of the auditor's 'Report to those Charged with Governance' (ISA260), including the auditor's findings, recommendations and the Council's response to those recommendations (Appendix 2 – *to follow*).

2.2. To approve the 2017/18 Annual Governance Statement which is included in the Statement of Accounts (Appendix 1).

2.3. To approve the 2017/18 management representation letter (Appendix 3 – *to follow*).

2.4. To approve the Statement of Accounts for 2017/18, including the Pension Fund Accounts (Appendix 1).

2.5. To approve the Pension Fund Annual Report 2017/18 (Appendix 4).

3. REASONS FOR DECISION

3.1. The Audit, Pensions and Standards Committee is required to approve the Council's audited year-end Statement of Accounts before the end of July in accordance with the Accounts and Audit Regulations 2015.

4. INTRODUCTION AND BACKGROUND

4.1. STATEMENT OF ACCOUNTS 2017/18

4.1.1. The 2017/18 Statement of Accounts, for approval by the Audit, Pensions and Standards Committee, is attached at Appendix 1.

4.1.2. The Narrative Statement at the beginning of the Statement of Accounts gives an outline of the Council's financial activity during 2017/18.

4.1.3. 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. In the event of any changes these will be notified to Committee.

4.2. REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA260)

4.2.1. The external auditor is required to prepare a Report to those Charged with Governance (ISA260). This report will summarise the findings and recommendations associated with this year's audit in respect of the Financial Statements and the Value for Money opinion

4.2.2. This report is currently being finalised by KPMG, as the Council's appointed auditors for 2017/18. This report is to follow (as appendix 2) and will also be presented to the Committee by the auditor.

4.2.3. 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. This letter is to follow (as appendix 3).

4.3. PENSION FUND

4.3.1. The Council's Statement of Accounts incorporates the annual accounts for the Pension Fund and KPMG's Report to those Charged with Governance (ISA260) includes commentary for their audit of the Pension Fund accounts.

4.3.2. The Pension Fund Annual Report is attached at Appendix 4. 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.

4.3.3. The Pension Fund Annual Report remains subject to the finalisation of audit work.

5. PROPOSAL AND ISSUES

5.1. Not applicable.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable.

7. CONSULTATION

7.1. Not applicable.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1.1. In accordance with the Accounts and Audit Regulations 2015, the Council's audited year end Statement of Accounts must be approved by the Audit, Pensions and Standards Committee and published before the end of July.

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

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. Not applicable.

11. RISK MANAGEMENT

11.1. Not applicable

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable.

13. IMPLICATIONS FOR BUSINESS

13.1. Not applicable.

<u>LOCAL GOVERNMENT ACT 2000</u>
<u>LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT</u>

None.

LIST OF APPENDICES:

Appendix 1 – London Borough of Hammersmith and Fulham Annual Statement of Accounts 2017/18 (including Pension Fund)
Appendix 2 – KPMG Report to those Charged with Governance (ISA260) (Main Financial Statements and LBHF Pension Fund) – *TO FOLLOW*
Appendix 3 – Draft Letter of Representation – *TO FOLLOW*
Appendix 4 – Pension Fund Annual Report

STATEMENT OF ACCOUNTS

(Draft subject to final audit opinion and certification)

2017/18

Hammersmith & Fulham Council

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CONTENTS

The Strategic Director of Finance and Governance's Narrative Report, the Council's Statement of Accounts for the Year Ended 31 March 2018 and the Council's Annual Governance Statement are set out on the following pages.

Independent auditor's report to the members of the London Borough of Hammersmith and Fulham

Audit certificate to follow with final version of the 2017/18 accounts.

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 17 July 2018

Councillor Iain Cassidy
17 July 2018

THE STRATEGIC DIRECTOR OF FINANCE AND GOVERNANCE'S NARRATIVE REPORT

Introduction from the Strategic Director of Finance and Governance – Hitesh Jolapara

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. We are one of London's leading councils and our aim is to be the best.

Hammersmith and Fulham, like most local authorities, continues to face significant financial challenges. The Government's 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 2017/18 Statement of Accounts presented here tells the story of what has been a financially successful, albeit challenging, year for the Council. 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 remained within budget, supported by the application of £1.6m of specific funding to offset the impact of development on demand for Council services. The Council moves into 2018/19 with a balanced budget and planning is now well underway for 2019/20.

Our strong balance sheet and healthy level of one-off reserves enables us to plan with confidence for the future, albeit that these reserves can only be used once whilst the savings we must find are ongoing and the demands we must meet are increasing.

Our Vision, Priorities and Performance

In 2017/18 the Council published its new vision as follows:

People love living in Hammersmith & Fulham. It's diverse, connected, on the up and could be better still. In our part of this busy city, residents deserve a place that is safe, clean and green.

In Hammersmith & Fulham, we have compassion. We believe our residents should feel secure in their homes and on the streets. They should have high-quality services they can rely on. The area is changing and some are worried about growing unfairness, being left behind and the future of local services. This threatens what we want for the future.

We're strong because we care about our neighbours. We'll succeed if we bring people together and tackle what holds them back. We can't escape national and international challenges. Many will benefit locally, but some may lose out. We will not stand by.

We'll manage our finances responsibly and relentlessly challenge unfairness, waste and old-fashioned thinking in how we work. We're a compassionate council and are not afraid to take on the powerful to get results. We're making Hammersmith and Fulham the best place to do business in Europe. We support entrepreneurs and start-ups and generate opportunity and shared prosperity. We are a different kind of council – pioneering and relentlessly searching for better answers. We'll keep listening, working with residents and finding creative ways to take us forward.

The Council has also set out the following key priorities:

- Building shared prosperity
- Creating a compassionate Council
- Doing things with residents, not to them
- Being ruthlessly financially efficient
- Taking pride in Hammersmith and Fulham

Our vision and priorities are explored in more detail here:

https://www.lbhf.gov.uk/sites/default/files/section_attachments/260_59_hf_vision_a4_booklet_rev8.pdf

An overview of the Council's priorities and performance for 2017/18 is available in the Council's business plan here:

https://www.lbhf.gov.uk/sites/default/files/section_attachments/260_60cc_slt_business_plan_2017-18_nov-update_web.pdf

Organisational overview and external environment

As a unitary authority, Hammersmith and Fulham has one of the broadest remits in the public sector. Some of the key areas for which are responsible are as follows:

- Education
- Adult Social care
- Children's Services and Social Care
- Housing and Regeneration
- Transport
- Planning
- Libraries
- Waste management
- Rubbish collection and Recycling
- Trading standards
- Environmental Health
- Council Tax and Business Rates collections
- Planning applications
- Housing Benefit administration

This is by no means an exhaustive list and our website https://www.lbhf.gov.uk/ provides a full overview our services and how to access them. The Government has also provided a useful overview of local authorities services and how councils work here: https://www.gov.uk/understand-how-your-council-works

Governance

The Authority operates the Leader / Cabinet system with 46 councillors in total representing 16 wards. The Council's governance arrangements are explained in detail in the Annual Governance Statement (AGS). The AGS is published as part of these accounts.

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that it is efficient, transparent and accountable to local people. The latest version of the Council's Constitution can be viewed here:

www.lbhf.gov.uk/constitution

Organisational model

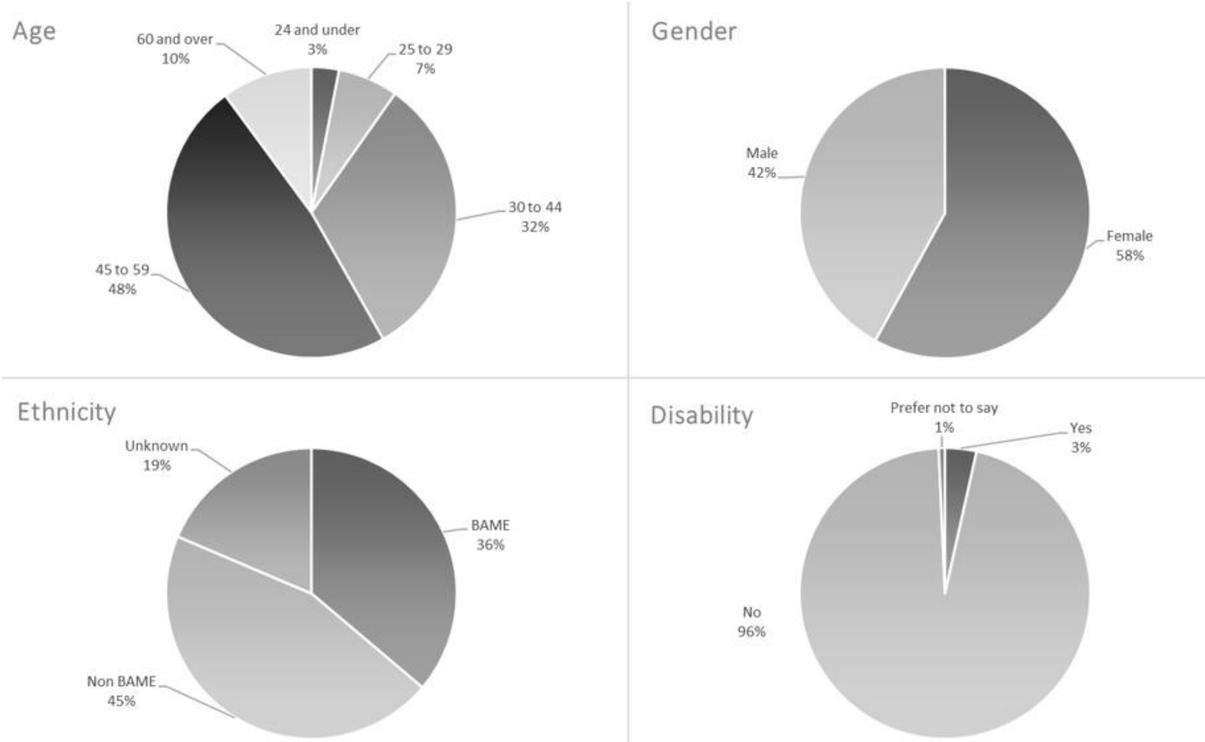
In 2017/18 council departments were reshaped to bring together services which fit better, making it easier to work out who does what and to align better with our vision. This structure will become operational from 1 April 2018.

A list of our main service areas and directors – who together comprise the Strategic Leadership Team - is as follows:

Chief executive	**Kim Dero**	kim.dero@lbhf.gov.uk
Strategic director of finance and governance	**Hitesh Jolapara**	hitesh.jolapara@lbhf.gov.uk
Strategic director of growth and place	**Jo Rowlands**	jo.rowlands@lbhf.gov.uk
Director of social care	**Lisa Redfern**	lisa.redfern@lbhf.gov.uk
Director of children's services	**Steve Miley**	steve.miley@lbhf.gov.uk
Director of residents' services	**Nick Austin**	nick.austin@lbhf.gov.uk
Director of corporate services	**Mark Grimley**	mark.grimley@lbhf.gov.uk
Director of public services reform	**Rachael Wright-Turner**	Rachael.Wright-Turner@lbhf.gov.uk

People

The Council employs 1,863 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.



The Council, like other large employers, has recently published its gender pay gap information. Hammersmith & Fulham has reported that the median (or typical) male employee earns 3.8 per cent more than the median female employee across the whole organisation. The average difference is 6.1 per cent. In comparison, we have a lower pay gap than 74 per cent of the organisations that have reported so far. However, 8 per cent have reported they have no pay gap – so for us it must be achievable to end this gap. So, we are not just accepting that a gender pay gap of 3.8 per cent is okay in comparison to other organisations. We want to be the best, and that means not settling for just good enough. We will work hard to improve the parity of pay and progression across every aspect of our work.

To see our gender pay results and those of other organisations you can visit:

https://www.gov.uk/government/news/view-gender-pay-gap-information

Risks and opportunities

The Council maintains a comprehensive risk register which is regularly reviewed by the Audit, Pensions and Standards Committee. This register is published as part of the relevant committee papers which can be accessed here:

http://democracy.lbhf.gov.uk/mgCommitteeDetails.aspx?ID=338

The Council's key risks are summarised below:

The Council's highest-level risks	Impact	Mitigation
Continued reductions imposed by national government in local government funding, restricts revenue spending.	Impacts on the Council's ability to run full services and may mean that some services are changed or reduced.	Enhanced Assurance and Risk Monitoring across the Council. A robust Medium Term Financial Process (MTFS). Being ruthlessly financially efficient has been adopted as a core priority. Creating a leaner and more responsive management structure. Remodelling public services to ensure they genuinely satisfy residents' needs.
Safeguarding, protecting people from harm.	Potential harm to those most vulnerable in society.	Creating a compassionate Council through Policies, training and management controls; lessons learnt reviews, quality assurance; enhanced checks. Multi-Agency Safeguarding Board Team with Social Care Partners - Police, Health, Education and links to Housing, and Youth Offending Teams. Professional Standards and Safeguarding Team. Independently chaired quarterly meetings of the Adults Safeguarding Board.

The Council's highest-level risks	Impact	Mitigation
Commercial Contract Management and Procurement.	Impact on our Services to our Residents, Visitors and Businesses and the local Environment.	Council Core Priorities include achieving the best service for our residents from council staff and contractors. Our priority will always be to deliver first class public services for all. We will do this through development of more rigorous corporate contract management guidance, the Commercial Management Initiative Programme and review of contract reform activity.
Contractor compliance with statutory inspections.	Impact on the Council as legal and responsible duty holders, under the health and safety regulations.	Doing things with, not to residents is a Council Priority. Detailed assessments on specific activities undertaken to ascertain how statutory duties and inspections are being discharged. Fundamental review of health and safety compliance. Launching the Fire Safety Plus programme for Housing with free fire safety checks, new fire doors and replacement appliances. Introduction of a compliance management system called Geometra which holds all compliance data.
Ongoing threat of Terrorism and Cyber threats.	Threat to our Residents, Visitors, Service Users and Business Community.	Emergency Planning and Business Continuity Planning. Training, Guidance, Plans, New Extranet development outreaching to our local community. Lessons Learned and Reviews. Service Resilience Group and Supply Chain Resilience.

Regarding opportunities, the Council continues to explore a number of regeneration schemes and opportunity areas through its Industrial Strategy. The Strategy – called **Economic Growth for Everyone** – reflects our ambition to make our borough the best place to do business in Europe and to ensure that everyone benefits. Hammersmith & Fulham is changing rapidly and we're determined to seize the opportunities for everyone. We believe local government has a role in supporting growth. It can bring partners together, regenerate town centres, help with affordable workspaces, teach people the skills they need, use procurement to support local firms and much more. In Hammersmith & Fulham, we want to use the power of local government to create a borough able to compete with the best in the 21st century. The detail of our Industrial Strategy is published online at: https://www.lbhf.gov.uk/business/industrial-strategy

The strategy also includes:

- How we will make it easier for savvy entrepreneurs to start and grow a business, creating more affordable workspaces, exploring business rates cuts for key sectors, and creating a new venture capital fund to support tech and creative businesses
- Details of major regeneration and infrastructure schemes, including delivering 10,000 new homes, half of which will be affordable, as well as improvements to rail links and the station at Old Oak Common
- Our investment in local skills, with extra support for science and maths teachers and apprenticeships.

Fire Safety Reviews

Following the tragic events at Grenfell Tower, the Council has been reviewing fire safety across the borough. In July 2017 the Council launched its Fire Safety Plus programme. The programme is detailed in full here: https://www.lbhf.gov.uk/housing/hf-fire-safety-plus. The overall value of this programme is £20m and this is reflected in the Council's spending plans moving forwards. Specifically, within the accounts presented here, an Earmarked Reserve of £12.8m has been established to support this programme.

In Hammersmith & Fulham, we have 15 council housing blocks of 12 storeys or more. Our tallest buildings are three, 23-storey blocks on Edward Woods estate in North Kensington.
We have reviewed fire safety, and have fire risk assessments for all these blocks.

The only blocks with cladding are those at the Edward Woods Estate. Specialist independent tests on the cladding at Edward Woods Estate have been completed and all three blocks have passed. While no further action is needed in relation to the cladding, we are still working with our advisors on other things we can do to make Edward Woods Estate as safe as it can possibly be.

We also have some of the country's best independent experts validating our Fire Risk Assessments as part of our action plan following the Shepherds Court fire in August 2016.

A comprehensive overview of the Council's response to the Grenfell fire and the checks it has undertaken is available here: https://www.lbhf.gov.uk/emergencies-and-safety/hf-response-grenfell-tower-fire

The Environment

In our part of a busy city, residents deserve a place that is safe, clean and green. We're working hard to be the most environmentally positive borough in London, because the health and wellbeing of our communities is so important.

Some of our key environmental achievements and ambitions are set out below:

- We've guaranteed to keep our weekly (and in some cases twice-weekly) bin collections.
- To help cut pollution, we've set up the largest electric vehicle charging points network in the country and an electric car club.
- We've halted the standardised spraying of environmentally harmful glyphosate weed killers and pioneered eco-friendly alternatives.
- We've become the leading London authority for eco-friendly flood reduction schemes: three of our sustainable drainage projects have won awards.
- We've installed energy-saving LED streetlights throughout the borough.
- Our Street Czar is working with local residents and community groups to help make streets cleaner and more attractive.
- We're setting up an ecology centre and we're acting on other findings of the Biodiversity Commission to protect the borough's wildlife.
- We're setting up a low emissions zone on the south side of Hammersmith Broadway.

Finance Strategy, Performance and Outlook

Strategy and resource allocation

Local government finances continue to be dominated by the austerity agenda. From 2010/11 to 2017/18 the Council's government funding was cut by £70m 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, in particular the continued reduction of Government funding. The Council's funding reduction from government in 2017/18 was £8.9m. In addition, the Government imposed £0.7m of unfunded new burdens on the Council for 2017/18.

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 2017/18 budgets included:

- A Council Tax freeze including not levying a 2% adult social care precept as suggested by Central Government. This meant that H&F residents paid council tax at 4% below the level modelled (2% social care precept and 4% for council tax) by the Government in 2017/18
- 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 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 2017/18 are £19m.

As part of the Council's budget consultation and stakeholder engagement process the budget proposals were reviewed by all the Policy and Accountability Committees. The minutes of the PACs detailing the key features and findings of this process are published here: https://www.lbhf.gov.uk/councillors-and-democracy/councillors-committees-and-decisions/scrutiny

The Council also approves the **capital programme** which 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). The 2017-21 capital programme included:

- 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.

Financial Performance

The revenue outturn for 2017/18 includes:

- Council revenue expenditure for 2017/18 has been fully funded after the additional application of £1.6m of specific developer contributions to offset the impact of development on demand for Council services;
- A General Fund balance of £19m and earmarked reserves at 31 March 2018 of £95 million; and
- A stable balance sheet.

The draft 2017/18 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**
	£m	**£m**	**m**
Children's Services	57.206	60.427	3.221
Adult Social Care	61.364	61.388	0.024
Regeneration, Planning and Housing Service	11.027	11.010	(0.017)
Controlled Parking Account	(22.511)	(23.154)	(0.643)
Environmental Services	46.887	47.254	0.367
Public Health	-	-	-
Libraries and Archives	2.843	2.856	0.013
Corporate Services	20.173	20.725	0.552
Centrally Managed Budgets	33.423	29.906	(3.517)
Gross Operating Expenditure	**210.412**	**210.412**	**-**
Technical and Financial Accounting Adjustments	(52.741)	(52.741)	-
NDR Tariff	18.059	18.059	-
Capital Grants	(11.813)	(11.813)	-
Non-Ring-fenced Revenue Grants	(20.021)	(20.021)	-
Net Contribution to Earmarked Reserves	(12.008)	(12.088)	-
Total Net Expenditure	**154.614**	**154.614**	**-**

Funded by:			
Formula Grant	29.499	29.499	-
Localised NDR	69.677	69.677	-
Council Tax	55.438	55.438	-
Total Funding	**154.614**	**154.614**	**-**
Final Position	-	-	-

The Statement of Accounts also includes the ring-fenced Housing Revenue Account for the provision of social housing. The closing balance on the Housing Revenue Account was £9.946m with associated Earmarked Reserves of £41.664m. Full details are set out in the HRA Statement of Accounts.

The Council's **Balance Sheet** as at 31 March 2018 is summarised below. The overall balance sheet position is substantially stable.

LBHF Summary Balance Sheet	**31 Mar 2018 £m**	**31 Mar 2017 £m**
Long Term Assets	1,882	1,839
Current Assets	379	390
Current Liabilities	(191)	(185)
Net Pension Liabilities	(665)	(691)
Other Long-Term Liabilities	(248)	(244)
Net Assets	**1,157**	**1,109**
Represented by:		
Usable Reserves	(250)	(238)
Unusable reserves	(907)	(871)
Total Reserves	**(1,157)**	**(1,109)**

The breakdown of the usable reserves is set out below:

LBHF Summary Usable Reserves	**31 March 2018 £m**	**31 March 2017 £m**
General Fund Balance	(19)	(19)
General Fund Earmarked Reserves	(95)	(83)
HRA Balance and Earmarked Reserves	(52)	(46)
Schools Reserves	(11)	(9)
Capital Reserves (Receipts and Grants)	(73)	(81)
Total	**(250)**	**(238)**

Capital

In 2017/18, the actual capital expenditure (outturn) totalled £73.6 million. The table below summarises capital expenditure by service area:

Department	**2017/18 £'000**	**2016/17 £'000**
Adult Social Care	393	315
Children's Services	17,409	12,655
Environmental Services	10,704	13,345
Finance and Corporate Services	5,790	95
Housing Revenue Account Programme	23,766	40,294
Regeneration, Planning and Housing Service	14,148	3,922
General Fund Schemes under Housing Management	1,344	-
Total	**73,556**	**70,626**

The 2017/18 capital programme was financed as follows:

Capital Financing	**2017/18 £'000**	**2016/17 £'000**
Capital receipts	22,345	25,085
Increase in Capital Finance Requirement (CFR)	6,550	5,528
Capital Grants and Contributions	26,644	15,168
Major Repairs Reserve (MRR)	16,261	17,618
Council and School reserves	1,703	4,119
Housing Revenue Account	37	3,048
General Fund Revenue Account	15	60
Total	**73,556**	**70,626**

Financial Outlook

Government funding is forecast to reduce further. Funding has reduced by £8.6m in 2018/19 and a further £5.2m cut is forecast in 2019/20.

The 2018/19 revenue budget was approved in February 2018 and included the following:

- A freeze in the Hammersmith and Fulham element of Council Tax including not levying a 3% adult social care precept as suggested by Central Government.
- Growth of £6.5m has been provided to meet statutory obligations, demographic, service pressures and key resident priorities;
- Savings of £15.0 million off-setting cost pressures and grant losses. 40% of the savings relate to central support services and income from commercial activities;
- Overall this produced a net revenue budget requirement of £138.9 million funded from Council Tax, the local share of business rates and Revenue Support Grant from government.

The 2018-22 capital programme, also approved in February 2018, includes:

- A Housing programme in excess of £200m
- The continuation of the School's Organisation Strategy (within Children's Services) which is committed to increasing school places in the Borough.
- The continuation of the Council's rolling programmes for Disabled Facilities Grants, Planned Building Maintenance, Footways and Carriageways and Parks.

The medium-term outlook for local authority financing remains extremely challenging, however management are not aware of any material uncertainties in relation to the authority's ability to continue as a going concern.

Structure of the Statement of Accounts and Basis of preparation

The Statement of Accounts sets out the Council's income and expenditure for the financial year 2017/18 and its Balance Sheet at 31 March 2018. This covers the General Fund, Housing Revenue Account, Pension Fund and the Collection Fund. The format of the accounts follows the Code of Practice on Local Authority Accounting in the UK 2017/18, which specifies the principles and practices of accounting required to give a "true and fair" view of the financial position, financial performance and cash flows of a local authority. It primarily comprises the Main Financial Statements (including notes to the accounts) and Additional Statements / Other Notes.

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 2018. 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 31 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.

Materiality and Group Accounts

Group Accounts have not been included in the 2017/18 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's interests which have been considered for the purposes of group accounting are detailed in Note 33 – Interest in Companies. We will continue to assess these interests for inclusion in future accounts should they become material.

In addition, the Council is the sole trustee of the Wormwood Scrubs Charitable Trust (WSCT). Again, group accounts have not been prepared on the grounds of materiality however Note 35 provides a high-level summary of the balances of the Trust. The Trust's annual report and accounts are considered annually by the WSCT Committee and published here:http://democracy.lbhf.gov.uk/mgCommitteeDetails.aspx?ID=467. The Trust's accounts are also available via the Charity Commission website.

Accounting Policies

The 2017/18 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 2017 (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 2016/17.

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

Responsibilities of the Strategic Director of Finance and Governance

The Strategic Director of Finance and Governance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities
- assessed the Authority's ability to continue as a going conncern, disclosing, as applicable, matters related to going concern
- used the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

CERTIFICATE OF THE STRATEGIC DIRECTOR OF FINANCE AND GOVERNANCE

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 2018 and income and expenditure for the year for the financial year 2017/18.

Hitesh Jolapara
Strategic Director of Finance and Governance
17 July 2018

CORE FINANCIAL STATEMENTS

Movement in Reserves Statement

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

	Notes	General Fund (GF) Balance £000	GF Earmarked Reserves £000	Schools Balance £000	Housing Revenue Account (HRA) £000	HRA Earmarked Reserves £000	Capital Grants Unapplied £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Reserves £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 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	3a	(72,986)	-	763	(8,392)	-	2,129	-	10,257	-	(68,229)	68,229	-
Transfer to/(from) Earmarked Reserves		(10,812)	7,071	3,741	2,530	(2,530)	-	-	-	-	-	-	-
(Increase)/Decrease in 2016/17		**-**	**7,071**	**4,504**	**(1,608)**	**(2,530)**	**2,129**	**-**	**10,257**	**-**	**19,823**	**237,276**	**257,099**
Balance at 31 March 2017		**(19,004)**	**(82,986)**	**(9,029)**	**(20,128)**	**(25,325)**	**(41,503)**	**(406)**	**(38,694)**	**(878)**	**(237,953)**	**(870,660)**	**(1,108,613)**
Movement in Reserves during 2017/18													
Total Comprehensive Income and Expenditure		43,381	-	-	18,652	-	-	-	-	-	62,033	(110,160)	(48,127)
Adjustments between accounting basis & funding basis under regulations	3a	(57,689)	-	-	(24,809)	-	3,185	(232)	5,517	-	(74,028)	74,028	-
Transfer to/(from) Earmarked Reserves		14,308	(12,008)	(2,300)	16,339	(16,339)	-	-	-	-	-	-	-
(Increase)/Decrease in 2017/18		**-**	**(12,008)**	**(2,300)**	**10,182**	**(16,339)**	**3,185**	**(232)**	**5,517**	**-**	**(11,995)**	**(36,132)**	**(48,127)**
Balance at 31 March 2018		**(19,004)**	**(94,994)**	**(11,329)**	**(9,946)**	**(41,664)**	**(38,318)**	**(638)**	**(33,177)**	**(878)**	**(249,948)**	**(906,792)**	**(1,156,740)**

Comprehensive Income and Expenditure Statement

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

		Year Ended 31 March 2018			**Year Ended 31 March 2017** Restated*		
	Notes	**Gross Expenditure £000**	**Gross Income £000**	**Net Expenditure £000**	**Gross Expenditure £000**	**Gross Income £000**	**Net Expenditure £000**
Children's Services		177,413	(119,454)	57,959	174,530	(115,809)	58,721
Adult Social Care		97,985	(37,863)	60,122	95,480	(34,675)	60,805
Regeneration, Planning and Housing Service		38,192	(27,097)	11,095	38,575	(23,545)	15,030
Local authority housing (HRA)		68,530	(86,468)	(17,938)	68,233	(81,499)	(13,266)
Local authority housing (HRA) - Dwelling Revaluation	5	35,780	-	35,780	15,131	-	15,131
Controlled Parking Account		13,602	(36,756)	(23,154)	12,626	(35,421)	(22,795)
Environmental Services		72,825	(26,828)	45,997	68,386	(24,353)	44,033
Public Health		23,776	(23,776)	-	22,843	(22,843)	-
Libraries and Archives		3,212	(356)	2,856	3,934	(512)	3,422
Corporate Services		37,291	(16,407)	20,884	31,039	(7,834)	23,205
Centrally Managed Budgets		135,568	(125,285)	10,283	165,177	(151,395)	13,782
Cost of Services		**704,174**	**(500,290)**	**203,884**	**695,954**	**(497,886)**	**198,068**
Other Operating Expenditure	6	6,243	(7,327)	(1,084)	42,535	(983)	41,552
Financing and investment income and expenditure	7	30,251	(1,060)	29,191	30,740	(2,389)	28,351
Taxation and non-specific grant income and expenditure	8	18,059	(188,017)	(169,958)	2,961	(182,880)	(179,919)
(Surplus) or Deficit on Provision of Services				**62,033**			**88,052**
(Surplus) or deficit on revaluation of non-current assets				(54,213)			(16,992)
(Surplus) or deficit on revaluation of available for sale financial assets				(2,820)			1,755
Remeasurements of the net defined benefit liability	27			(53,127)			184,284
Other Comprehensive Income and Expenditure				**(110,160)**			**169,047**
Total Comprehensive Income and Expenditure				**(48,127)**			**257,099**

* The 2016/17 amounts within Costs of Services were restated due to restructure of services between Environment Services and Regeneration, Planning and Housing Service.

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'.

	Note No.	31 March 2018 £000	31 March 2017 £000
Property, Plant and Equipment	9	1,770,412	1,746,727
Heritage Assets	11	8,023	8,023
Investment Property	10	83,899	81,744
Intangible Assets		413	608
Long Term Investments	21	17,695	195
Long Term Debtors	21	1,330	1,384
Long Term Assets		**1,881,772**	**1,838,681**
Assets Held for Sale	12	-	4,435
Short Term Investments	21	238,429	279,478
Short Term Debtors	16	56,055	53,280
Inventories		70	69
Cash and Cash Equivalents	17	82,874	52,683
Current Assets		**377,428**	**389,945**
Short Term Borrowing	21	(7,040)	(10,052)
Short Term Creditors	18	(172,167)	(162,367)
Provisions	20	(9,894)	(7,927)
Grants and Contributions Receipts in Advance	30	(490)	(4,868)
Current Liabilities		**(189,591)**	**(185,214)**
Long Term Borrowing	21	(213,101)	(217,661)
Long Term Creditors	21	(100)	(100)
Provisions	20	(184)	(193)
Other Long Term Liabilities	19	(672,774)	(700,568)
Grants and Contributions Receipts in Advance	30	(26,710)	(16,277)
Long Term Liabilities		**(912,869)**	**(934,799)**
NET ASSETS		**1,156,740**	**1,108,613**
Usable Reserves	3b	(249,948)	(237,953)
Unusable Reserves	3c	(906,792)	(870,660)
TOTAL RESERVES		**(1,156,740)**	**(1,108,613)**

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	**2017/18 £000**	**2016/17 £000**
Net surplus or (deficit) on the provision of services		(62,033)	(88,052)
Adjustments to net surplus or deficit on the provision of services for non-cash movements	22a	102,006	116,148
Adjust for items in the net deficit on the provision of services that are investing or financing activities		(19,129)	(15,394)
Net cash flows from Operating Activities		**20,844**	**12,702**
Investing Activities			
Purchase of Property, plant and equipment, investment property and intangible assets		(50,948)	(60,293)
Purchase of short-term and long-term investments		-	(14,743)
Proceeds from sale of property, plant and equipment, investment property and intangible assets		19,129	15,394
Proceeds from short-term and long-term investments		23,549	-
Other receipts from investing activities		33,321	17,537
Net cash flows from Investing Activities		**25,051**	**(42,106)**
Financing Activities			
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts		(335)	(333)
Repayments of short and long term borrowing		(7,206)	(7,464)
Other payments for financing activities		(8,163)	(10,782)
Net cash flows from Financing Activities		**(15,704)**	**(18,578)**
Net increase or (decrease) in cash and cash equivalents		**30,191**	**(47,982)**
Cash and cash equivalents at the beginning of the reporting period		52,683	100,665
Cash and cash equivalents at the end of the reporting period	17	**82,874**	**52,683**

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		
2017/18	**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	57,959	(6,254)	51,705	57,959	(6,254)	51,705	-	-	-
Adult Social Care	60,122	(1,320)	58,802	60,122	(1,320)	58,802	-	-	-
Regeneration, Planning and Housing Service	11,095	(1,069)	10,026	11,095	(1,069)	10,026	-	-	-
HRA	17,842	(38,643)	(20,801)	-	-	-	17,842	(38,643)	(20,801)
Controlled Parking Account	(23,154)	(889)	(24,043)	(23,154)	(889)	(24,043)	-	-	-
Environmental Services	45,997	(15,412)	30,585	45,997	(15,412)	30,585	-	-	-
Public Health	-	(16)	(16)	-	(16)	(16)	-	-	-
Libraries and Archives	2,856	(300)	2,556	2,856	(300)	2,556	-	-	-
Corporate Services	20,884	(4,678)	16,206	20,884	(4,678)	16,206	-	-	-
Centrally Managed Budgets	10,283	4,199	14,482	10,283	4,199	14,482	-	-	-
	203,884	**(64,382)**	**139,502**	**186,042**	**(25,739)**	**160,303**	**17,842**	**(38,643)**	**(20,801)**
Other income and expenditure not charged to services	(141,851)	(18,116)	(159,967)	(142,661)	(31,950)	(174,611)	810	13,834	14,644
(Surplus) or Deficit on Provision of Services before planned use of Earmarked Reserves	**62,033**	**(82,498)**	**(20,465)**	**43,381**	**(57,689)**	**(14,308)**	**18,652**	**(24,809)**	**(6,157)**
Appropriations to and (from) reserves:									
Earmarked reserves (See Note 4)			28,347			12,008			16,339
Schools Reserves transfer			2,300			2,300			-
(Surplus) or Deficit after planned use of Earmarked Reserves			**10,182**			**-**			**10,182**
Opening Balance of General Fund/ HRA Working Balance			(39,132)			(19,004)			(20,128)
add: (Surplus) or Deficit after planned use of Earmarked Reserves			10,182			-			10,182
Closing Balance of General Fund/ HRA Working Balance			(28,950)			(19,004)			(9,946)

2016/17	**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	-	-	-
Regeneration, Planning and Housing Service	15,030	(862)	14,168	15,030	(862)	14,168	-	-	-
HRA	1,865	(19,266)	(17,401)	-	-	-	1,865	(19,266)	(17,401)
Controlled Parking Account	(22,795)	(582)	(23,377)	(22,795)	(582)	(23,377)	-	-	-
Environmental Services	44,033	(13,967)	30,066	44,033	(13,967)	30,066	-	-	-
Public Health	-	(1)	(1)	-	(1)	(1)	-	-	-
Libraries and Archives	3,422	(362)	3,060	3,422	(362)	3,060	-	-	-
Corporate Services	23,205	(202)	23,003	23,205	(202)	23,003	-	-	-
Centrally Managed Budgets	13,782	2,504	16,286	13,782	2,504	16,286	-	-	-
	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)**
Appropriations to and (from) reserves:									
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)

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. 12). 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.

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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

	2017/18				2016/17			
	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	(2,873)	(3,381)	-	**(6,254)**	(2,640)	(562)	-	**(3,202)**
Adult Social Care	(790)	(769)	240	**(1,320)**	(679)	(121)	211	**(589)**
Regeneration, Planning and Housing Service	(601)	(468)	-	**(1,069)**	(786)	(76)	-	**(862)**
HRA	(37,942)	(701)	-	**(38,643)**	(19,268)	2	-	**(19,266)**
Controlled Parking Account	(561)	(328)	-	**(889)**	(534)	(48)	-	**(582)**
Environmental Services	(14,579)	(942)	109	**(15,412)**	(13,923)	(151)	107	**(13,967)**
Public Health	-	(16)	-	**(16)**	-	(1)	-	**(1)**
Libraries and Archives	(220)	(80)	-	**(300)**	(347)	(15)	-	**(362)**
Corporate Services	(108)	(4,570)	-	**(4,678)**	(220)	(175)	193	**(202)**
Centrally Managed Budgets	(408)	3,815	793	**4,199**	1,111	1,239	154	**2,504**
Net Cost of Services	**(58,082)**	**(7,441)**	**1,141**	**(64,381)**	**(37,286)**	**92**	**665**	**(36,529)**
Other income and expenditure not charged to services - General Fund	(16,022)	(16,594)	665	**(31,950)**	(41,102)	(15,507)	886	**(55,723)**
Other income and expenditure not charged to services - HRA	(27)	(1,670)	15,532	**13,834**	12,741	(1,781)	(86)	**10,874**
(Surplus) or Deficit on Provision of Services	**(74,131)**	**(25,705)**	**17,338**	**(82,498)**	**(65,647)**	**(17,196)**	**1,465**	**(81,378)**

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.

	2017/18 £000	2016/17 £000 Restated*
Expenditure		
Employee Benefits	177,530	175,115
Other Services Expenses	434,460	464,680
Support Service Recharges	(1,000)	1
Capital Charges	93,973	64,927
Losses on the disposal of non-current assets	-	38,756
Interest Payments	11,987	12,775
Levies	2,791	2,837
Business rates tariff	18,059	2,961
Payments to the Government Housing Capital Receipts Pool	2,664	781
Net interest on the net defined benefit liability (asset)	18,264	17,288
Schools converted to Academy Status	-	677
Total Expenditure	**758,728**	**780,798**
Income		
Fees, Charges and other Service Income	(239,562)	(237,395)
Government Grants and Contributions	(323,631)	(337,295)
Income from Council Tax and NDR	(125,115)	(114,867)
Interest and Investment Income	(1,060)	(2,389)
Other Operating Income and Expenditure	-	(800)
Gains on the disposal of non-current assets	(7,327)	-
Total Income	**(696,695)**	**(692,746)**
(Surplus) or Deficit on the Provision of Services	**62,033**	**88,052**

* The subjective headings were formatted to follow the CIPFA Code of Practice recommended disclosure. This meant the 2016/17 amounts were re-stated from the audited accounts.

3a. 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 authority in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against:

General Fund Balances - The General Fund includes any surplus after meeting net expenditure on Council Services.

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.

Earmarked Reserves – these are amounts set aside for specific purposes see Note 4 for a description of each Earmarked Reserve.

Capital Grants Unapplied - These are capital grants with no payback conditions and have had no associated expenditure in 2017/18 or prior years.

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.

Major Repairs Reserve - The Major Repairs Reserve is available for financing major repairs to the Council's housing stock.

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.

Capital Reserves - This is to hold retained capital receipts from the sale of assets.

3a. Adjustments between Accounting Basis and Funding Basis under Regulations

2017/18	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
Adjustments to the Revenue Resources									
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:									
Pensions costs (transferred to (or from) the Pensions Reserve)	(23,333)	-	-	-	(2,372)	-	-	-	(25,705)
Financial instruments (transferred to the Financial Instruments Adjustments Account)	111	-	-	-	(38)	-	-	-	73
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	(10,674)	-	-	-	-	-	-	-	(10,674)
Holiday pay (transferred to the Accumulated Absences Reserve)	424	-	-	-	-	-	-	-	424
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(47,026)	-	-	-	(58,318)	(232)	-	-	(105,576)
Total Adjustments to Revenue Resources	**(80,498)**	**-**	**-**	**-**	**(60,728)**	**(232)**	**-**	**-**	**(141,458)**
Adjustments between Revenue and Capital Resources									
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	7,000	-	-	-	12,839	-	(19,839)	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	-	-	-	-	(121)	-	121	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(2,664)	-	-	-	-	-	2,664	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	-	-	-	16,261	(16,261)	-	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	605	-	-	-	-	-	-	-	605
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	1,719	-	-	-	37	-	-	-	1,756
Total Adjustments between Revenue and Capital Resources	**6,660**	**-**	**-**	**-**	**29,016**	**(16,261)**	**(17,054)**	**-**	**2,361**
Adjustments to Capital Resources									
Use of the Capital Receipts Reserve to finance capital expenditure	868	-	-	(3,517)	2,649	-	22,345	-	22,345
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	-	-	16,261	-	-	16,261
Application of capital grants to finance capital expenditure	15,689	-	-	6,702	4,254	-	-	-	26,645
Movements in the market value of investment properties	(408)	-	-	-	-	-	-	-	(408)
Cash payments in relation to deferred capital receipts	-	-	-	-	-	-	226	-	226
Total Adjustments to Capital Resources	**16,149**	**-**	**-**	**3,185**	**6,903**	**16,261**	**22,571**	**-**	**65,069**
Total Adjustments	**(57,689)**	**-**	**-**	**3,185**	**(24,809)**	**(232)**	**5,517**	**-**	**(74,028)**

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

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**
Adjustments to the Revenue Resources									
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:									
Pensions costs (transferred to (or from) the Pensions Reserve)	(15,417)	-	-	-	(1,779)	-	-	-	(17,196)
Financial instruments (transferred to the Financial Instruments Adjustments Account)	29	-	-	-	(86)	-	-	-	(57)
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	885	-	-	-	-	-	-	-	885
Holiday pay (transferred to the Accumulated Absences Reserve)	18	-	-	-	-	-	-	-	18
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(75,422)	-	-	-	(46,564)	3,879	-	-	(118,107)
Total Adjustments to Revenue Resources	**(89,907)**	**-**	**-**	**-**	**(48,429)**	**3,879**	**-**	**-**	**(134,457)**
Adjustments between Revenue and Capital Resources									
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	650	-	-	-	14,619	-	(15,774)	-	(505)
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	(7)	-	-	-	(158)	-	165	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(781)	-	-	-	-	-	781	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	-	-	-	21,498	(21,498)	-	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	619	-	-	-	-	-	-	-	619
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	3,120	763	-	-	3,249	-	-	-	7,132
Total Adjustments between Revenue and Capital Resources	**3,601**	**763**	**-**	**-**	**39,208**	**(21,498)**	**(14,828)**	**-**	**7,246**
Adjustments to Capital Resources									
Use of the Capital Receipts Reserve to finance capital expenditure	4,195	-	-	(4,966)	771	-	25,085	-	25,085
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	-	-	17,619	-	-	17,619
Application of capital grants to finance capital expenditure	8,014	-	-	7,095	58	-	-	-	15,167
Movements in the market value of investment properties	1,111	-	-	-	-	-	-	-	1,111
Cash payments in relation to deferred capital receipts	-	-	-	-	-	-	-	-	-
Total Adjustments to Capital Resources	**13,320**	**-**	**-**	**2,129**	**829**	**17,619**	**25,085**	**-**	**58,982**
Total Adjustments	**(72,986)**	**763**	**-**	**2,129**	**(8,392)**	**-**	**10,257**	**-**	**(68,229)**

3b. Usable Reserves

Movements in the authority's usable reserves are detailed in the Movement in Reserves Statement.

3c Unusable Reserves

	31 March 2018 £000	31 March 2017 £000
Revaluation Reserve	(256,451)	(206,286)
Capital Adjustment Account	(1,322,825)	(1,356,870)
Deferred Capital Receipts Reserve	-	(52)
Pensions Reserve	664,989	692,410
Financial Instruments Adjustment Account	1,126	1,199
Available for Sale Financial Instruments Reserve	5	2,825
Collection Fund Adjustment Account	3,188	(7,486)
Accumulated Absences Account	3,176	3,600
Total Unusable Reserves	**(906,792)**	**(870,660)**

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.

	2017/18 £000	2016/17 £000
Balance as 1 April	(206,286)	(199,295)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(54,213)	(16,992)
Difference between fair value depreciation and historical cost depreciation	2,183	4,450
Accumulated gains on assets sold or scrapped	1,865	5,551
Amount written off to the Capital Adjustment Account	4,048	10,001
Balance at 31 March	**(256,451)**	**(206,286)**

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. 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.

	2017/18 £000	2016/17 £000
Balance as 1 April	(1,356,870)	(1,398,744)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
• Charges for depreciation non-current assets	19,667	20,225
• Revaluation losses on property, plant and equipment	38,044	14,095
• Amortisation of intangible assets	195	197
• Revenue expenditure funded from capital under statute	19,806	8,913
• Reversal of Major Repairs Allowance credited to the HRA	16,261	21,498
• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	11,602	53,684
	105,575	118,612
Adjusting amounts written out of the Revaluation Reserve	(4,048)	(10,001)
Net written out amount of the cost of non-current assets consumed in the year	101,527	108,611
Capital financing applied in the year:		
• Use of the Capital Receipts Reserve to finance new capital expenditure	(22,345)	(25,085)
• Use of the Major Repairs Reserve to finance new capital expenditure	(16,261)	(17,619)
• Capital grants and contributions applied	(26,644)	(15,167)
• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(605)	(619)
• Capital expenditure charged against the General Fund and HRA balances	(1,755)	(7,132)
	(67,610)	(65,622)
Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement	408	(1,111)
Release of deferred costs from Capital Adjustment Account to Capital Receipts Reserve upon receipt of cash	(280)	(4)
Balance at 31 March	**(1,322,825)**	**(1,356,870)**

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.

	2017/18 £000	2016/17 £000
Balance as 1 April	(52)	(56)
Transfer to the Capital Receipts Reserve upon receipt of cash	52	4
Balance at 31 March	**-**	**(52)**

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.

	2017/18 £000	2016/17 £000
Balance as 1 April	692,410	490,930
Remeasurements of the net defined benefit liability/(asset)	(53,127)	184,284
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	44,825	35,208
Employer's pensions contributions and direct payments to pensioners payable in the year	(19,119)	(18,012)
Balance as 31 March	**664,989**	**692,410**

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.

	2017/18 £000	2016/17 £000
Balance as 1 April	1,199	1,142
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(73)	57
Balance as 31 March	**1,126**	**1,199**

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. 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.

	2017/18 £000	2016/17 £000
Balance as 1 April	2,825	1,070
Upward / (Downward) revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(2,820)	1,755
Balance as 31 March	**5**	**2,825**

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.

	2017/18 £000	2016/17 £000
Balance as 1 April	(7,486)	(6,601)
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	10,674	(885)
Balance as 31 March	**3,188**	**(7,486)**

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.

	2017/18 £000	2016/17 £000
Balance as 1 April	3,600	3,618
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(424)	(18)
Balance as 31 March	**3,176**	**3,600**

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 2017/18. A number of reserves have been consolidated in 2017/18 and these have been reflected in the table below.

		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	Transfers Out 2017/18 £000	Transfers In 2017/18 £000	Movement Between Reserves 2017/18 £000	Balance at 31 March 2018 £000
	General Fund									
1	Insurance Fund	(5,720)	-	(622)	-	**(6,342)**	665	(635)	-	**(6,312)**
2	Controlled Parking Fund	(1,153)	521	(521)	99	**(1,054)**	228	(520)	-	**(1,346)**
3	Computer Replacement Fund	(1,237)	55	-	-	**(1,182)**	-	-	1,182	**-**
4	IT Infrastructure	(4,528)	3,531	(800)	(591)	**(2,388)**	-	(800)	3,188	**-**
5	Efficiency Projects Reserve	(14,552)	3,303	(4,949)	449	**(15,749)**	-	(3,783)	1,897	**(17,635)**
6	Corporate Demand Pressures	(9,133)	219	-	1,383	**(7,531)**	570	-	(4,483)	**(11,444)**
7	Dilapidations/Office Moves	(4,248)	921	-	-	**(3,327)**	552	(138)	2,913	**-**
8	Housing Benefit	(2,248)	-	-	-	**(2,248)**	-	-	2,248	**-**
9	Planning Inquiries	(291)	291	-	-	**-**	-	-	-	**-**
10	LPFA Sub Fund	(1,000)	-	(272)	-	**(1,272)**	-	(128)	-	**(1,400)**
11	Temporary Accommodation	(3,506)	-	-	-	**(3,506)**	582	(286)	-	**(3,210)**
12	ASC Pressures & Demands	(2,994)	1,116	-	-	**(1,878)**	-	-	-	**(1,878)**
13	Human Resources Reserve	(920)	-	-	-	**(920)**	-	-	920	**-**
14	Capital Reserves	(1,720)	298	(524)	-	**(1,946)**	1,009	-	-	**(937)**
15	Supporting People Programme	(1,809)	300	-	-	**(1,509)**	300	-	-	**(1,209)**
16	MTFS Delivery Risk	(6,148)	523	-	-	**(5,625)**	-	-	5,470	**(155)**
17	VAT Reserve	(2,500)	-	-	-	**(2,500)**	-	-	2,500	**-**
18	Business Board Reserve	(1,080)	-	-	-	**(1,080)**	-	-	1,080	**-**
19	TFM Reserve	(890)	37	-	-	**(853)**	500	(1,154)	-	**(1,507)**
20	3SIF Grant Reserve	(941)	-	(67)	-	**(1,008)**	280	-	8	**(720)**
21	Troubled Families	(579)	-	(238)	-	**(817)**	-	(258)	-	**(1,075)**
22	NDR Deficit Support	(3,208)	-	-	-	**(3,208)**	-	(5,256)	3,209	**(5,255)**
23	Stock Options Appraisal	(466)	697	-	(1,240)	**(1,009)**	-	-	1,009	**-**
24	Partners in Practice	-	-	-	(852)	**(852)**	-	(695)	-	**(1,547)**
25	Redundancy Reserves	(3,747)	-	-	-	**(3,747)**	-	-	3,747	**-**
26	King Street West	(561)	45	-	-	**(516)**	154	-	(994)	**(1,356)**
27	Managed Services	(2,284)	2,005	-		**(279)**	2,714	(3,891)	(7,835)	**(9,291)**
28	Corporate People Reserve	-	-	-	-	**-**	364	-	(4,000)	**(3,636)**
29	Corporate Technology & IT	-	-	-	-	**-**	-	-	(6,950)	**(6,950)**
30	Corporate Financial Resilience Reserve	-	-	-	-	**-**	-	-	(3,000)	**(3,000)**
31	Corporate Property Reserve	-	-	-	-	**-**	280	-	(4,076)	**(3,796)**
32	Other Funds	(8,339)	2,611	(1,249)	743	**(6,234)**	404	(859)	1,642	**(5,047)**
	General Fund Reserves	**(85,802)**	**16,473**	**(9,242)**	**(9)**	**(78,580)**	**8,602**	**(18,403)**	**(325)**	**(88,706)**

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

		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	Transfers Out 2017/18 £000	Transfers In 2017/18 £000	Movement Between Reserves 2017/18 £000	Balance at 31 March 2018 £000
	General Fund Revenue Grants									
33	S106 - Revenue Schemes	(3,634)	581	(731)	-	**(3,784)**	606	(2,158)	-	**(5,336)**
34	Other Revenue Grants	(621)	85	(95)	9	**(622)**	-	(655)	324	**(953)**
	Revenue Grants Sub-Total	**(4,255)**	**666**	**(826)**	**9**	**(4,406)**	**606**	**(2,813)**	**324**	**(6,289)**
	General Fund Total	**(90,057)**	**19,189**	**(10,068)**	**-**	**(82,986)**	**9,210**	**(21,218)**	**-**	**(94,994)**
	HRA Reserves									
35	HRA Efficiency Reserve	(1,411)	-	-	911	**(500)**	-	-	(792)	**(1,292)**
36	HRA Non-dwellings Impairment Reserve	(7,415)	-	153	-	**(7,262)**	-	72	-	**(7,190)**
37	HRA Strategic Regeneration and Housing Development	(3,250)	697	(1,655)	-	**(4,208)**	1,197	(3,402)	-	**(6,413)**
38	HRA Utilities Reserve	(5,511)	-	(2,663)	(1,208)	**(9,382)**	-	(1,368)	-	**(10,750)**
39	Welfare Reform Reserve	(1,500)	-	-	-	**(1,500)**	-	-	-	**(1,500)**
40	Parking Charges Review Reserve	(606)	-	-	-	**(606)**	-	-	-	**(606)**
41	Fire Safety Plus	-	-	-	-	**-**	-	(12,845)	-	**(12,845)**
42	Other HRA Funds	(3,102)	1,187	(249)	297	**(1,867)**	125	(118)	792	**(1,068)**
	HRA Sub-Total	**(22,795)**	**1,884**	**(4,414)**	**-**	**(25,325)**	**1,322**	**(17,661)**	**-**	**(41,664)**
	Total	**(112,852)**	**21,073**	**(14,482)**	**-**	**(108,311)**	**10,532**	**(38,879)**	**-**	**(136,658)**

4. Earmarked Reserves Description

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	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.
12	ASC Pressures & Demands	this reserve is to address non-recurring new financial pressures within Adult Social Care.
13	Human Resources Reserve	this is a reserve to fund any requirements in relation to Human Resources.
14	Capital Reserves	this is a revenue-backed reserve to support capital expenditure and to provide bridging finance pending receipts of grants, etc.
15	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.
16	MTFS Delivery Risk	this reserve is to mitigate the risks associated with the implementation of new MTFS projects.
17	VAT Reserve	this reserve is to cover costs incurred as a result of VAT related changes.
18	Business Board Reserve	this reserve is to fund projects approved by the HF Business Board.
19	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.
20	3SIF Grant Reserve	this reserve is to support the Third Sector Investment Fund medium term allocation plan.
21	Troubled Families	This reserve has been created to carry forward funding that has already been earnt, but not spent, into Year 3 of the project in order to fund the costs associated with running the programme.
22	NDR Deficit Support	this is a reserve to smooth the impact of statutory timing differences between funding and impact NDR deficits.
23	Stock Options Appraisal	this is a reserve to address the potential outcomes of the Stock Options Appraisal.
24	Partners in Practice	this is a reserve for Children's Services social care practice improvement as part of DFE innovation programme.
25	Redundancy Reserves	these reserves were set up to cover any redundancy costs.
26	King Street West	this is held to fund the costs of implementing the King Street West redevelopment.
27	Managed Services	this reserve is used to fund the cost of implementing the Managed Services project.
28	Corporate People Reserve	this is the consolidation of various Human Resource related reserves.
29	Corporate Technology & IT	this reserve is used to finance council IT projects.
30	Corporate Financial Resilience Reserve	this reserve is to cover the costs of providing financial resilience across the council.
31	Corporate Property Reserve	this is to be used to cover the one-off costs related to LBHF property management.
32	Other Funds	this comprises a number of smaller reserves, generally not exceeding £500k. These reserves exist to fund various projects and potential future commitments
33-	Revenue Grants	these are grants which have been transferred as an earmarked reserve due to the

34		implementation of International Financial Reporting Standards (IFRS).
35	HRA Efficiency Reserve	this reserve is to provide funding for the one-off costs associated with implementing MTFS savings.
36	HRA Non-Dwellings Impairment Reserve	this reserve comprises revaluation gains on HRA non-dwellings and should therefore be considered akin to the revaluation reserve. On this basis it has been included in the Council's Capital Financing Requirement (CFR) calculation. Any use of this reserve for purposes other than smoothing capital charges would therefore adversely affect the CFR
37	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.
38	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.
39	Welfare Reform Reserve	this is a reserve to provide for the further and continuing impact of Welfare Reform.
40	Parking Charges Review Reserve	this reserve is to cover the potential need to refund parking charges on HRA properties.
41	Fire Safety Plus	this reserve was created for reviewing fire safety across the borough.
42	Other HRA Funds	this reserve is to fund various smaller projects specific to the HRA.

5. Material Items of Income and Expense

Transactions in 2017/18
Revaluations: HRA Dwellings have been revalued downwards in year. The downward revaluation is approximately 2% however the size of the asset base means that this revaluation is a material amount. The gross revaluation decrease, recognised across CIES and Revaluation Reserve is £41.550m.

In contrast Other Land and Buildings (OLB) have increased in value in year. This is substantially due to changes in the estimation techniques used to arrive at depreciated replacement cost (DRC) valuations. This includes updated build cost and location factors - as prescribed by the Royal Institute of Chartered Surveyors (RICS) - and a revised approach used by the external valuer to arrive at obsolescence factors and land values. The revaluation increase of OLB recognised across CIES and Revaluation Reserve is £61.896m.

Transactions in 2016/17
Pension 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 £38.756m.

6. Other Operating Expenditure

	2017/18 £000	2016/17 £000
Levies	2,791	2,838
Payments to the Government Housing Capital Receipts Pool	2,664	781
(Gains)/losses on the disposal of non-current assets	(7,327)	38,756
Other Operating Income and Expenditure	788	(823)
Total	**(1,084)**	**41,552**

7. Financing and Investment Income and Expenditure

	2017/18 £000	2016/17 £000
Interest payable and similar charges	11,987	12,775
Net interest on the net defined benefit liability (asset)	18,264	17,288
Interest receivable and similar income	(1,540)	(1,431)
Income and expenditure in relation to investment properties and changes in their fair value	480	(958)
Schools converted to Academy Status	-	677
Total	**29,191**	**28,351**

8. Taxation and non-specific grant income and expenditure

	2017/18 £000	2016/17 £000
Non-domestic rates income	(64,382)	(59,101)
NDR safety net	(5,295)	-
Business rates tariff	18,059	2,961
Non-domestic rates income and expenditure	**(51,618)**	**(56,140)**
Council Tax Income	(55,438)	(55,767)
Non-ringfenced government grants	(49,534)	(53,821)
Capital grants and contributions	(13,368)	(14,191)
Total	**(169,958)**	**(179,919)**

9. Property, Plant and Equipment

(i) Movements on Balances

Movements in 2017/18

	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 2017	1,304,063	294,427	210,774	13,539	25,744	34,585	3,419	**1,886,551**	18,225
Additions	35,007	6,074	8,095	703	777	2,532	546	**53,734**	-
Donations	-	-	-	-	-	-	-	**-**	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(10,754)	57,326	-	-	-	(2,175)	-	**44,397**	6,567
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(46,926)	(202)	-	-	-	(2,137)	-	**(49,265)**	-
Derecognition – disposals	(2,924)	(1,885)	-	-	-	(5,880)	-	**(10,689)**	-
Derecognition – other	(335)	-	-	-	-	-	(253)	**(588)**	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	389	-	**389**	-
Assets reclassified (to)/from Investment Properties	-	409	-	-	-	-	-	**409**	-
Other reclassifications	(6,033)	763	-	-	-	6,975	(1,705)	**-**	-
Other movements in cost or valuation	-	-	-	-	-	-	-	**-**	-
At 31 March 2018	**1,272,098**	**356,912**	**218,869**	**14,242**	**26,521**	**34,289**	**2,007**	**1,924,938**	**24,792**
Accumulated Depreciation and Impairment									
At 1 April 2017	-	(449)	(118,040)	(10,787)	(10,548)	-	-	**(139,824)**	-
Depreciation charge	(16,261)	(5,125)	(11,733)	(673)	(1,989)	(147)	-	**(35,928)**	(343)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	4,984	4,772	-	-	-	60	-	**9,816**	343
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	11,146	-	-	-	-	74	-	**11,220**	-
Derecognition – disposals	41	46	-	-	-	103	-	**190**	-
Derecognition – other	-	-	-	-	-	-	-	**-**	-
Other movements in depreciation and impairment	90	-	-	-	-	(90)	-	**-**	-
At 31 March 2018	**-**	**(756)**	**(129,773)**	**(11,460)**	**(12,537)**	**-**	**-**	**(154,526)**	**-**
Net Book Value									
at 31 March 2018	**1,272,098**	**356,156**	**89,096**	**2,782**	**13,984**	**34,289**	**2,007**	**1,770,412**	**24,792**

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

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	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**	**293,978**	**92,734**	**2,752**	**15,196**	**34,585**	**3,419**	**1,746,727**	**18,225**

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

(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 and Surplus Assets (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

(iii) Effect of Changes in Estimates

The estimation technique used to arrive at Other Land and Buildings valuations has been revised in year. The effect of this change has been set out in note 5.

(iv) Revaluation and Impairments

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued through full inspection at least every four years. The Authority has used the external valuation contractor Wilks Head & Eve to carry out the valuations under instruction from the authority's internal Valuation and Property Services. Rolling programme values are reviewed internally to ensure they are not materially misstated at balance sheet date. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations have an effective date of 31 March 2018.

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	1,435,589	233,272	89,096	2,782	13,984	21,174	2,007	**1,797,904**
Carried at Historical Cost	-	-	89,096	2,782	13,984	-	2,007	**107,869**
Valued at current value as at:								
31 March 2018	1,272,098	332,085	-	-	-	34,289	-	**1,638,472**
31 March 2017	-	10,014	-	-	-	-	-	**10,014**
31 March 2016	-	7,514	-	-	-	-	-	**7,514**
31 March 2015	-	6,543	-	-	-	-	-	**6,543**
	1,272,098	**356,156**	**89,096**	**2,782**	**13,984**	**34,289**	**2,007**	**1,770,412**

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

(iv) Revaluation and Impairments continued

The Council values its dwellings in accordance with the proper practice set out in the Government guidance *"Stock Valuation for Resource Accounting: Guidance for Valuers - 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.

Desk-top revaluation of housing dwellings stock as at 31 March 2018 was commissioned by the Council and completed by the external valuer Wilks, Head and Eve. A revaluation based on full inspection of housing dwellings stock 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 2017/18 and there were no cases of impairment of assets to report.

Following the 2016 DCLG consultation on a draft Item 8 Credit and Debit Determination to cover the HRA accounting post-transition, CIPFA confirmed in May 2017 that impairment and valuation losses not covered by Revaluation Reserve in relation to **HRA dwellings** - are charged to the HRA Income & Expenditure Statement but will continue to be reversible through a transfer to the Capital Adjustment Account (CAA) via the Movement in Reserves Statement (MIRS). Valuation gains in relation to HRA dwellings, where taken to the HRA income and expenditure statement, can also be reversed under the Determination, by a transfer to the CAA via the Movement in Reserves statement. The previous Determination was silent on this issue.

Impairment and valuation losses not covered by revaluation reserve in relation to HRA non-dwellings can now be reversed in the same way as losses for dwellings. This is a change, as under transition any such losses for non-dwellings could not be reversed and therefore impacted on the HRA balance in full. This change applies prospectively from 1 April 2017 only. As with dwellings, valuation gains for non-dwellings, where taken to the HRA income and expenditure statement, can also be reversed under the new Determination, again by a transfer to the CAA via the Movement in Reserves statement.

(v) Capital Commitments

The total of material capital commitments at the balance sheet date were as follows:

Service Department	31 March 2018 £000	31 March 2017 £000
Housing Revenue Account	8,245	10,845
Children's Services	1,801	4,078
	10,046	**14,923**

10. Investment Properties

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

	2017/18 £000	2016/17 £000
Rental income from investment property	(6,425)	(5,832)
Direct operating expenses (including repairs and maintenance) arising from investment properties	115	102
Net (gain)/loss	**(6,310)**	**(5,730)**

(i) Revaluation

In 2017/18 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 31 March 2018. 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 2018 £000	31 March 2017 £000
Balance at start of the year	81,744	80,940
Additions:		
• Subsequent expenditure	15	13
Disposals	(471)	(167)
Net gains/(losses) from fair value adjustments	(480)	958
Transfers:		
• (to)/from Property, Plant and Equipment	(409)	-
• (to)/from Assets Held for Sale	3,500	-
Balance at end of the year	**83,899**	**81,744**

(ii) 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) Movement 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 2017	7,688	131	118	86	8,023
Movement on balance	-	-	-	-	-
At 31 March 2018	**7,688**	**131**	**118**	**86**	**8,023**

There have been no movements on Heritage Assets in 2017/18. 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 the Balance Sheet date.

	31 March 2018 £000	31 March 2017 £000
Balance outstanding at start of year	4,435	3,889
Additions:		
Assets newly classified as held for sale:		
• Property, Plant and Equipment	-	546
Assets declassified as held for sale:		
• Property, Plant and Equipment	(389)	-
• Investment Properties	(3,500)	-
Assets sold	(546)	-
Balance outstanding at year-end	**-**	**4,435**

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/PPP 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.

	2017/18	**2016/17**
	£000	**£000**
Opening Capital Financing Requirement	272,544	267,577
Capital Investment		
Property, Plant and Equipment	53,734	61,531
Investment Properties	15	13
Revenue Expenditure Funded from Capital under Statute	19,806	8,912
Capital Funding of third-party capital loans	-	345
Sources of Finance		
Capital receipts - used to fund Capital Expenditure	(22,345)	(25,085)
Government grants and other contributions	(42,905)	(32,786)
Sums set aside from revenue:		
Direct revenue contributions	(1,755)	(7,132)
MRP/loans fund principal	(605)	(618)
Deferred costs of capital disposals	(783)	(213)
Closing Capital Financing Requirement	**277,706**	**272,544**
Explanation of movements in year		
Increase/(Decrease) in underlying need to borrow (supported by government financial assistance)	6,008	5,068
Increase/(Decrease) in underlying need to borrow (unsupported by government financial assistance)	(63)	(63)
Debt Resettlement (HRA)	-	-
Voluntary application of Capital Receipts to repay debt	-	-
Increase/(Decrease) in Deferred costs of capital disposals	(783)	(213)
Assets acquired under finance leases	-	175
Increase/(decrease) in Capital Financing Requirement	**5,162**	**4,967**

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 2018 £000	31 March 2017 £000
Not later than one year	1,810	1,035
Later than one year and not later than five years	6,692	3,812
Later than five years	12,645	9,741
	21,147	**14,588**

The Council has sub-let some of the accommodation held under these leases. At 31 March 2018 the minimum income expected to be received under sub-leases was £2.937m.

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

	31 March 2018 £000	31 March 2017 £000
Minimum lease payments	1,775	1,062
Contingent rents	-	19
Sublease payments receivable	-	(70)
	1,775	**1,011**

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 2018 £000	31 March 2017 £000
Not later than one year	4,612	2,321
Later than one year and not later than five years	15,387	6,180
Later than five years	16,481	6,340
	36,480	**14,841**

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. No material contingent rents were receivable by the Council.

15. Private Finance Initiative

2017/18 was the thirteenth 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 2018 (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 2018/19	5,328	272	1,144	6,744
Payable within two to five years	22,340	1,515	4,150	28,005
Payable within six to ten years	30,353	3,442	3,639	37,434
Payable within eleven to fifteen years	15,276	2,704	754	18,734
	73,297	**7,933**	**9,687**	**90,917**

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:

	2017/18 £000	2016/17 £000
Balance outstanding at start of year	8,173	8,384
Payments during the year	(240)	(211)
Balance outstanding at year-end	**7,933**	**8,173**

16. Debtors

	31 March 2018 £000	31 March 2017 £000
Central government bodies	12,089	11,188
Other local authorities	7,731	14,421
NHS bodies	1,559	1,872
Public corporations and trading funds	8	-
Other entities and individuals	34,668	25,799
Total	**56,055**	**53,280**

17. Cash and Cash Equivalents

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

	31 March 2018 £000	31 March 2017 £000
Cash held by the Council	306	420
Bank current accounts	48	238
School bank accounts	12,020	9,377
Short-term deposits	83,875	44,798
Total	**96,249**	**54,833**
Bank overdraft*	(13,375)	(2,150)
	(13,375)	**(2,150)**
Net Cash and Cash Equivalents	**82,874**	**52,683**

*The year-end bank overdraft reflects the bank position including all outstanding and unpresented items. LBHF does not operate a physical bank overdraft as part of its cash management policy. This presentation is a technical requirement under IFRS.

18. Creditors

	31 March 2018 £000	31 March 2017 £000
Central government bodies	(23,348)	(29,513)
Other local authorities	(22,515)	(29,007)
NHS bodies	(3,994)	(6,759)
Other entities and individuals	(122,310)	(97,088)
Total	**(172,167)**	**(162,367)**

19. Other Long Term Liabilities

	31 March 2018 £000	31 March 2017 £000
Net Pensions Liability	(664,989)	(692,411)
Long Term Lease Liability	(7,785)	(8,157)
TOTAL	**(672,774)**	**(700,568)**

20. Provisions

	Insurance	NDR - Losses on Appeals	Other Provisions	Total
	£000	**£000**	**£000**	**£000**
Balance at 1 April 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**
Balance at 31 March 2017	**(2,656)**	**(4,717)**	**(747)**	**(8,120)**
Additional provisions	-	(12,259)	(226)	**(12,485)**
Amounts used	-	9,892	-	**9,892**
Unused amounts reversed	626	-	9	**635**
Balance at 31 March 2018	**(2,030)**	**(7,084)**	**(964)**	**(10,078)**
Of which:				
Next twelve months	(2,030)	(7,084)	(780)	**(9,894)**
Over twelve months	-	-	(184)	**(184)**
Balance at 31 March 2018	**(2,030)**	**(7,084)**	**(964)**	**(10,078)**

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 2017. The next actuarial review is being undertaken in 2020/21. The provision is based upon updated professional estimates of continuing open claims identified in that year's assessment. It also reflects claims currently received for which payment is expected 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 £0.426m 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 on 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 amounts to cover HRA disputed invoices and disrepair case and smaller provisions.

21. Financial Instruments

(i) Financial Instruments - Balances

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

	Long Term		Current	
	31 March 2018 £000	**31 March 2017 £000**	**31 March 2018 £000**	**31 March 2017 £000**
Financial Assets:				
Investments - Loans and Receivables	17,695	195	208,273	78,022
Investments - Available for sale financial assets	-	-	30,156	201,456
Cash & cash equivalents	-	-	82,874	52,683
Long Term Debtors	1,330	1,384	-	-
Trade Debtors	-	-	65,090	61,440
Total	**19,025**	**1,579**	**386,393**	**393,601**
Financial Liabilities : Measured at amortised cost				
Borrowings	(213,101)	(217,661)	(7,040)	(10,052)
Long Term Creditors	(100)	(100)	-	-
Trade Creditors	-	-	(4,656)	(4,638)
Total	**(213,201)**	**(217,761)**	**(11,696)**	**(14,690)**
Other Liabilities:				
PFI & Finance Lease liabilities	**(8,058)**	**(8,397)**	**(340)**	**(307)**

Note 1 – Under accounting requirements the carrying value of the financial instrument is shown in the balance sheet which includes the principal amount borrowed or lent including accrued interest.

Note 2 – Fair value has been measured by direct reference to published price quotations in an active market.

The amounts for trade debtors and creditors are the values identified in Notes 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 2017/18 or previous years.

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21. Financial Instruments (cont'd)

(iii) Income, Expense, Gains and Losses

	2017/18				2016/17			
	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	11,987	-	-	11,987	12,775	-	-	12,775
Losses on derecognition	-	-	-	-	-	-	-	-
Reductions in fair value	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-
Fee expense	-	-	-	-	-	-	-	-
Total expense in Surplus or Deficit on the Provision of Services	**11,987**	**-**	**-**	**11,987**	**12,775**	**-**	**-**	**12,775**
Interest income	-	(1,028)	(512)	(1,540)	-	(197)	(1,234)	(1,431)
Increases in fair value	-	-	-	-	-	-	-	-
Gains on derecognition	-	-	-	-	-	-	-	-
Fee income	-	-	-	-	-	-	-	-
Total income in Surplus or Deficit on the Provision of Services	**-**	**(1,028)**	**(512)**	**(1,540)**	**-**	**(197)**	**(1,234)**	**(1,431)**
Net gain/(loss) for the year	**11,987**	**(1,028)**	**(512)**	**10,447**	**12,775**	**(197)**	**(1,234)**	**11,344**

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 31 March 2018.
- 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 balance of mortgages (£0.053m as at 31 March 2017) due to the council has been repaid during 2017/18 so long term debtors at 31 March 2018 does not contain any mortgages.

£0.1m of the long term investment at 31 March 2018 (£0.1m at 31 March 2017) 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 2018		31 March 2017	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities				
Borrowings				
PWLB Debt	(217,405)	(290,629)	(224,822)	(304,095)
Total	**(217,405)**	**(290,629)**	**(224,822)**	**(304,095)**
Financial Assets				
Loans and receivables				
Money market loans less than one year	208,273	208,273	60,128	60,128
Money market loans greater than one year	17,500	17,500	-	-
Available for Sale less than one year	30,156	30,156	204,702	204,702
Available for Sale greater than one year	-	-	-	-
Total	**255,929**	**255,929**	**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 **£334.197m** as at 31 March 2018 (£350.054m at 31 March 2017.)

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.

At 31 March 2018, all money market loans and receivables are repayable within two years. 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.

21. Financial Instruments (cont'd)

Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks as follows:

• **credit risk** - the possibility that other parties might fail to pay amounts due to the Council
• **liquidity risk** - the possibility that the Council might not have funds available to meet its commitments to make payments
• **re-financing risk** - the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms
• **market risk** - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements

Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and the associated regulations. These require the Council to comply with CIPFA's Prudential Code and Code of Practice on Treasury Management in the Public Services together with investment guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

• by formally adopting the requirements of the Code of Practice on Treasury Management in the Public Services;
• by the adoption of a Treasury Policy Statement and treasury management clauses within its constitution;
• by approving annually in advance prudential and treasury indicators for the following three years limiting the Council's:
  - overall borrowing;
  - maximum and minimum exposures to fixed and variable rates;
  - maximum and minimum exposures for the maturity structure of its debt;
  - maximum annual exposures to investments maturing beyond a year; and
• by approving an investment strategy for the forthcoming year that sets criteria for both investing and selecting investment counterparties in compliance with the Government guidance.

These are required to be reported and approved at or before the Council's Council Tax is set and Revenue Budget approved. These items are reported within the Annual Treasury Strategy, which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

These policies are implemented by the treasury team. The Council maintains written principles for overall risk management and written policies (Treasury Management Practices – TMPs) covering specific areas such as interest rate risk, credit risk and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed regularly.

Credit Risk

Credit risk arises from deposits with banks and financial institutions as well as credit exposure to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Annual Investment Strategy also considers maximum amounts in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria. Additional selection criteria are also applied following the application of the initial credit criteria.

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. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2018 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.

21. Financial Instruments (cont'd)

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 **£49.27 million** at 31 March 2018 (£45.82 million at 31 March 2017). 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 2018 £000	31 March 2017 £000
Less than three months	33,500	33,271
Three to six months	1,799	1,379
Six months to one year	8,909	4,348
More than one year	20,882	22,442
	65,090	**61,440**

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.

The maturity analysis of **financial liabilities** is as follows:

	31 March 2018 £000	31 March 2017 £000
Less than one year	(7,040)	(10,052)
Between one and two years	(9,699)	(4,564)
Between two and five years	(11,410)	(21,109)
Between five and ten years	(29,952)	(25,673)
More than ten years	(161,779)	(166,058)
Total	**(219,880)**	**(227,456)**

21 Financial Instruments (cont'd)

The maturity analysis of **financial assets** is as follows:

	31 March 2018 £000	31 March 2017 £000
Less than one year	238,429	279,478
Between one and two years	17,500	-
Between two and three years	-	-
More than three years	1,525	1,579
Total	**257,454**	**281,057**

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

	2017/18 £000	2016/17 £000
Adjustment for items included elsewhere in the Cash Flow Statement:		
Capital Grants	(33,321)	(17,537)
Adjustment for 'non-cash' items included in the Income and Expenditure Statement:		
Depreciation and Amortisation of non-current assets	36,123	41,920
Impairments and revaluations	38,524	13,137
Value of non-current assets derecognised on disposal	11,560	53,389
Value of 'Assets Held for Sale' derecognised on disposal	546	-
Assets transferred to/(from) Assets Held for Sale	(3,889)	546
Net adjustment made in respect of IAS 19 (Pensions)	25,705	17,196
Revaluations of Available for Sale Financial Assets	2,820	(1,755)
Amortisation of Premia and Discounts	4	4
Impairment of Financial Instruments	-	-
Movement in non-cash assets and liabilities:		
(Increase)/decrease in short-term Debtors*	(2,986)	21,235
add/less: (Increase)/decrease in Capital Debtors	(481)	329
(Increase)/decrease in Long-term Debtors	54	253
Increase/(decrease) in short-term Creditors*	17,767	(1,836)
add/less: Increase/(decrease) in Capital Creditors	(2,321)	(1,580)
Assets transferred to 'Assets Held for Sale'	3,889	(546)
(Increase)/decrease in Inventories	(1)	(14)
Increase/(decrease) in Provisions	1,958	(4,859)
Increase/(decrease) in Grants and Contributions Receipts in Advance	6,055	(3,734)
Adjustments to net surplus or deficit on the provision of services for non-cash movements	**102,006**	**116,148**

*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:

	2017/18 £000	2016/17 £000
Interest Received	1,420	1,937
Interest Paid	(10,918)	(11,678)

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, and various Academies in the borough.

24. Members' Allowances

The Council paid the following amounts to Members of the Council during the year.

	2017/18 £000	2016/17 £000
Members' Allowances	775	821

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 Leadership Team (i.e. those reporting to the Chief Executive) and employees with salaries over £150,000.

Role	In Post	Notes	FY	Salary, Fees and Allowances	Bonuses*	Expenses Allowances	Compensation for Loss of Office	Pension Contribution	Total
				£	£	£	£	£	£
Chief Executive	Kim Dero	1	**2017/18**	**158,020**	**7,901**	**-**	**-**	**25,374**	**191,295**
			2016/17	120,532	14,950	791	-	18,493	154,765
Lead Director Regeneration, Planning & Housing	Jo Rowlands		**2017/18**	**128,820**	**6,441**	**-**	**-**	**20,695**	**155,956**
			2016/17	73,505	9,340	-	-	12,230	95,076
Shared Services Executive Director of Adult Social Care for LBHF, RBKC and WCC	Sue Redmond	2	**2017/18**	**103,157**	**-**	**-**	**-**	**14,280**	**117,437**
			2016/17	-	-	-	-	-	-
Director of Adult Social Care	Lisa Redfern	3	**2017/18**	**80,679**	**4,034**	**-**	**-**	**8,356**	**93,070**
			2016/17	-	-	-	-	-	-
Strategic Director of Finance and Governance (Section 151 Officer)	Hitesh Jolapara		**2017/18**	**134,477**	**6,724**	**250**	**-**	**21,604**	**163,055**
			2016/17	125,851	13,844	866	-	18,872	159,433
Commercial Director	Michael Hainge		**2017/18**	**107,060**	**5,353**	**239**	**52,654**	**17,199**	**182,506**
			2016/17	105,851	7,410	790	-	15,846	129,897
Director of Delivery and Value	Sarah Thomas	4	**2017/18**	**96,094**	**4,969**	**-**	**-**	**15,463**	**116,525**
			2016/17	22,995	-	-	-	3,104	26,099
Director of Environmental Health	Nick Austin	5	**2017/18**	**112,874**	**5,644**	**-**	**-**	**18,133**	**136,651**
			2016/17	104,615	9,767	32	-	16,159	130,573
Director of Human Resources	Debbie Morris	6	**2017/18**	**29,005**	**-**	**-**	**-**	**4,438**	**33,443**
			2016/17	112,333	12,883	213	-	17,642	143,071
Director of HR & OD	Mark Grimley	7	**2017/18**	**10,417**	**-**	**-**	**-**	**1,594**	**12,010**
			2016/17	-	-	-	-	-	-
Director of Public Service Reform	Rachael Wright-Turner	8	**2017/18**	**48,683**	**-**	**-**	**-**	**7,449**	**56,132**
			2016/17	-	-	-	-	-	-
Director of Childrens Services	Steve Miley	9	**2017/18**	**119,849**	**5,992**	**-**	**-**	**19,254**	**145,095**
			2016/17	103,877	11,533	-	-	15,580	130,990

* The 2017/18 bonuses are currently based on estimates and will be updated once finalised.

Notes

1	The current Chief Executive has been in post since 1 April 2017. The Chief Executive received £3,976 in relation to her election duties for the general election which is not included in the amounts disclosed in the table.
2	This post was deleted on 31 October 2017 due to the decision to exit the Tri-borough arrangement for Adult Social Care. It was replaced by the Director of Adult Social Care - a post solely responsible for LBHF operations.
3	This post was created during 2017/18 as a result of the decision to exit the Tri-borough arrangement for Adult Social Care. The post was filled from 1 August 2017.
4	The Director of Delivery and Value was covered on an interim basis between 8 May 2017 to 15 February 2018. The post was deleted after 15 February 2018.
5	The Director of Environmental Health received £275 in relation to his election duties for the general election which is not included in the amounts disclosed in the table.
6	This post was deleted during 2017/18 as a result of the decision to exit the Bi-borough arrangement for Human Resources. It was replaced by the Director of Human Resources & Organisational Development - a post solely responsible for LBHF operations.
7	This post was created as a result of the decision to exit the Bi-borough arrangement for Human Resources. The post was a permanent appointment from 1 March 2018.
8	This post was created during 2017/18 as a result of the decision to exit the Tri-borough arrangements for Public Health, Adult Social Care and Children's Services. It has been filled since 13 November 2017.
9	This post was created during 2017/18 as a result of the decision to exit The Tri-borough arrangement for Children's Services. It has been filled since 7 August 2017.

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:

	2017/18	**2016/17**
		Restated*
	Number of Employees	**Number of Employees**
Remuneration Band		
£175,000 - £179,999	1	0
£170,000 - £174,999	0	0
£165,000 - £169,999	0	0
£160,000 - £164,999	0	0
£155,000 - £159,999	0	0
£150,000 - £154,999	0	0
£145,000 - £149,999	0	0
£140,000 - £144,999	0	0
£135,000 - £139,999	0	0
£130,000 - £134,999	0	0
£125,000 - £129,999	1	1
£120,000 - £124,999	0	1
£115,000 - £119,999	2	1
£110,000 - £114,999	4	3
£105,000 - £109,999	1	5
£100,000 - £104,999	1	0
£95,000 - £99,999	7	5
£90,000 - £94,999	4	5
£85,000 - £89,999	9	5
£80,000 - £84,999	14	21
£75,000 - £79,999	28	15
£70,000 - £74,999	7	7
£65,000 - £69,999	23	17
£60,000 - £64,999	30	23
£55,000 - £59,999	60	57
£50,000 - £54,999	118	104
Total	**310**	**270**

Of the 310 employees listed in 2017/18, 92 (30%) were employees where pay decisions rest with the School Governing Body and not the Council. The corresponding figure for 2016/17 was 83 (31%).

* The 2016/17 numbers were restated due to an amendment in the senior employees note.

25. Officers' Remuneration (cont'd)

Exit Packages

The number of exit packages with total cost per band and total cost of the compulsory and other departures 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	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
£0 - £20,000	30	44	2	42	32	86	288,135	658,097
£20,001 - £40,000	14	8	-	15	14	23	397,142	614,863
£40,001 - £60,000	3	-	-	2	3	2	138,988	92,115
£60,001 - £80,000	2	-	-	1	2	1	126,772	65,174
£80,001 - £100,000	1	-	-	3	1	3	89,779	277,369
Over £100,001	-	-	-	-	-	-	-	-
Total	**50**	**52**	**2**	**63**	**52**	**115**	**1,040,816**	**1,707,618**

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.

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 2017/18, the Council paid £3.75 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.48% of pensionable pay. The figures for 2016/17 were £4.07 million and 16.48%. 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 2017/18 the costs arising from additional benefits amounted to £0.301m (2016/17: £0.335m).

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.

27. Defined Benefit Schemes (cont'd)

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

	LBHF Local Government		**LPFA Local Government**	
	2017/18 £000	**2016/17 £000** Restated*	**2017/18 £000**	**2016/17 £000** Restated*
Comprehensive Income and Expenditure Statement				
Cost of Services:				
• current service costs	30,610	19,812	151	154
• past service costs including curtailments	1,268	647	-	-
• (gain)/ loss from settlements	(3,701)	(849)	-	-
• administration expenses	614	614	59	52
• unfunded pension payments	(2,355)	(2,389)	(33)	(33)
• employer's pension contributions adjustment	(40)	(83)	(13)	(4)
Financing and Investment Income and Expenditure:				
• net interest expense	18,217	17,111	47	177
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**44,613**	**34,863**	**211**	**346**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement Remeasurement of the net defined benefit liability				
• Return on plan assets (excluding the amount included in the net interest expense)	19,087	(103,821)	(815)	(6,681)
• Actuarial gains and losses arising on changes in demographic assumptions	-	13,404	-	(1,206)
• Actuarial gains and losses arising on changes in financial assumptions	(69,691)	304,498	(1,708)	7,240
• Experience loss/ (gain) on defined benefit obligation	-	(20,719)	-	(2,982)
• Other actuarial gains/ (losses)	-	(5,476)	-	27
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**(5,991)**	**222,749**	**(2,312)**	**(3,256)**
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	(44,613)	(34,863)	(211)	(346)
Actual amount charged against the General Fund Balance for pensions in the year:				
• employers' contributions payable to scheme	19,112	17,866	7	147

* The amounts in 2016/17 were restated from the audited accounts to ensure the totals cross-referenced to Note 3a: Adjustments Between Accounting Basis and Funding Basis and is compliant with the CIPFA Code of Practice.

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	
	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
Opening balance 1 April	**1,544,495**	**1,215,591**	**47,458**	**45,317**
Current service cost	30,610	19,812	151	154
Interest cost	41,073	43,204	1,073	1,454
Remeasurement (gains) and losses:				
- Change in financial assumptions	(69,691)	304,498	(1,708)	7,240
- Change in demographic assumptions	-	13,404	-	(1,206)
- Experience loss/(gain) on defined benefit	-	(20,719)	-	(2,982)
Liabilities assumed/ (extinguished) on	(6,504)	(1,050)	-	-
Estimated benefits paid net of transfers in	(36,798)	(33,852)	(1,599)	(2,508)
Past service costs, including curtailments	1,268	647	-	-
Contributions by Scheme participants	5,372	5,349	25	22
Unfunded pension payments	(2,355)	(2,389)	(33)	(33)
Closing balance at 31 March	**1,507,470**	**1,544,495**	**45,367**	**47,458**

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

	LBHF Local Government		LPFA Local Government	
	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
Opening balance 1 April	**854,154**	**730,133**	**45,388**	**39,844**
Interest on assets	22,856	26,093	1,026	1,277
Remeasurement gain/ (loss):				
- Return on assets less interest	(19,087)	103,821	815	6,681
- Other actual gains/ (losses)	-	5,476	-	(27)
Administration expenses	(614)	(614)	(59)	(52)
Contributions by employer including unfunded	21,507	20,338	53	184
Contributions by scheme participants	5,372	5,349	25	22
Estimated benefits paid plus unfunded net of	(39,153)	(36,241)	(1,632)	(2,541)
Settlement prices received/ (paid)	(2,803)	(201)	-	-
Closing balance at 31 March	**842,232**	**854,154**	**45,616**	**45,388**

Pension Assets and Liabilities Recognised in the Balance Sheet

	31 March 2018 £000	31 March 2017 £000
Present Value of Liabilities		
LBHF Local Government Pension Scheme (Funded)	1,472,728	1,507,531
LBHF Local Government Pension Scheme (Unfunded)	34,742	36,964
LPFA Local Government Pension Scheme (Funded)	45,146	47,205
LPFA Local Government Pension Scheme (Unfunded)	221	253
Fair Value of Assets		
LBHF Local Government Pension Scheme	(842,232)	(854,154)
LPFA Local Government Pension Scheme	(45,616)	(45,388)
Net liability arising from defined benefit obligation		
LBHF Local Government Pension Scheme	665,238	690,341
LPFA Local Government Pension Scheme	(249)	2,070
Total	**664,989**	**692,411**

27. Defined Benefit Schemes (cont'd)

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 £664.9m 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 (i.e. before payments fall due), as assessed by the scheme actuary.
• finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

Local Government Pension Scheme Assets

The return on the Funds (on a bid value to bid value basis) for the year 31 March 2018 is estimated to be 0% for LBHF Local Government Pension Scheme and 4% for LPFA Local Government Pension Scheme. The actual return on Fund assets over the year may be different. The asset allocations are set out below:

		LBHF Local Government Pension Scheme			
		31 March 2018		31 March 2017	
		£000	%	£000	%
Equities	UK	136,877	16%	195,926	23%
	Overseas	265,200	31%	247,261	29%
Cash Plus Funds		303,681	36%	272,497	32%
Cash		8,692	1%	11,666	1%
Property		47,434	6%	47,090	6%
Inflation Opportunity Funds		80,348	10%	79,714	9%
Total		**842,232**	**100%**	**854,154**	**100%**

	LPFA Local Government Pensions Scheme			
	31 March 2018		31 March 2017	
	£000	%	£000	%
Equities	27,893	61%	26,893	60%
Target Return Portfolio	10,223	22%	9,591	21%
Infrastructure	1,995	4%	2,390	5%
Property	3,283	7%	2,314	5%
Cash	2,222	5%	4,200	9%
Total	**45,616**	**100%**	**45,388**	**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.

27. Defined Benefit Schemes (cont'd)

The principal assumptions used by the actuary have been:

	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme	
	2017/18	**2016/17**	**2017/18**	**2016/17**
Mortality Assumptions				
Life expectancy from age 65 - retiring today				
Men	24.5	24.4	20.9	20.8
Women	26.1	26.0	24.1	24.0
Life expectancy from age 65 - retiring in 20 years				
Men	26.8	26.6	23.2	23.1
Women	28.4	28.3	26.3	26.2
Financial Assumptions				
Rate of Inflation - RPI	3.3%	3.6%	3.4%	3.3%
Rate of Inflation - CPI	2.3%	2.7%	2.4%	2.4%
Rate of Increase in Salaries	3.8%	4.2%	3.9%	3.9%
Rate of Increase in Pensions	2.3%	2.7%	2.4%	2.4%
Discount Rate	2.6%	2.7%	2.6%	2.3%

*Pension increases are linked to CPI inflation, therefore the impact analysis is equivalent.

These assumptions are set with reference to market conditions at 31 March 2018.

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 2018/19 are £28.540m (LBHF) and £0.143m (LPFA).

	Impact on the Projected Service Cost of the Scheme			
	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme	
	Increase in Assumption £000	Decrease in Assumption £000	Increase in Assumption £000	Decrease in Assumption £000
Adjustment to:				
Discount Rate (+/- 0.1%)	27,881	29,216	141	145
Long term salary increase (+/- 0.1%)	28,540	28,540	143	143
Pension increases and deferred revaluation* (+/- 0.1%)	29,217	27,878	145	141
Mortality age rating assumption (+/- 1 year)	29,450	27,658	148	139

*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 sets the employer's 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 2019 are £19.826m 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 12 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, certification of grant claims and statutory inspections provided by the Council's external auditors:

	2017/18 £000	2016/17 £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	**195**	**202**

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 school's budget funded by DSG receivable for 2017/18 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total 2017/18 £000	Total 2016/17 £000
Final DSG for 2017/18 before Academy Recoupment			138,665	131,820
Academy figure recouped for 2017/18			(62,222)	(56,031)
Total DSG after Academy recoupment for 2017/18			76,443	75,789
Plus: Brought forward from 2016/17			(2,165)	1,010
Less: Carry-forward to 2017/18 agreed in advance			2,165	-
Agreed initial budgeted distribution in 2017/18	9,225	67,218	76,443	75,789
In year adjustments	(28)	(1,648)	(1,676)	16
Final budgeted distribution for 2017/18	9,197	65,570	74,767	75,805
Less: Actual central expenditure	(7,593)	-	(7,593)	(11,038)
Less: Actual ISB deployed to schools	-	(72,041)	(72,041)	(67,942)
(Drawdown from)/Contribution to DSG Reserve	**1,604**	**(6,471)**	**(4,868)**	**(3,175)**
Early Years Funding Reserve			655	-
Carry Forward to 2018/19			**(7,032)**	**(2,165)**

30. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18:

	2017/18 £000	2016/17 £000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	(29,499)	(38,453)
New Homes Bonus	(8,022)	(7,961)
Section 106 Non-ringfenced	(4,414)	(1,687)
S31 Grant - Business Rates Retention Scheme Relief	(2,493)	(1,266)
Housing Benefit and Council Tax Support Admin Subsidy	(1,433)	(1,661)
Adult Social Care Support Grant	(922)	-
Independent Living Grant	(822)	(850)
Preventing Homelessness Grant	(546)	(104)
Education Services	(286)	(1,159)
Prison Social Care	(203)	-
Other Non-ringfenced government grants	(894)	(784)
Capital grants and contributions	(13,368)	(14,087)
Total	**(62,902)**	**(68,012)**
Credited to Services		
Housing & Council Tax Benefit Subsidy	(116,510)	(139,738)
Dedicated Schools Grant	(79,634)	(78,980)
Public Health Grant	(23,601)	(22,750)
Sixth Form Grant	(6,098)	(5,503)
Improved Better Care Fund	(5,128)	-
Section 106	(5,104)	(2,734)
Pupil Premium Grant	(3,989)	(4,603)
DfE Capital Grants	(3,419)	(697)
Flexible Homelessness Grant	(3,417)	-
Adult Learning	(2,488)	(3,034)
PFI Grants	(1,429)	(1,429)
Infant Free School Meals	(1,037)	(1,160)
Children’s Social Care Innovation Grant	(1,037)	(922)
Transport for London / Surface Transport	(1,022)	(1,074)
Disabled Facilities Grant	(897)	(508)
Troubled Families	(774)	(902)
NDR and BRS Cost of Collection Allowance	(597)	(570)
Other grants and contributions	(4,548)	(4,679)
Total	**(260,729)**	**(269,283)**

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:

	2017/18 £000	2016/17 £000
Grants and Contributions Receipts in Advance (Current)		
Public Health Grant	(3,185)	(4,448)
New Homes Bonus Grant	(928)	(1,259)
Learning & Skills Council - revenue	(851)	(538)
Dedicated Schools Grant	5,384	2,165
Other grants - revenue	(910)	(788)
Total	**(490)**	**(4,868)**

	2017/18 £000	2016/17 £000
Grants and Contributions Receipts in Advance (Non-Current)		
Developer contributions (inc. section 106)	(23,914)	(12,788)
TfL	(2,064)	(2,096)
Social Care Grant	-	(949)
Winterbourne Grant	(300)	(300)
Other capital grants	(432)	(144)
Total	**(26,710)**	**(16,277)**

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 2017/18 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 2017/18, the Council engaged in various transactions with related parties - per information provided by Councillors and Chief Officers to the value of £2.505m. 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 £0.228m at the year end. The Council incurred costs of £.0285m 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 pooled budget for Joint Equipment has now been absorbed within the Better Care Fund.

The following table summarises the position for 2017/18:

	2017/18 £000's	2016/17 £000's
Contributions to the Pooled Budget:		
London Borough of Hammersmith & Fulham	(13,294)	(8,261)
Hammersmith and Fulham Clinical Commissioning Group	(31,781)	(33,037)
Total Contributions	**(45,075)**	**(41,298)**
Expenditure Met by the Pooled Budget:		
Costs relating to the reablement of residents	6,298	9,028
Costs relating to supporting residents to remain in their own homes	(0)	74
Costs relating to care provided in residential settings or in community settings	36,819	31,201
Support Services and programme management relating to the BCF	1,721	1,736
Total Expenditure	**44,838**	**42,039**
Net (surplus)/deficit arising on the pooled budget in the year	(237)	741
Net (surplus)/deficit split by:		
Share of the net (surplus)/deficit due to the London Borough of Hammersmith & Fulham (Includes capital resources)	(10)	212
Share of the net (surplus)/deficit due to the Hammersmith & Fulham Clinical Commissioning Group	(227)	530

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 £0.230m in 2017/18. The latest audited accounts available, those relating to 2016/17, show net assets of £10.190m (£10.324m in 2015/16) and net income/(deficit) on its activities in that year of (£0.132m) (£0.249m in 2015/16). 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 £0.012m in 2017/18. The charity's latest audited accounts available, those relating to 2016/17 show net assets worth £0.064m, (£0.062m in 2015/16). A net gain of £0.003m has been reported for 2016/17 (net gain £0.405k in 2015/16). 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) Joint Venture

HFS Developments LLP is a Joint venture between the Council (50%) and Stanhope Plc (50%) which was incorporated on 27 March 2014. The Company is in the process of dissolution as its contractual agreement ended with Stanhope Plc to establish a New Company in its place.

New Company HFS Development 2 LLP is a Joint venture between the Council (50%) and Stanhope Plc (50%) which was incorporated on 19 July 2016. This offers unique opportunities to the public and private sector to work together to deliver appropriate forms of housing. The latest audited accounts available, those relating to 2016/17 show loss for the period amounted to £0.390m.

(iv) LBHF Ventures Limited

LBHF Ventures Limited is a company wholly owned by the Council which was incorporated 9 June 2016. The Council invested £95,000, by way of share capital in LBHF Ventures Limited. The latest unaudited accounts available, those relating to 2016/17 show net assets worth £0.076m. A net loss for the period reported amounted to (£0.019m).

(v) LBHF Joint Ventures Limited

LBHF Joint Ventures Limited is a Limited Company owned 51% of shares by the Council and owned 49% of shares by 1st Credit Limited, which was incorporated on 9 June 2017.

(vi) LBHF Family Support Services Limited

LBHF Family Support Services Limited is a Limited Company wholly owned by the Council, which was incorporated on 18 August 2017. This company will deliver family services from 2018/19.

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 499 units with an estimated valuation of £248m. This represents a potential asset to the Council of £138m 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 31 March 2018 but their outcome is not yet determined.

	2017/18 £'000 (Est)
Total litigations and claims	14,200
	14,200

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:

	2017/18 £000	2016/17 £000
Balance at 1st April	**(5,217)**	**(5,254)**
Income	(1,072)	(699)
Sub total	**(6,289)**	**(5,953)**
Less:		
Expenditure and Transfers	774	736
Balance at 31 March	**(5,515)**	**(5,217)**

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 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Non-current Assets / Investment Properties	Asset valuations are periodically reviewed to ensure that the Council does not materially misstate its non-current assets and investment properties. However, the valuation of property will inevitably be an estimate and property values can be volatile. Should evidence emerge in 2018/19 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 (£127.2million) would result in a reduction of the Revaluation Reserve of £21.8 million and a £105.4 million charge to the CIES. Conversely, an increase in value would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the 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 £1.746 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 £0.3m 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 2018. They were authorised for issue by the Strategic Finance Director on 17 July 2018.

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 2017/18 (the Code) supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018.

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.

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.

Community Infrastructure Levy

The authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) with appropriate planning consent. The council charges for and collects the levy, which is a planning charge. The income from the levy will be used to help pay for facilities and community services such as: transport including roads, schools/colleges, medical/health services, sports and open spaces.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a proportion of the charge may be used to fund revenue 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 property, plant and equipment 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 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. COUNCIL TAX AND NON-DOMESTIC RATES

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (ie the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

38. Statement of Accounting Policies (cont'd)

viii. 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.

ix. 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.

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, sports centres and libraries – are deemed specialist nature and 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 current 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. Council Dwellings are revalued annually.

38. Statement of Accounting Policies (cont'd)

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 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.

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.

38. Statement of Accounting Policies (cont'd)

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.

x. HERITAGE ASSETS

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

Valuation Policy

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

Depreciation, amortisation and impairment policy

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

The Council has reported four categories of heritage assets:

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

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

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

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

38. Statement of Accounting Policies (cont'd)

xi. 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.

xii. 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).

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).

38. Statement of Accounting Policies (cont'd)

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.

xiii. 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.

38. Statement of Accounting Policies (cont'd)

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).

xiv. 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.

xv. 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.

xvi. 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 and integral part of the authority's cash management.

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.

38. Statement of Accounting Policies (cont'd)

xvii. 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.

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 (e.g. 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).

xviii. 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.

38. Statement of Accounting Policies (cont'd)

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the Council are members of the following pension schemes:

• Under the provisions of the Local Government Pension Scheme: the London Borough of Hammersmith and Fulham Pension Fund, administered by London Borough of Hammersmith and Fulham.
• Also under the Local Government Pension Scheme: the London Pensions Fund Authority (LPFA) Pension Fund, administered by the LPFA.
• The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

All schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees who worked for the Council.

However, the arrangements for the Teachers' Pension Scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's 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 2.55% (2.7% in 2016/17). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the Merrill Lynch AA-rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). The approach has changed from the 'spot rate' approach adopted at the previous accounting date.
• The assets of the Funds attributable to the Council are included in the Balance Sheet at their fair value:
- quoted securities and pooled investment vehicles - current bid price
- fixed interest securities net market value based on current yields at the balance sheet date
- 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 Centrally Managed Budgets.
- **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.

38. Statement of Accounting Policies (cont'd)

Remeasurement comprising:

- **Re-measurement of the return on plan assets:** excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- **Actuarial gains and losses:** (changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions) debited to the Pensions Reserve.
- **Contributions paid to the Funds:** cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

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

xix. 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.

38. Statement of Accounting Policies (cont'd)

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.

xx. 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 in order 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.

xxi. INTERESTS IN COMPANIES AND OTHER ENTITIES

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

The Council has interests in a number of companies and other entities however, based on consideration of criteria to determine what constitutes a material interest, the Council has determined that a full set of Group Accounts is not required for 2017/18. Companies in which the Council has an interest are detailed in Note 36 to the Core Financial Statements.

xxii. 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.

xxiii. 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.

xxiv. 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.

xxv. 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.

xxvi. 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.

38. Statement of Accounting Policies (cont'd)

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.

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 (i.e. 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. The DCLG issued a new determination in 2017 which substantially addressed the above issue, however the previous determination still applies to the period to which it pertained.

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.

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

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.

40. Accounting Standards not yet adopted

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the Code.

At the Balance Sheet date the following new standards and amendments to existing standards have been published but not yet adopted:

IFRS 9 Financial Instruments; which introduces extensive changes to the classification and measurement of financial assets, and a new 'expected credit loss' model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables, and available for sale to amortised cost and fair value through other comprehensive income respectively based on the contractual cashflows and business model for holding the assets. There are not expected to be any changes in the measurement of financial assets. Assessment of the Council's financial assets does not anticipate any impairment.

IFRS 15 Revenue from Contracts with Customers presents new requirements for the recognition of revenue based on a control-based revenue recognition model. The Council does not have any material revenue streams within the scope of the new standard.

IAS 7 Statement of Cash Flows (Disclosure Initiative) will potentially require some additional analysis of Cash Flows from Financing Activities (disclosed at Note 22) in future years.

The following changes are not expected to have any impact on the council's accounts:

IAS12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses) applies to deferred tax assets related to debt instruments measured at fair value.

IFRS16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases).

SUPPLEMENTARY FINANCIAL STATEMENTS

Collection Fund Account

Housing Revenue Account (HRA)

Pension Fund Accounts

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.

	2017/18			2016/17			
	Business Rates £000	Council Tax £000	Total £000	Business Rates £000	Council Tax £000	Total £000	Notes
Income							
Council Tax Collectable	-	(79,580)	(79,580)	-	(77,111)	(77,111)	1
Business Rates Collectable	(202,336)	-	(202,336)	(181,509)	-	(181,509)	2
Business Rate Supplement Collectable	(7,473)	-	(7,473)	(5,791)	-	(5,791)	
Transitional Protection Payment	(23,822)	-	(23,822)	1,540	-	1,540	
Total Income	**(233,631)**	**(79,580)**	**(313,211)**	**(185,760)**	**(77,111)**	**(262,871)**	
Expenditure							
Precepts and Demands:							
Central Government (CLG)	77,027	-	77,027	93,426	-	93,426	
LB Hammersmith & Fulham	70,024	55,268	125,292	56,056	53,888	109,944	
Greater London Authority	86,363	21,290	107,653	37,371	20,435	57,806	
Business Rate Supplement							
Payment to the Greater London Authority	7,461	-	7,461	5,777	-	5,777	2
Cost of collection	13	-	13	14	-	14	
Charges to Collection Fund							
Write-offs of uncollectable amounts	3,018	557	3,575	2,249	929	3,178	
Increase/ (Decrease) in Allowance for Doubtful Debts	58	2,179	2,237	(1,747)	(744)	(2,491)	
Increase/ (Decrease) in Provision for Appeals	7,890	-	7,890	(18,090)	-	(18,090)	
Distribution/(Recovery) of prior year surplus/(deficit)	13,948	1,403	15,350	9,667	1,600	11,267	
Cost of collection	584	-	584	556	-	556	
Total Expenditure	**266,386**	**80,697**	**347,083**	**185,279**	**76,108**	**261,387**	
Movement on Fund balance	**32,755**	**1,117**	**33,871**	**(481)**	**(1,003)**	**(1,484)**	
(Surplus)/Deficit as at 1 April	(15,238)	(4,031)	(19,269)	(14,757)	(3,028)	(17,785)	
(Surplus)/Deficit as at 31 March	**17,517**	**(2,914)**	**14,602**	**(15,238)**	**(4,031)**	**(19,269)**	

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 2017/18 it was calculated as follows:

Band	Number of Dwellings 2017/18	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 2017/18	Band D equivalents 2016/17
A	3,803	2,933	6/9	1,955	(28)	(578)	1,349	1,354
B	6,361	4,861	7/9	3,781	58	(1,220)	2,619	2,534
C	14,237	12,116	8/9	10,770	31	(2,759)	8,042	7,741
D	24,532	21,807	1	21,807	21	(3,619)	18,209	17,738
E	15,364	14,050	11/9	17,172	(57)	(2,160)	14,955	14,606
F	9,217	8,550	13/9	12,350	(1)	(968)	11,381	11,096
G	10,965	10,386	15/9	17,310	5	(522)	16,793	16,574
H	2,314	2,239	18/9	4,477	81	(20)	4,538	4,298
Total	**86,793**	**76,941**		**89,622**	**110**	**(11,846)**	**77,886**	**75,941**

The 2017/18 Council Tax Base after allowing for adjustments for non-collection was 75,938.

The Council set a 2017/18 Band D charge of £727.81 (no change from 2016/17), the GLA's Band D charge for 2017/18 was £280.02 (£276.00 in 2016/17) making a total Band D Council Tax charge for 2017/18 of £1,007.83 (£1,003.81 in 2016/17).

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 2018 was £567.853m (£428.674m as at 31 March 2017). The standard NNDR multiplier for 2017/18 was 47.9 pence (49.7 pence in 2016/17). The Small Business Rate Relief multiplier for 2017/18 was 46.6 pence (48.4 pence in 2016/17).

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.

	2017/18			2016/17		
	Business Rates	Council Tax	Total	Business Rates	Council Tax	Total
	£000	£000	£000	£000	£000	£000
London Borough of Hammersmith and Fulham	5,255	(2,068)	3,187	(4,572)	(2,915)	(7,487)
Greater London Authority	6,481	(846)	5,635	(3,047)	(1,116)	(4,163)
Central Government (CLG)	5,780	-	5,780	(7,619)	-	(7,619)
	17,517	**(2,914)**	**14,602**	**(15,238)**	**(4,031)**	**(19,269)**

Housing Revenue Account (HRA)

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

HRA Income and Expenditure Statement

	Notes	2017/18 £000	2016/17 £000
Income			
Dwelling Rents		(68,481)	(68,230)
Non-dwelling rents		(2,584)	(2,334)
Charges for services and facilities		(13,950)	(9,707)
Contributions towards expenditure		(2,301)	(2,342)
		(87,316)	**(82,613)**
Expenditure			
Repairs and maintenance and management			
Repairs and maintenance		16,164	15,751
Supervision and management		33,158	29,999
Rents, rates, taxes and other charges		397	433
Depreciation and impairment of non-current assets	6	18,655	21,755
Depreciation and impairment of non-current assets - dwelling revaluation	6	35,780	15,131
Debt management costs		118	72
Movement in the allowance for bad debts		957	1,246
		105,229	**84,387**
Net Cost of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement		**17,913**	**1,774**
HRA services' share of Corporate and Democratic Core		312	297
HRA services' share of Non Distributed Costs		(383)	(206)
Net (Income)/Cost for HRA Services		**17,842**	**1,865**
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		(8,168)	(8,962)
Income and expenditure in relation to investment properties and changes in their fair value		72	153
Interest payable and similar charges		8,944	9,551
Interest and investment income		(153)	(76)
Net interest on the net defined benefit liability (asset)		1,670	1,781
Capital grants and contributions		(1,555)	(58)
(Surplus)/deficit for the year on HRA services		**18,652**	**4,254**
<u>**Movement on the HRA Statement**</u>			
Balance on the HRA at the end of the previous year		**(20,128)**	**(18,520)**
(Surplus)/deficit for the year on the HRA Income and Expenditure Statement		18,652	4,254
Adjustments between accounting basis and funding basis under statute	1	(24,809)	(8,392)
Net (increase)/decrease before transfers to/(from) reserves		(6,157)	(4,138)
Transfers to/(from) reserves			
Earmarked Reserves*		16,339	2,530
(Increase)/decrease in year on the HRA		**10,182**	**(1,608)**
Balance on the HRA at the end of the current year		**(9,946)**	**(20,128)**

* For movements in HRA earmarked reserves refer to note 4 of the Core Financial Statements.

Notes to the Housing Revenue Account

1. Adjustments between accounting basis and funding basis under statute

	2017/18 £000	2016/17 £000
Charges for depreciation of non-dwellings	(232)	(257)
Charges for depreciation of dwellings	16,261	21,498
Reversal of Major Repairs Allowance credited to the HRA	(16,028)	(25,377)
Impairment/Revaluation gains, losses (charged to the I&E)	(37,942)	(15,131)
Revenue expenditure funded from capital under statute (REFCUS)	(266)	(141)
Movements in the market value of investment properties	-	-
Capital Funding	6,939	4,078
Gain or loss on sale of HRA non-current assets	8,870	8,803
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	(38)	(86)
HRA share of contributions (to)/from the Pensions Reserve	(2,373)	(1,779)
Total	**(24,809)**	**(8,392)**

2. Housing Stock

The Council has overall responsibility for managing the housing stock. The average number of dwellings during 2017/18 was 12,219. 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 2017	12,290	90	13	12,393
Adjustment to opening balance	(62)	-	-	(62)
Additions	13	-	-	13
Transfers	(59)	(23)	-	(82)
Disposals	(35)	-	-	(35)
Number at 31 March 2018	**12,147**	**67**	**13**	**12,227**

3. Stock Valuation

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

	31 March 2018 £000	31 March 2017 £000
Operational Assets		
Housing Dwellings	1,272,098	1,304,063
Other Land and Buildings	11,333	10,317
Intangible Assets	33	64
Non Operational Assets		
Surplus Assets	6,788	871
Investment Properties	53,186	50,166
	1,343,438	**1,365,481**

The open market, vacant possession fair value of houses and flats within the HRA as at 31 March 2018 was £5.07 billion. This compares to the balance sheet value of £1.27 billion for the Council's dwelling stock and hostels as at 31 March 2018. This is an indication of the economic and social cost of providing Council housing at less than full market rents.

4. Capital Expenditure Financing

	2017/18 £000	2016/17 £000
Major Repairs Reserve	16,261	17,618
Other Grants and Contributions	5,135	4,689
Capital Receipts	16,087	21,908
Total	**37,483**	**44,215**

5. Capital Receipts

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

	2017/18 £000	2016/17 £000
Dwelling & Hostels	(8,380)	(12,446)
Non-Dwellings	(4,353)	(2,176)
Total	**(12,733)**	**(14,622)**

6. Depreciation and Impairment

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

	2017/18 £000	2016/17 £000
Operational Assets		
Depreciation		
Dwellings	16,261	21,498
Other Land and Buildings	188	185
Vehicles, Plant, Equipment and Intangible Assets	32	59
Surplus Assets	13	13
Revaluation (Gain) / Loss - non-dwellings	2,161	-
Sub-total depreciation and impairment of non-current assets	18,655	21,755
Revaluation (Gain) / Loss - dwellings	35,780	15,131
Total	**54,435**	**36,886**

7. Rent Arrears and Allowance for Doubtful Debts

Gross rent arrears were as follows:

	2017/18 £000	2016/17 £000
Main Council Stock	6,523	5,420
Hostels	652	593
Total	**7,175**	**6,013**

Allowances for Doubtful Debts at 31 March were:

	2017/18 £000	2016/17 £000
Main Council Stock	(5,071)	(4,936)
Hostels	(618)	(562)
Total	**(5,689)**	**(5,498)**

Pension Fund Accounts

Fund Account

	Note	2017/18		2016/17	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the scheme					
Contributions					
From Employers	8	24,268		22,494	
From Members	8	6,781	31,049	6,937	29,431
Individual Transfers In from other Pension Funds			3,012		2,090
Other Income			(607)		753
Benefits					
Pensions	9	(31,465)		(30,002)	
Commutation & Lump Sum Retirement Benefits	9	(7,256)	(38,721)	(5,685)	(35,687)
Payments to and on account of leavers					
Individual Transfers Out to other Pension Funds			(4,086)		(5,046)
Refunds to members leaving service			(20)		(37)
Net Additions (Withdrawals) from dealings with members			**(9,373)**		**(8,496)**
Management expenses	10		**(4,503)**		**(6,530)**
Returns on Investments					
Investment Income	11		10,283		12,822
Taxes on Income (Irrecoverable Withholding Tax)			-		(23)
Profit and losses on disposal of investments and changes in value of investments	13		10,384		148,740
Net Returns on Investments			**20,667**		**161,539**
Net Increase (Decrease) in the net assets available for benefits during the year			**6,791**		**146,513**
Opening Net Assets of the Scheme			**1,002,832**		**856,319**
Closing Net Assets of the Scheme			**1,009,623**		**1,002,832**

Net Assets Statement

	Note	31 March 2018 £000	31 March 2017 £000
Investment Assets			
Index Linked Securities	13	-	-
Equities	13	-	112,475
Pooled Property Vehicles	13	51,933	
Pooled Investment Vehicles	13	891,097	881,865
Private Equity / Infrastructure	13	55,261	-
Derivative contracts - forward foreign exchange	13		-
Cash Deposits	13	6,168	7,856
Other Investment Balances			
Amounts Outstanding on Sale of Investments	13		76
Investment Income Due	13	35	521
Investment Liabilities			
Derivative contracts - forward foreign exchange	13		-
Amounts Outstanding on Purchase of Investments	13		(111)
Net Investment Assets	13	**1,004,494**	**1,002,682**
Current Assets	21	2,059	1,539
Current Liabilities	22	(1,291)	(4,223)
Cash Balances (held directly by Fund)		4,361	2,834
Net assets of the Fund available to fund benefits at the period end		**1,009,623**	**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 20a.

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 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 1 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 1 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 2018. Employer contributions are set based on the triennial actuarial funding valuation, as detailed in Note 20.

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 Director of Finance and Governance, 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

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Sub-Committee approved an Investment Strategy on 20 June 2017 (available on the Council's website). The Statement shows the Authority's compliance with the Myner's principles of investment management.

The Sub-committee has delegated the management of the Fund's investments to regulated investment managers (see note 12), 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 Deferred member numbers include 883 undecided leavers, who are no longer paying contributions or in receipt of benefits.

	31 March 2018	31 March 2017
Number of Active Employers	45	45
Contributing employees	4,166	4,383
Pensioners receiving benefit	4,920	4,800
Deferred Pensioners	6,603	6,670

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 summarise the Fund's transactions for 2017/18 and its position at year end as at 31 March 2018. The accounts been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (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). The Pension Fund Accounts have been prepared on a going concern basis.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account - Revenue Recognition

a) Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate.
Employer deficit funding contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date.

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.

c) Investment Income

Investment income is reported gross of withholding taxes which are accrued in line with the associated investment income. Investment income arising from the underlying investments of the Pooled Investment Vehicles is either reinvested within the Pooled Investment Vehicles and reflected in the unit price or taken as a cash dividend to support the Fund's outgoing cash flow requirements.

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is recognised as a current financial asset.

Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset. Where the amount of an income distribution has not been received from an investment manager by the balance sheet date, an estimate based upon the market value of their mandate at the end of the year is used.

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits and losses during the year.

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

Pension fund management expenses are accounted for in accordance with the CIPFA guidance "Accounting for Local Government Pension Scheme Management Costs 2016".

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.

All investment management expenses are accounted for on an accruals basis. The Sub-Committee has appointed external investment managers to manage the investments of the Fund. Managers are paid a fee based on the market value of the investments they manage and/or a fee based on performance.

Where an investment manager's fee note has not been received by the Balance Sheet date, an estimate based upon the market value of the mandate as at the end of the year is used for inclusion in the fund account.

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. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the value of the asset are recognised in the Fund account.
The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 15a).

h) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see Note 15a).

i) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and deposits with financial institutions which are repayable on demand without penalty.

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 20a).

m) Additional Voluntary Contributions

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 23, 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 10.

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 effects on the net pension liability of changes in assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £153m. A 0.2% increase in assumed earnings would increase the value of liabilities by approximately £4m, a 0.2% increase in pension increases would increase the liability by about £56m and a one year increase in life expectancy would increase the liability by about £61m

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 £5.6m.

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 £49.6m.

NOTE 5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF UNCERTAINTY

Preparing financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end and the amounts reported for income and expenditure during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual results could differ from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rates 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 fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £182m. A 0.2% increase in assumed earnings would increase the value of liabilities by approximately £8m, a 0.2% increase in pension increases would increase the liability by about £70m and a one year increase in life expectancy would increase the liability by about £62m

NOTE 6. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

At the balance sheet date, the following new standards and amendments to existing standards had been published but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom:

- **IFRS 9 Financial Instruments**, which introduces extensive changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables to amortised cost. There are not expected to be any changes in the measurement of financial assets and the Fund does not at this stage anticipate any adjustments for impairments.

- **IFRS 15 Revenue from Contracts with Customers**, presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Fund does not have any revenue streams within the scope of the new standard.

- **IAS 7 Statement of Cash Flows (Disclosure Initiative)**, will potentially require some additional analysis of Cash Flows from Financing Activities, however since the Fund is not currently required to prepare a Cash Flow Statement it does not anticipate any additional disclosure.

- **IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses)**, applies to deferred tax assets related to debt instruments measured at fair value. Currently the Fund does not hold such financial instruments

NOTE 7. EVENTS AFTER THE BALANCE SHEET

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

NOTE 8. 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 overleaf shows a breakdown of the total amount of employer's and employee's contributions.

	Employers' Contributions Normal		Deficit Recovery		Employees' Contributions	
	2017/18	**2016/17**	**2017/18**	**2016/17**	**2017/18**	**2016/17**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Administering Authority	12,758	9,809	6,393	8,101	5,139	5,380
Scheduled Bodies	987	1,526	1,422	890	836	742
Admitted Bodies	2,623	2,115	85	53	806	815
Total	**16,368**	**13,450**	**7,900**	**9,044**	**6,781**	**6,937**
TOTALS			**24,268**	**22,494**	**6,781**	**6,937**

NOTE 9. BENEFITS PAYABLE

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

	Pensions		Lump sum retirement benefits		Lump sum death benefits	
	2017/18	**2016/17**	**2017/18**	**2016/17**	**2017/18**	**2016/17**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Administering Authority	(29,647)	(28,466)	(5,442)	(4,372)	(825)	(515)
Scheduled Bodies	(1,574)	(1,358)	(782)	(542)	(71)	(77)
Admitted Bodies	(244)	(178)	(136)	(179)	-	-
Total	**(31,465)**	**(30,002)**	**(6,360)**	**(5,093)**	**(896)**	**(592)**
TOTALS	**(31,465)**	**(30,002)**			**(7,256)**	**(5,685)**

NOTE 10. MANAGEMENT EXPENSES

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

	2017/18	**2016/17**
	£000	**£000**
Administrative costs	(403)	(520)
Investment management expenses	(3,648)	(5,743)
Oversight and governance costs	(452)	(267)
	(4,503)	**(6,530)**

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.

	2017/18	**2016/17**
	£000	**£000**
Management fees	(3,223)	(4,310)
Performance fees	(343)	(997)
Transaction costs*	(38)	(382)
Custody fees	(44)	(54)
	(3,648)	**(5,743)**

*Transaction costs incurred on segregated assets only

NOTE 11. INVESTMENT INCOME

The table below shows a breakdown of investment income.

	2017/18 £000	2016/17 £000
Dividends from Equities	5,331	9,975
Bonds	47	35
Interest on Cash Deposits	17	16
Private Equity/Other	4,888	2,796
Total	**10,283**	**12,822**

NOTE 12. INVESTMENT STRATEGY

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. 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 £127m Majedie portfolio transferred to CIV in May 2017. Work was also undertaken to realise some of the equity gains made on the Majedie segregated equity fund which resulted in the £60m proceeds being temporarily invested in the LCIV Ruffer Fund. These monies will be used to cover future capital call payment for the Partners Group & the new Aviva Infrastructure Funds totalling £30m each, over the next few years which was agreed at the September 2017 Sub-Committee.

The market value and proportion of investments managed by each fund manager at 31 March 2018 was as follows:

	31 March 2018		31 March 2017	
	Market Value £000	Total %	Market Value £000	Total %
Ruffer - Absolute Return (Active)	157,480	15.7%	101,628	10.1%
Majedie - UK Equity (Active) (LGPS CIV)	125,194	12.5%	-	0.0%
LGIM - World Equity (Passive)	302,920	30.1%	294,433	29.4%
Majedie - UK Equity (Active)	33,946	3.4%	224,141	22.4%
Insight - Bonds	88,885	8.8%	89,121	8.9%
LGIM - Liquidity Fund	10,868	1.1%	10,827	1.1%
Partners Group - Private Equity	41,711	4.2%	52,593	5.2%
Partners Group - Private Infrastructure	7,031	0.8%	8,743	0.9%
Oak Hill Advisers - UK Equity (Active)	72,371	7.2%	70,334	7.0%
M & G - Inflation Opportunities	99,302	9.9%	94,998	9.5%
Standard Life - Long Lease Property	51,933	5.2%	47,037	4.7%
Invesco - Private Equity	3,757	0.4%	5,366	0.5%
Unigestion - Private Equity	1,871	0.2%	2,945	0.3%
Aviva - Private Infrastructure	-	0.0%	-	0.0%
Inhouse Cash - Cash	7,075	0.6%	366	0.0%
London CIV Ltd	150	0.0%	150	0.0%
	1,004,494	**100.0%**	**1,002,682**	**100.0%**

NOTE 13. RECONCILIATION OF MOVEMENT IN INVESTMENTS

The table below shows a reconciliation of the movement in the total investment assets of the Fund by asset class during 2017/18. In order to be fully SORP compliant the table below shows a reconciliation of the movement in the total investment assets by Asset Class during 2017/18, as opposed to by Fund Manager, as was previously the case:

Fund Manager	**Value at 1 April 2017** £000	**Purchases during the year and derivative payments** £000	**Sales during the year and deriative receipts** £000	**Change in market value during the year** £000	**Value at 31 March 2018** £000
Bonds	-	-	-	-	**-**
Equities	112,475	6,485	(120,878)	1,918	**-**
Pooled equity investments	765,856	197,904	(74,163)	1,500	**891,097**
Pooled property investments	47,037	-	(248)	5,144	**51,933**
Private equity/infrastructure	68,973	5,614	(20,065)	739	**55,261**
Derivatives:					
Forward foreign exchange	(1)	1	-	-	**-**
Cash instruments	-	-	-	-	**-**
Sub-total	**994,340**	**210,004**	**(215,354)**	**9,301**	**998,291**
Cash Deposits	7,856			1,065	**6,168**
Amounts receivable from sales of investments	76			-	**-**
Investment income due	521			-	**35**
Spot FX contracts	-			18	**-**
Amounts payable for purchases of investments	(111)			-	**-**
Totals	**1,002,682**	**210,004**	**(215,354)**	**10,384**	**1,004,494**

The equivalent analysis for 2016/17 is provided below:

Fund Manager	Value at 1 April 2016 £000	Purchases during the year and derivative payments £000	Sales during the year and deriative receipts £000	Change in market value during the year £000	Value at 31 March 2017 £000
Bonds	36,771	1,624	(39,237)	842	**-**
Equities	141,522	42,916	(95,168)	23,205	**112,475**
Pooled equity investments	562,331	1,005,823	(919,863)	117,565	**765,856**
Pooled property investments	43,925	-	(224)	3,336	**47,037**
Private equity/infrastructure	62,336	12,461	(10,230)	4,406	**68,973**
Derivatives:					
Forward foreign exchange	(368)	4,777	(3,658)	(752)	**(1)**
Cash instruments	-	-	-	-	**-**
Sub-total	**846,517**	**1,067,601**	**(1,068,380)**	**148,602**	**994,340**
Cash Deposits	7,544			181	**7,856**
Amounts receivable from sales of investments	278			(1)	**76**
Investment income due	1,242			-	**521**
Spot FX contracts	-			(42)	**-**
Amounts payable for purchases of investments	(16)			-	**(111)**
Totals	**855,565**	**1,067,601**	**(1,068,380)**	**148,740**	**1,002,682**

NOTE 14. INVESTMENTS EXCEEDING 5% OF NET ASSETS

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

	2017/18 £000	**2017/18** %	**2016/17 Restated*** £000	**2016/17** %
Legal & General World ex UK Dev equity fund index	302,920	30.2%	294,433	29.4%
LCIV Ruffer Absolute Return *	157,480	15.7%	101,628	10.1%
LCIV Majedie UK Equity	125,193	12.5%	0	0.0%
M&G Inflation Opportunities Fund V	99,302	9.9%	94,998	9.5%
Insight Investment Bonds Plus Fund	88,885	8.8%	89,121	8.9%
Oak Hill Advisers Diversified Credit Strategies Fund	72,371	7.2%	53,734	5.4%
Standard Life Long Lease Fund	51,933	5.2%	47,037	4.7%
Partners Group Multi Asset Credit 2014 Fund	41,711	4.2%	52,593	5.2%
Majedie Focus Fund	33,946	3.4%	77,950	7.8%

* 2016/17 restated as LCIV Ruffer assets were not included.

NOTE 15a. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

	31 March 2018			31 March 2017 Restated*		
	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						
Equities:						
UK	-	-	-	98,241	-	-
Overseas	-	-	-	14,234	-	-
Pooled Investment Vehicles:						
UK equity funds	791,194	-	-	665,907	-	-
UK cash funds	10,867	-	-	10,827	-	-
UK property funds	51,933	-	-	47,037	-	-
Overseas fixed income fund	88,885	-	-	89,121	-	-
London LGPS CIV	150	-	-	-	-	-
UK venture capital	41,711	-	-	52,587	-	-
Overseas venture capital	13,551	-	-	16,386	-	-
Investment income due	35	-	-	521	-	-
Pending trade sales	-	-	-	76	-	-
Cash deposits with managers	-	6,168	-	-	7,856	-
Debtors	-	2,059	-	-	1,539	-
Cash balances (held by fund)	-	4,361	-	-	2,834	-
	998,326	12,588	-	994,937	12,229	-
FINANCIAL LIABILITIES						
Pending Trade Purchases	-	-	-	(111)	-	-
Creditors	-	-	(620)	-	-	(3,568)
	-	-	(620)	(111)	-	(3,568)
GRAND TOTALS	**998,326**	**12,588**	**(620)**	**994,826**	**12,229**	**(3,568)**

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

*Prior year Creditors have been restated to remove the HMRC VAT & PAYE creditors, as these are not financial instruments

NOTE 15b. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

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

	2017/18 £000	**2016/17 £000**
Financial Assets		
Fair value through profit and loss	10,235	149,311
Loans and receivables	149	181
Financial Liabilities		
Fair value through profit and loss	-	(752)
	10,384	**148,740**

NOTE 15c. 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 2018			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						
Designated at fair value through profit and loss	33,940	908,939	55,412	217,252	707,965	69,123
Total Financial Assets	**33,940**	**908,939**	**55,412**	**217,252**	**707,965**	**69,123**
Financial Liabilities						
Designated at fair value through profit and loss	-	-	-	486	-	-
Total Financial Liabilities	**-**	**-**	**-**	**486**	**-**	**-**
Net Financial Assets	**33,940**	**908,939**	**55,412**	**217,738**	**707,965**	**69,123**
			998,291			**994,826**

NOTE 16a. FAIR VALUE BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Investments - equity funds UK and Overseas Managed Funds	Level 2	Published bid market price ruling on the final day of the accounting period.	Not required.	Not required.
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end.	Exchange rate risk.	Not required.

Pooled Long Lease Property Fund	Level 2	The Standard Life Long Lease Property Fund is priced on a Single Swinging Price.	In house evaluation of market data.	Not required.
Private equity	Level 3	Valuations are prepared by Fund managers based on the latest profit forecasts and other financial information available at the time of preparing the Fund's financial statements.	Fund managers valuation statements are prepared in accordance with ECVA Guidelines.	Key sensitivities include market prices achieved by comparable investments, future income projections and the cost of replacing key business assets.
Infrastructure funds	Level 3	Valued by Fund Managers at the lower of cost and fair value.	Managers use their judgement having regard to the EVCA guidelines noted above for valuing unquoted investments.	Upward valuations are only considered where there is validation of the investment objectives and such progress can be demonstrated. Downward valuations are enacted where the manager considers there is an impairment to the underlying investment.
Pooled investments - property funds	Level 2	Closing bid price where bid and offer prices are published.	Adjusted for net capital current assets.	Estimated acquisition and disposal costs.

NOTE 16b. TRANSFERS BETWEEN LEVELS 1 AND 2

£127m of Majedie UK Equities (Level 1) were sold & the proceeds used to purchase assets in the London CIV Majedie Fund (Level 2).

£60m of Majedie Focus Fund (Level 1) assets were sold, in order to realise some of the profits gained on Equities. The proceeds were used to re-balance the portfolio and resulting funds were used to purchase units in the London CIV Ruffer Fund (Level 2), for the purposes of future capitals due on Partners Group Infrastructure & the new Aviva Infrastructure Fund.

The Insight Bonds Portfolio valued at was reclassified from Level 1 to Level 2 and the Ruffer portfolio from Level 3 to level 2 as a result of additional pricing information becoming available

NOTE 16b. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

2017/18	Market Value as at 31/03/2017	Transfers in / out of Level 3	Purchases	Sales	Unrealised gains / (losses)	Realised gains / (losses)	Market Value as at 31/03/2018
UK equities	150	(150)	-	-	-	-	-
Overseas venture capital	16,386	-	5,614	(7,672)	(2,540)	1,763	13,551
UK venture capital	52,587	-	-	(12,393)	1,516	-	41,710
London LGPS CIV	-	150	-	-	-	-	150
Total	**69,123**	**-**	**5,614**	**(20,065)**	**(1,024)**	**1,763**	**55,411**

NOTE 17. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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 2016 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	+ 10%	- 10%
	£000	£000	£000
At 31st March 2018	998,291	1,098,120	898,462
At 31st March 2017	994,340	1,093,774	894,906

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	+ 1%	- 1%
	£000	£000	£000
At 31st March 2018	220,573	222,779	218,367
At 31st March 2017	210,364	212,468	208,261

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.

Assets exposed to currency risk

	Value	**+ 10%**	**- 10%**
	£000	**£000**	**£000**
At 31st March 2018	418,816	460,698	376,934
At 31st March 2017	360,756	396,831	324,680

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 10.20% of the Fund's Net Assets at 31 March 2018 (12.1% at 31 March 2018). The remaining can all be liquidated within days.

		31 March 2018	**31 March 2017**
		£000	**£000**
Partners Group	Multi Asset Credit	41,711	52,587
Partners Group	Infrastructure	7,924	16,386
Standard Life	Property	51,933	43,925
Invesco	Private Equity	3,757	5,301
Unigestion	Private Equity	1,871	3,524
		107,195	121,723

NOTE 18. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

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

	31 March 2018	**31 March 2017**
	£000	**£000**
Invesco Partnership Fund V L.P.	-	451
Aviva Infrastructure Fund	30,000	-
Partners Group Direct Infrastructure Fund 2015	40,198	38,553
	70,198	**39,004**

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 19. STOCK LENDING AGREEMENTS

The Fund did not participate in stock lending or underwriting.

NOTE 20. 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 2016 in accordance with the Funding Strategy Statement of the Fund and the Local Government Pension Scheme Regulations 2013. The results were published in the triennial valuation report dated 30 March 2017. This valuation set the employer contribution rates from 1 April 2017.

The 2016 valuation certified a common contribution rate of 15.5% of pensionable pay (13.6% as at March 2013) to be paid by each employing body participating in the Fund, based on a funding level of 88% (83% as at March 2013). 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 £851m and the actuary assessed the present value of the funded obligation at £965m indicating a net liability of £114m (£147m 2013).

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 31 March 2019 and will be published in 2020.

NOTE 20a. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The table below shows the total net liability of the Fund as at 31 March 2018. 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.

	31 March 2018	31 March 2017
	£000	£000
Present Value of Promised Retirement Benefits*	(1,629,783)	(1,656,377)
Fair Value of Scheme Assets (bid value)	992,168	1,000,383
Net Liability	**(637,615)**	**(655,994)**

* Present Value of Promised Retirement Benefits comprises of £1,592.5m (£1,613.4m at 31 March 2017) and £37.3m (£43.0m at 31 March 2017) in respect of vested benefits and non-vested benefits respectively as at 31 March 2018.

The assumptions applied by the actuary are set out below:

Financial Assumptions

	31 March 2018	31 March 2017
RPI Increases	3.3%	3.6%
CPI Increases	2.3%	2.7%
Salary increases	3.8%	4.2%
Pension increases	2.3%	2.7%
Discount Rate	2.6%	2.7%

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

		31 March 2018	31 March 2017
Retiring today	Males	24.5	24.4
	Females	26.1	26
Retiring in 20 years	Males	26.8	26.6
	Females	28.4	28.3

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 21. CURRENT ASSETS

	31 March 2018	31 March 2017
Debtors	**£000**	**£000**
Contributions due - employers	736	334
Contributions due - employees	197	113
London Borough of Hammersmith and Fulham	228	1,085
Sundry debtors	898	7
	2,059	**1,539**

	31 March 2018	31 March 2017
Analysis of debtors	**£000**	**£000**
Local authorities	228	1,117
Other entities and individuals	1,831	422
	2,059	**1,539**

NOTE 22. CURRENT LIABILITIES

Creditors	31 March 2018 £000	31 March 2017 £000
Unpaid Benefits	(75)	(2,439)
Management Expenses	(369)	(1,062)
HM Revenue and Customs	(672)	(655)
Sundry creditors	(175)	(67)
	(1,291)	**(4,223)**

Analysis of creditors	31 March 2018 £000	31 March 2017 £000
Local authorities	(158)	(67)
Central government bodies	(672)	(655)
Other entities and individuals	(461)	(3,501)
	(1,291)	**(4,223)**

NOTE 23. 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.

	31 March 2018	31 March 2017
Zurich Assurance	**£000s**	**£000s**
Market Value at 31st March	824	1172
Contributions during the year	35	21
Number of members at 31st March	40	41
Equitable Life Assurance		
Market Value at 31st March	203	193
Contributions during the year	-	-
Number of members at 31st March	29	30

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 24. 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 £0.285m in 2017/18 (£0.240m in 2016/17) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses.

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 key management personnel of the Fund are the Members of the Pension Sub-Committee, the Strategic Director of Finance and Resources, the Tri-borough Director of Pensions and Treasury and the Director of Corporate Services. Total remuneration payable to key management personnel in respect of the pension fund is set out below:

	31 March 2018	31 March 2017
	£000	£000
Short-term benefits	26	37
Post-employment benefits	(3)	39
Other long-terms benefits	-	-
Termination benefits	-	7
Share-based payments	-	-
	23	**83**

NOTE 25. 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. In 2017/18 the pension fund paid discretionary awards of £2.342m (£2.588m in 2016/17). £0.766m was outstanding from the Council at year end.

	2017/18	2016/17
	£000	£000
Payments on behalf of London Borough of Hammersmith and Fulham	2,342	2,588
	2,342	**2,588**

NOTE 26. EXTERNAL AUDIT COSTS

The external audit fee payable to Fund’s external auditors, KPMG LLP, was £21,000 (£21,000 in 2016/17).

OTHER INFORMATION

Annual Governance Statement

Glossary of Terms

ANNUAL GOVERNANCE STATEMENT

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, 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 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. The Council's programme of shared services and contract arrangements with other local authorities, has resulted in the Council's control environment being, to a degree, dependent on those organisations' systems, procedures and controls. However 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 shared delivery vehicles.

The governance framework has been in place at the Council for the year ended 31 March 2018 and up to the date of approval of the 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
• Constitution (incl. statutory officers, scheme of delegation, financial management and procurement standing orders) • Audit, Pensions and Standards Committee • Internal Audit Service and external audit • Independent external sources • Council, Cabinet and Policy and Accountability Committees • Medium Term Financial Strategy • Complaints system • HR policies and procedures • Whistleblowing and other countering fraud arrangements • Risk management framework • Performance management system • Codes of conduct • Anti Fraud Service	• 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 • Completion of External and Internal audit reports recommendations • Strategic Leadership Team - Review of Corporate Governance	• 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 reports • 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:

June 2017

- Corporate Anti-Fraud Service End of Year report 2016-2017.
- Treasury Management Outturn report 2016-2017.
- Housing Property Health and Safety compliance.
- Head of Internal Audit annual report 2016-2017.
- Internal Audit quarterly report.
- Internal Audit Charter 2017.
- Risk Management quarterly review.

September 2017

- Statement of Accounts 2016-2017.
- External Audit report 2016-2017.
- Pension Fund annual report and accounts 2016-2017.
- Internal Audit quarterly report.
- Individual Audit reports, focussed reviews.
- Corporate Health and Safety annual report 2016-2017.
- Risk Management quarterly review.

December 2017

- The Council's emergency response to Major Incidents.
- The Fire Safety Plus Programme and Housing Property Health and Safety compliance.
- Corporate mid-year Health and Safety update.
- Corporate Anti-Fraud Service mid-year review.
- Treasury Management mid-year review.
- External Audit and Annual Governance Statement Recommendations and Action Plan report.
- Internal Audit quarterly report.
- Risk Management quarterly review.

March 2018

- Certification of grants claims.
- External Audit Plan 2017-2018.
- Internal Audit quarterly report.
- Internal Audit Plan 2018-2019.
- Risk Management quarterly review.

Enhanced Assurance arrangements: the Council's management team, known as the Strategic Leadership Team, is chaired by the Chief Executive and its membership comprises of seven directors.

Each member of the Strategic Leadership Team has key areas of responsibility, but together they are jointly responsible (under the Chief Executive) for turning the strategic direction of the Council set by its elected councillors into operational policy. The Chief Executive has focused on assurance and highlighted the importance of embedding risk management throughout the Council, introducing monthly meetings focussed on assurance and conducting fundamental reviews of the Council's risks.

The Strategic Leadership Team is responsible for the forward-looking approach to delivering services and its transformation programme - ensuring the Council is best placed to meet the future needs of the community within the funding available. This involves working in partnership with public and voluntary sectors and ensuring service delivery changes to meet the demands of new legislation. A new Statutory Accountabilities Board, chaired by the Chief Executive, meets to ensure the Council discharges its duties with clear accountability for compliance standards and targets. Whilst Resources Management Board comprising Chief Executive, Strategic Director of Finance and Governance and Director of Corporate Services meets monthly to consider staffing expenditure.

The systems and processes that comprise the Council's governance arrangements have been evaluated for effectiveness for 2017/2018 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, including review by the Policy and Accountability Committees. A business plan for 2017/18 was developed and this is the culmination of the Council's strategic delivery targets and actions. The plan is monitored regularly by the Strategic Leadership Team 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, which consists of directors and service heads.

Performance: 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 receiving regular reports on progress against the business plan and a Corporate Health Check. These reports, together with associated management arrangements, enable management to review data on delivery progress against the agreed performance objectives of the Council. Directors also ensure that this is reviewed on a regular basis with Cabinet Members.

Resident Led Commissions: over the course of the past year the Council has set up and managed one expert-led and three resident-led commissions to help to inform policy and practice. The Rough Sleeping Commission has examined ways to tackle rough sleeping in the borough and presented its report to Cabinet in January 2018. The Disabled People's Commission has focussed on the delivery of a co-production framework for the development of council policies and services and reported to Cabinet in December 2017. The Biodiversity Commission was set up in January 2017 and presented its report to Cabinet in January 2018.

Risk Management: performance reporting and risk management arrangements, consistent with those established by the Strategic Leadership Team, are also required in Service areas. 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. Risk Management and Assurance review and reporting has been enhanced. Regular monthly Assurance review meetings are held by the Strategic Leadership Team where fundamental reviews of actions to mitigate risk and enhanced assurance reporting are undertaken.

People Strategy: our new people strategy aligns with the Council's vision to be the best by focusing on our ambition to have the best workforce in local government. To achieve this the Council is focusing on employee experience, development, coaching & leadership and organisational culture. The strategy seeks to invest in initiatives and practices which will grow and develop talent in the Council.

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 2017/18, 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 General Data Protection Regulation (GDPR) readiness project board is engaged with Caldicott Guardians, Legal, Procurement, Risk Management, Audit and across departments and is implementing the requirements of new GDPR legislation for May 2018. 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. Functional assurance can be demonstrated by our Adult Social Care Services approach to governance through examples of Director-led Boards for Budget Management, Performance, Quality Assurance, Recruitment and Staffing and regular Independently chaired quarterly meetings of the Adults Safeguarding Board.

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.

'Moving On' refers to a significant transformation and service redesign programme which has been delivered over the course of 2017/18. The programme has implemented sovereign delivery arrangements for the majority of services in Adult Social Care, Children's Services and Public Health, as well as Legal Services. The establishment of a Public Service Reform department has also created a single service to consolidate reform and transformational activity within an integrated service portfolio. These changes have simplified service arrangements to reduce complexity and duplication, and will facilitate the development of additional opportunities for strategic service reform to realise additional benefits. The opportunity to move away from shared delivery has been taken to facilitate greater sovereignty and control, and ensure that local priorities are central to service plans, and ensure that opportunities for local residents, services users and other stakeholders to influence and inform service arrangements are improved.

A number of services will continue to be shared with the Royal Borough of Kensington and Chelsea (RBKC) and/ or with Westminster City Council (WCC) examples include Treasury Management and Library Services.

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, Pensions 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: the Council's external auditors have statutory powers and responsibilities. They are required to review and report on the Council's Financial Statements, providing an opinion on the accounts, and use of resources, concluding on the arrangements in place for securing economy, efficiency and effectiveness in the Council's use of resources (the value for money conclusion). Recommendations arising from these reviews are reported to the Audit, Pensions and Standards Committee and implementation is monitored by internal audit. Published in 2017/18 (in respect of financial year 2016/17) were the External Audit Report 2016/17 which proposed unqualified opinions for the authority and pension fund financial statements and Value for Money conclusion, 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 (PAC). PACs 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 2017/18:

- 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 (PACs) also had a wider role in policy development, originating topics of interest. The PACs 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 Director of Finance and Governance) 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 (March 2018) concluded that the objectives identified in the CIPFA Statement on the Role of the Chief Financial Officer were being achieved and that there were no issues in relation to the role. This is also consistent with the close working with the Chief Executive on major issues and complex initiatives over 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 Chief Solicitor (Litigation and Social Care) is the Monitoring Officer and has been involved in preparing this statement. 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 Monitoring Officer has legal responsibility to look into matters of potential unlawfulness and has confirmed that there has not been the need to make a report concerning any proposal, decision or omission that would give rise to unlawfulness or maladministration. The Monitoring Officer is satisfied that the arrangements in place are working effectively, decisions have been made in accordance with the budget and policy framework and that no matters of significance have been omitted from this Statement.

As part of the senior management reorganisation which came into force in March 2018, the Council has created a sovereign Legal Service which is led by the Assistant Director Legal Services who has been the Council's Monitoring Officer since March 2017.

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, conducted as a self- assessment, showed that the internal audit service is fully compliant with Public Sector Internal Audit Standards.

Significant governance issues

Matters reported in the 2016-17 Annual Governance Statement, with the exception of those related to the BT Managed Services Programme, Contract Management and the ongoing challenges associated with funding reductions, have been addressed during 2017-18 and are considered resolved.

Issues carried over from 2016-17

Funding reductions
Money received by Hammersmith and Fulham Council from central government is reducing significantly every year. Government funding reduced by £70m from April 2010 to March 2018. The 2018/19 funding reduction is £8.9m and a further £5.2m cut is forecast in 2019/20. 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% by 2019/20). This would raise £1.65m for Hammersmith and Fulham. A 3% social care precept assumption is included in Government projections of the Council's spending power. The Government also included an assumed further 3% increase in council tax in the Council's spending power projection, meaning a total council tax increase of 6% is assumed in the spending power projection. The Council's administration did not wish to apply any tax increase to residents, so it does not form part of the 2018/19 budget.

BT Managed Services
The managed services contract with BT will not be extended beyond its end date of May 2019. Following a rigorous process of review, the Hampshire Partnership has been selected as the preferred option to replace BT. The Hampshire Partnership offers a tried and tested integrated HR and Finance solution currently serving Hampshire County Council, Hampshire Constabulary, Hampshire Fire and Rescue Services and Oxfordshire County Council. Operating currently across four large public-sector organisations including over 700 local authority maintained schools, the partnership achieves significant strategic benefits from its size and scale by sharing resources, costs and capacity. All partners are engaged in taking forward the strategic governance and oversight of the partnership through their membership of either the Strategic Direction Board or the Operational Forum.

We propose over the coming year to take further steps 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.

Contract Management

The Council has reviewed its approach to the commissioning, procurement and management of service contracts, informed by service audits. Service data has been updated to ensure accurate identification of contract managers for each contract, together with the development of more rigorous corporate contract management guidance. This has been provided to contract managers to support other improvements in practice. Additional arrangements have been implemented corporately as part of the Moving On programme, including the introduction of the Public Service Reform department. These changes have simplified commissioning and procurement arrangements across many service areas to enable consistent practice, and compliance with corporate service standards. These changes will also enable additional opportunities for contract efficiencies to be realised moving forward.

The Commercial Management Initiative programme (CMI) has been established to deliver a review of contract reform activity over the next twelve months. This programme will secure additional value for money from a number of key contracts held by the council and will provide additional recommendations to shape corporate commissioning and procurement systems and assurance mechanisms through a further phase of work in 2018/9. The programme will develop the way we engage with markets and suppliers to deliver services to the end users in a more effective way. The delivery of a more integrated corporate approach will ensure that departments will be able to more effectively manage their services and suppliers within a framework of standards managed corporately through the Public Services Reform Directorate. To further develop commercial management arrangements across the Council the programme will also assess technical quality assurance arrangements such as Commissioning oversight boards, and workforce development standards.

Significant issues arising during 2017-18

Health and Safety, compliance with statutory inspections
An issue arose during the period following greater scrutiny of compliance with health and safety regulations. This found that the statutory inspections of corporate property maintained by Amey, the facilities management provider, was unacceptably low. This was reported by the Council's Corporate health and safety team to the Audit, Pensions and Standards Committee in September and December 2017. A recovery plan was agreed which sees the Council's Corporate Property team directly overseeing the management of statutory inspections of 31 of its buildings on an interim basis. Contractual discussions between the Council, the facilities management provider and the Link (contract management providers undertaken by Royal Borough of Kensington & Chelsea for that council and Westminster City Council) are ongoing. Additional assurance is provided through an independently commissioned piece of work using an external consultant to review the remaining portfolio across all areas of health and safety compliance.

Over the last 12 months, the Regeneration, Planning and Housing Directorate has fundamentally reviewed how it delivers health and safety compliance for HRA properties. Contracts are in place to deliver all statutory inspections, which report performance regularly to a departmental Senior Management Team. In 2017, a number of detailed assessments on specific activities were undertaken, for example an Asbestos Health Check.

This audited how statutory duties and inspections are being discharged. This produced an action plan for areas that will be further developed in 2018/19.

The Regeneration, Planning and Housing Directorate has introduced a new compliance management system called Geometra which holds all compliance data in one central place. This has reporting functionality enabling access to real-time data to provide an overview of performance. The Directorate has strengthened its approach to duty holders, under the health and safety regulations, which in turn has promoted a pro-active contractor management regime with clear accountability for compliance standards and targets.

Conclusion on the review

As a result of review of effectiveness as detailed above we are satisfied that the Council's arrangements continue to be regarded as fit for purpose in accordance with the governance framework. A satisfactory level of Assurance has been achieved following the conclusion of the Review. The areas already addressed from the previous year and those to be specifically addressed for 2017/18 with new actions planned are outlined above.

In the context of further reductions in government funding, 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. It will do this by engaging with residents and stakeholders, and through 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.

Signed:

Leader of the Council, Councillor Stephen Cowan

Signed:

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 1 April to 31 March.

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

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

ACCRUALS BASIS
Accounting for income and expenditure during the financial year in which they are earned or incurred, not when money is received or 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 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
See note 3c in the Core Financial Statements for details.

CAPITAL EXPENDITURE
Expenditure on the acquisition or creation of Council assets such as houses, offices, schools and roads or expenditure that adds to and does not merely maintain the value of an existing asset.

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

CAPITAL FINANCING REQUIREMENT (CFR)
The authority's total liabilities in respect of capital expenditure financed by credit less the provision made to meet these liabilities.

CAPITALISATION
Costs are capitalised to the extent that they create or improve any property, plant and equipment with a useful economic life greater than one year.

CAPITAL RECEIPTS
Proceeds from the sale of capital assets (e.g. land, buildings and equipment). These receipts are used to pay for additional capital expenditure.

CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)
The professional accountancy body for public services which recommends accounting practice for the preparation of local authority accounts.

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 potential asset that is uncertain because it depends on the outcome of a future event.

CONTINGENT LIABILITY
A potential liability that is uncertain because it depends on the outcome of a future event.

CREDITOR
An individual or body to which the Council owes money at the Balance Sheet date.

CURRENT SERVICE COST
The increase in the present value of pension liabilities expected to arise from employee service in the current period.

DEBTOR
An individual or body that owes money to the Council at the Balance Sheet date.

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
An amount owed by the Council that will be repaid over a significant period of time. An example of this is outstanding finance lease obligations.

DEFINED BENEFIT PENSION SCHEME
A pension scheme in which a pensioner's benefits are specified, usually relating to their length of service and either final salary or average earnings.

DEPRECIATION
The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset.

EARMARKED RESERVE
See Summary of Reserves at the end of the Glossary.

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. 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.

FAIR VALUE
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms-length transaction.

FINANCE LEASE
Under this type of lease, the risks and rewards of ownership of the leased goods transfer to the lessee.

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT
See Summary of Reserves at the end of the Glossary.

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

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
The total cost of providing the Council's services before deducting income from government grants, fees and charges etc.

HISTORICAL COST
The amount originally paid for a fixed asset.

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
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 LOSS
A loss arising from an event that significantly reduces an asset's value. An example is physical damage or a fall in market value.

INFRASTRUCTURE ASSETS
Property, plant and equipment that cannot be taken away or transferred, and whose benefits can only be obtained by continued use of the asset created. Examples of infrastructure assets highways and footpaths.

INTANGIBLE ASSET
Long term assets that do not have physical substance but are identified and controlled by the Council and bring benefits to the Council for more than one year. Typical examples include software licences, internally developed software and websites developed to deliver services rather than information about services.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
The Accounting standards adopted by the International Accounting Standards Board (IASB). Local Authorities have been required to produce full accounts using IFRS from 1 April 2010.

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 CIES each year and set aside as a provision for the repayment of external loans and meeting other credit liabilities.

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 value of an asset as recorded in the accounts. This usually equates to the net current replacement or original cost less any depreciation charged against the asset over its life to date.

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

OPERATIONAL ASSETS
Property, plant and equipment held and occupied, used or consumed by the Council in the direct delivery of services.

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)
Contracts typically involving a private sector entity (the operator) constructing or enhancing property used in the provision of a public service, and operating and maintaining that property for a specified period of time. The operator is paid for its services over the period of the arrangement.

POOLING ARRANGEMENTS (CAPITAL RECEIPTS)
Since 1 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).

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 is responsible for the appointment of local government external auditors and will continue in this role for the 2018/19 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
See note 3a and 3c in the Core Financial Statements for details.

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 classified as capital expenditure under statutory provisions, but does not result in the creation or enhancement of fixed assets owned by the Council. Such expenditure incurred during the year is treated as revenue expenditure and charged to the relevant service in the CIES.

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. The Revenue Support Grant is distributed as part of the 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.

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 benefit from the use of a fixed asset.

WRITE-OFFS
Elimination of an asset or liability over a defined period, usually by means of charging or crediting the CIES.

London Borough of Hammersmith and Fulham

Pension Fund Annual Report and Accounts for the year ended 31 March 2018

Contents

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 and 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 2017-18.

During the year, the value of the Fund increased by over £6m to £1,009m reflecting the continued recovery in the global economy since last year. The Sub-Committee continues to monitor the Fund closely at each quarterly committee meeting and challenges the investment advisors 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 actuary reported that the Fund has sufficient assets to cover 88% of future pension liabilities and an overall deficit of £114m. This is an improvement in the funding level at the previous valuation in 2013 of 83%.

The Fund has transferred assets to the London Collective Investment Vehicle (LCIV) in the quest for efficiencies and fee reductions. The year started with £127m of the Majedie Portfolio being transferred to LCIV in May 2017, with a further £60m of Majedie equities being liquidated and transferred to the Ruffer Absolute Return portfolio. This realised some of the asset class gains, in addition to rebalancing the portfolio in advance of expected capital calls on both the new Aviva Sustainable Infrastructure Fund and the existing Partners Group Infrastructure Fund. The pooling of assets will continue over the coming years to maximise cost savings and net of fees returns for the Fund.

The Pension Fund remains conscious of its role in ensuring good environmental, social and governance behaviours from the companies in which it invests, with a key part of this looking at the Fund's carbon footprint. This is expected to be reviewed at the July 2018 Sub-Committee meeting. 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 2017-18

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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 the City of Westminster 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. Contribution rates for employees and employers are set by the Fund's actuary at the actuarial valuation which is carried out every three years. The most recent revaluation, carried out as at 31 March 2016, was used to set contribution rates with effect from 1 April 2017 through to April 2020.

A new LGPS scheme was introduced with effect from 1st April 2014. One of the main changes is that a scheme member's pension is no longer based on their final salary but on their earnings throughout their career. This is known as a Career Average Revalued Earnings (CARE) scheme. Everything built up in the Scheme before 1st April 2014 is protected so benefits up to that date will be based on the scheme member's final year's pay.

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 2018
- **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
- 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 pension 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 2017/18.

Councillor	Committee Attendance 2017/18
Iain Cassidy (Chair)	4/4
Michael Adam (Vice Chair)	4/4
Nicholas Botterill	3/4
PJ Murphy	4/4
Guy Vincent	4/**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 2017/18.

Board Member	Employer/Employee	Attendance 2017/18
Cllr Ali Hashem (Chair)	Employer	0/2
Cllr Rory Vaughan	Employer	2/2
Eric Kersey	Employee	1/2
Orin Miller	Employee	1/2
Neil Newton	Employee	1/2

MEMBER AND OFFICER TRAINING

During 2017-18 knowledge was gained at various meetings with investment managers in addition to individual attendance at conferences and seminars.

Further relevant training is planned for 2018-19 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 Aviva Investors **Private equity** Invesco Unigestion
Custodian	Northern Trust	
Banker	Nat West Bank	
Actuary	Barnett Waddingham	
Auditor	KPMG UK LLP	
Legal Adviser	Eversheds Sutherland	
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	Phil Triggs from December 2017 Peter Carpenter to July 2017 Matt Hopson from August 2017 Miriam Adams from October 2017	Alex Robertson Yvonne Thompson-Hoyte Sue Hands Jaimina Shah
Director of Human Resources and Organisational Development	Mark Grimley	
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 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.	Medium	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 16).

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 is a restriction of Fund's investment options and an increase in costs	Low	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 £7m to £1,010m as at 31 March 2018 due to the recovery in global markets since the uncertainty of 2016/17.

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

	2014/15	2015/16	2016/17	2017/18
Fund Account	**£'000**	**£'000**	**£'000**	**£'000**
Dealings with members				
Contributions	(30,082)	(30,617)	(32,274)	(33,454)
Pensions	33,982	37,858	40,770	42,827
Net (additions)/withdrawals from dealings with members	3,900	7,241	8,496	9,373
Management expense	7,216	7,762	6,530	4,503
Net investment returns	(11,167)	(12,631)	(12,799)	(10,283)
Change in market value	(105,595)	9,784	(148,740)	(10,384)
Net (increase)/decrease in the Fund	(105,646)	12,156	(146,513)	(6,791)

Over the four-year period, pensions paid have exceeded contributions by £29m in total. This reflects the maturity of the Fund membership in that there are fewer contributors than beneficiaries, although increased deficit recovery contributions in 2017/18 have reduced this.

Net investment returns in 2017/18 have remained healthy despite falling slightly in comparison to last years, reflecting the fact that 2016/17 was a particularly good year for equities compounded a little with the weakening of sterling.

Both officers and the Pension Fund 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)

	2014/15	2015/16	2016/17	2017/18
Net Asset Statement	**£'000**	**£'000**	**£'000**	**£'000**
Bonds	31,923	36,771	0	0
Equities	371,885	136,937	112,475	0
Pooled investment vehicles	443,015	671,300	834,828	998,290
Commodities	2,540	1,976	0	0
Derivatives	(709)	(368)	0	0
Cash deposits	15,410	7,544	7,856	6,168
Other	717	1,504	486	35
Total Investment Assets	864,781	855,664	1,002,682	1,004,494
Current assets	4,840	1,842	4,373	6,420
Current Liabilities	(1,146)	(1,187)	(4,223)	(1,291),
Total Net Assets available to fund benefits	868,475	856,319	1,002,832	**1,009,623**

The points to note are:

- 95% of pooled investment vehicles comprise equity shareholdings both domestic and overseas, while the remaining 5% is in property pooled funds. (94% and 6% respectively in 2016/17).
- The overall value of pooled investment vehicles increased by £163m (16%) during the year.

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

Financial Performance (continued)

ANALYSIS OF DEALINGS WITH SCHEME MEMBERS

	2014/15	2015/16	2016/17	2017/18
	£'000	£'000	£'000	£'000
Contributions receivable				
- Members	(6,658)	(6,795)	(6,937)	(6,781)
- Employers	(21,944)	(22,412)	(22,494)	(24,268)
- Transfers in	(1,445)	(1,375)	(2,090)	(3,012)
- Other	(35)	(35)	(753)	607
Total Income	**(30,082)**	**(30,617)**	**(32,274)**	**(33,454)**
Benefits/Expenses				
- Pensions	28,155	29,076	30,002	31,465
- Lump sum retirements and death benefits	4,955	5,536	5,685	7,256
- Transfers out	856	3,230	5,046	4,086
- Refunds	16	16	37	20
Total Expenditure	33,982	37,858	40,770	42,827
Net Dealings with Members	3,900	7,241	8,496	**9,373**

The key variances were due to the following:

- Lump sums rose due to more members retiring than in previous years.
- Transfers out were higher because more members chose to transfer their benefits to another employer or remove them under the freedom of choice legislation.
- Transfers in were lower, reflecting fewer new starters joining the scheme and choosing to transfer in benefits on commencement of employment, than last year.

Financial Performance (continued)

ANALYSIS OF OPERATIONAL EXPENSES

The costs of running the pension fund are shown below.

	2016/17	2017/18
	£'000	£'000
Administration		
Employees	138	235
Supplies and services	381	165
Other costs	1	3
	520	403
Governance and Oversight		
Employees	103	341
Investment advisory services	66	65
Governance and compliance	43	0
External audit	24	21
Actuarial fees	31	25
	267	452
Investment Management		
Management fees	4,310	3,223
Performance fees	997	343
Transaction costs	382	44
Custodian fees	54	38
	5,743	3,648
Total	6,530	4,503

The key variances were due to the following:

- Reduced costs for administrative services in 2017/18 to 2016/17 reflects one-off IT costs and new software licences related to new online pension services for members and employers.
- The reduction in investment management costs in 2017/18 reflects participation in the London CIV which has led to economies of scale through lower management fees and transaction costs.

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	Performance 2017/18
Letter detailing transfer out quote	20 days	59%	34%
Process refund and issue payment voucher	10 days	92%	98%
Letter notifying estimate of retirement benefit	10 days	82%	100%
Letter notifying actual retirement benefit	7 days	87%	100%
Letter acknowledging death of member	5 days	100%	100%
Letter notifying amount of dependant's benefits	10 days	100%	100%
Calculate and notify deferred benefits	20 days	70%	44%

Staff shortages, new legislative requirements and implementing new online pension systems have all had a negative impact on the performance indicators shown above. However, there have been no delays in processing pension payments and no impact on the accuracy of final calculations made.

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:

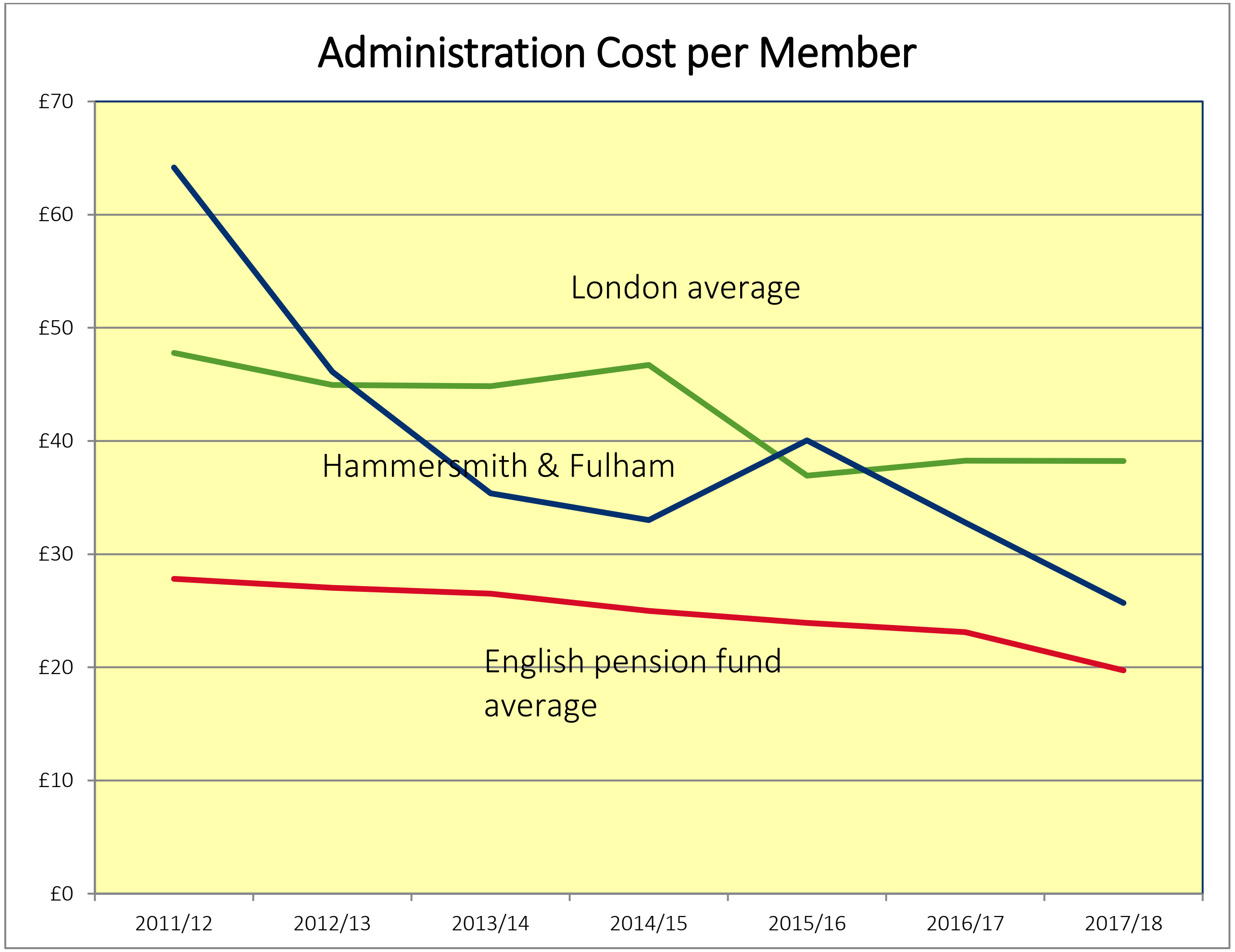
- Submit starter and leaver details and other changes online
- View and update employee details
- Run benefit calculations, e.g. early retirements

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 2017/18.

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.
- 1.93 FTE Westminster Finance staff, assigned to the oversight and governance of the Pension Fund.
- Costs remain below the average for London borough pension funds as shown in the chart, and are subject to regular review.

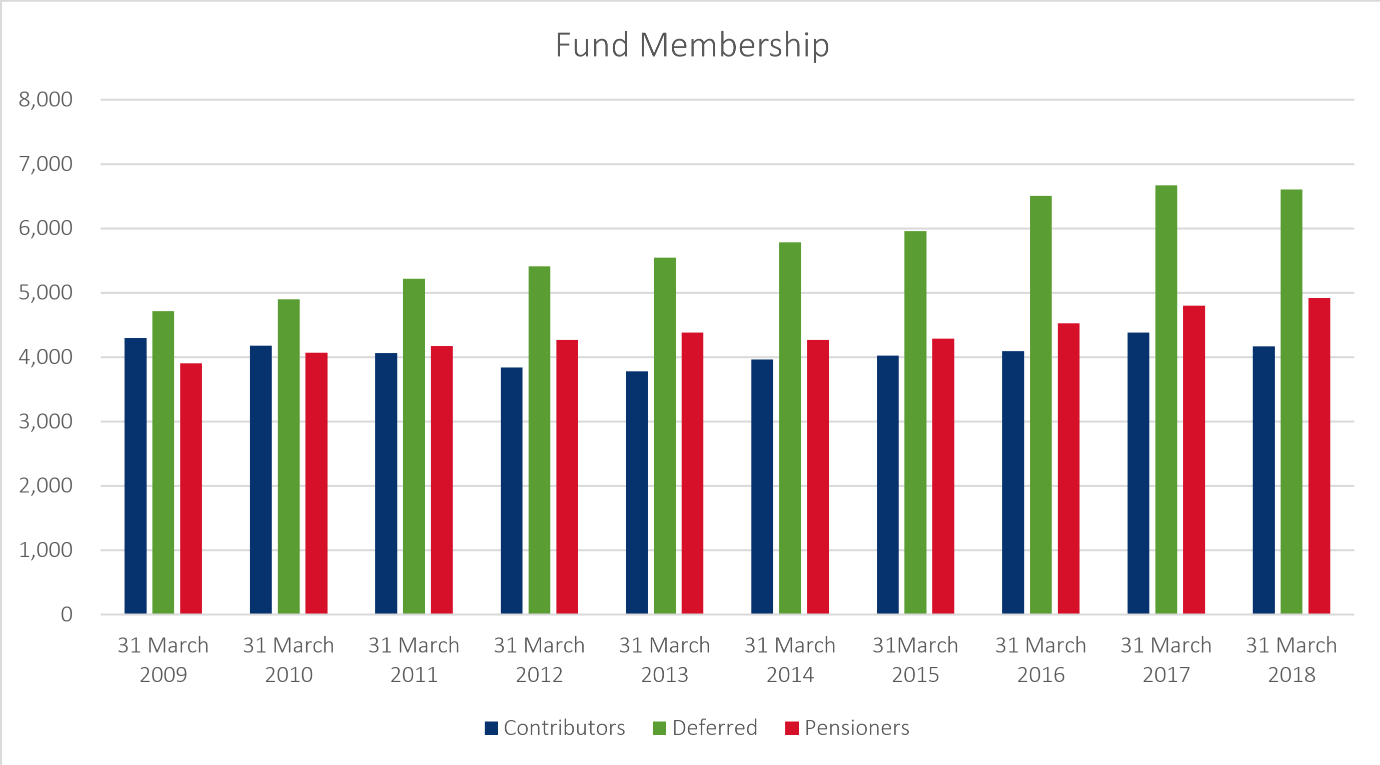
Administration Management Performance (continued)

MEMBERSHIP NUMBERS AND TRENDS

Overall membership has increased by 21% over the past 10 years from 12,914 to 15,689.

However, over this period the number of contributing members to the Pension Fund has declined steadily from 2008/09 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 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	2014/15	2015/16	2016/17	2017/18
Ill Health Retirement	10	10	10	6
Early Retirement	23	3	29	18
Total	**33**	**46**	**39**	**24**

Administration Management Performance (continued)

CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

Below is a list of the current active contributing employers and the contributions received for 2017/18 (Figures include early retirement and deficit funding contributions).

	Employees Contributions [2]	Employers Contributions	Total Contributions
	£'000	£'000	£'000
Administering Authority Employers			
LONDON BOROIUGH OF HAMMERSMITH AND FULHAM	4,295	15,480	19,775
Addison Primary School	29	127	155
All Saints Primary School	11	46	57
Bayonne Nursery School	15	73	88
Brackenbury Primary School	30	132	162
Cambridge School (Special)	20	92	112
Flora Gardens Primary School	20	85	105
Holy Cross RC Primary School	30	133	163
Jack Tizard School (Special)	46	200	246
James Lee Nursery School	9	40	50
Kenmont Primary School	14	61	74
Larmenier & Sacred Heart Primary School	22	102	124
Melcombe Primary School	40	175	215
Miles Coverdale Primary School	26	113	140
Normand Croft Community School for Early Years & Primary Education	19	85	104
Old Oak Primary School	27	120	146
Queensmill School	96	418	514
Randolph Beresford Early Years Centre Nursery School	45	185	230
Sir John Lillie Primary School	28	120	147
St Augustine's Primary School	13	57	70
St John XXIII Catholic Primary School (previously called Pope John)	22	102	125
St Johns CE Primary School	24	103	126
St Mary's Primary School	17	72	89
St Paul's Primary School	23	101	125
St Peter's Church of England Primary School	14	63	77
St Stephens CoE Primary School	34	148	181
St. Thomas of Canterbury Primary School	10	42	52
The Good Shepherd Primary School	17	82	100
Vanessa Nursery School	16	68	84
Wendall Park Primary School	26	114	141
William Morris Sixth Form School	54	219	272
Wood Lane High School	16	66	82
Wormholt Park Primary School	32	130	161
Total Contributions from Administering Authority	**5,140**	**19,152**	**24,292**

[2] Includes early retirement and deficit contributions

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			
Bentworth Academy	8	35	44
Bridge Academy	0	0	0
Brightwells Academy	79	309	388
Burlington Danes Academy	95	207	302
Conway Academy	10	43	53
Fulham Boys Free School	17	60	76
Fulham College Academy Trust (Boys)	42	151	193
Fulham College Academy Trust (Girls)	44	149	193
Futures (Phoenix) Academy	43	164	207
Greenside Academy	18	70	88
Hammersmith Academy	47	169	216
Hurlingham and Chelsea Academy	28	101	130

3 Includes early retirement and deficit contributions

	Employees Contribution[4]	Employers' Contributions	Total Contributions
Scheduled Bodies			
Lady Margaret Academy	47	168	216
Langford Academy	9	33	42
Lena Gardens Academy	10	39	48
London Oratory School	56	132	188
Mortlake Crematorium Board	20	54	73
Sacred Heart Academy	56	175	231
Swift ARK Academy	18	74	91
The Bridge AP Academy	70	243	313
Thomas' Academy	17	74	91
West London Free School	72	258	330
Total Contributions From Scheduled Bodies	**806**	**2,708**	**3,513**

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

	Employees Contribution[5]	Employers Contributions	Total Contributions
Admitted Bodies			
3BM	109	259	369
3BM (Governor Support)	1	3	4
Abelian UK (Greenside Primary)	1	3	5
Abelian UK (Miles Coverdale)	1	4	5
Abelian UK (Wormholt Primary)	3	7	10
Agilisys Ltd.	4	10	13
Amey	81	249	331
Birkin Clean	4	20	24
BT - IT services	12	40	52
C T Plus Transport (2017)	1	4	5
Caterlink (2016 Schools)	16	105	120
Caterlink (Hurlingham & Chelsea Academy contract)	5	14	18
Civica	1	3	4
Disabilities Trust	1	3	4
Eden Food Services	-17	-55	-72
ETDE Infrastructure	5	15	21
Family Mosaic Housing	18	53	71
FM Conway (2009)	**12**	**37**	**49**

	Employees Contribution[6]	Employers' Contributions	Total Contributions
FM Conway (2012)	4	14	18
Fulham Palace Trust	12	48	59
Glencross Cleaning Ltd	0	0	0
H & F Bridge Partnership	35	0	35
HATS	3	11	14
HCT	4	15	19
Hestia	1	5	6
Impact	24	80	104
Innovate	6	23	30
Interserve Schools Contract	41	175	215
Medequip Assistive Technology Ltd	2	7	9
Mitie	90	259	349
Pinnacle PSG Ltd - Estates Services	62	193	255
Pinnacle PSG Ltd - Housing Management	22	77	99
Quadron Services Ltd	54	175	229
Quadron Services Ltd (2018) - T/A Idverde	0	1	1
RM Education	10	19	29
Serco	187	437	624
Starbus	0	0	0
Urban Partnership Group	21	94	114
Total contributions for admitted Bodies	836	2,409	3,245
Grand Total	**6,781**	**24,268**	**31,049**

[5] Includes early retirement and deficit contributions

[6] Includes early retirement and deficit contributions

Administration Management Performance (continued)

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	22	3	25
Admitted Body	38	20	58
Total	**61**	**23**	**84**

Section 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 Investment Strategy Statement (ISS).

The ISS 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 ISS 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 ISS can be found at Appendix 2.

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

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 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 2018 was as follows:

Asset Class	Target Allocation
UK equities	22.5%
Overseas Equities	
Secure Income	
Dynamic Asset Allocation	
Absolute Return Bonds	47.5%
Inflation Opportunities	20%
Long Lease Property	15%
TOTAL	**100%**

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.

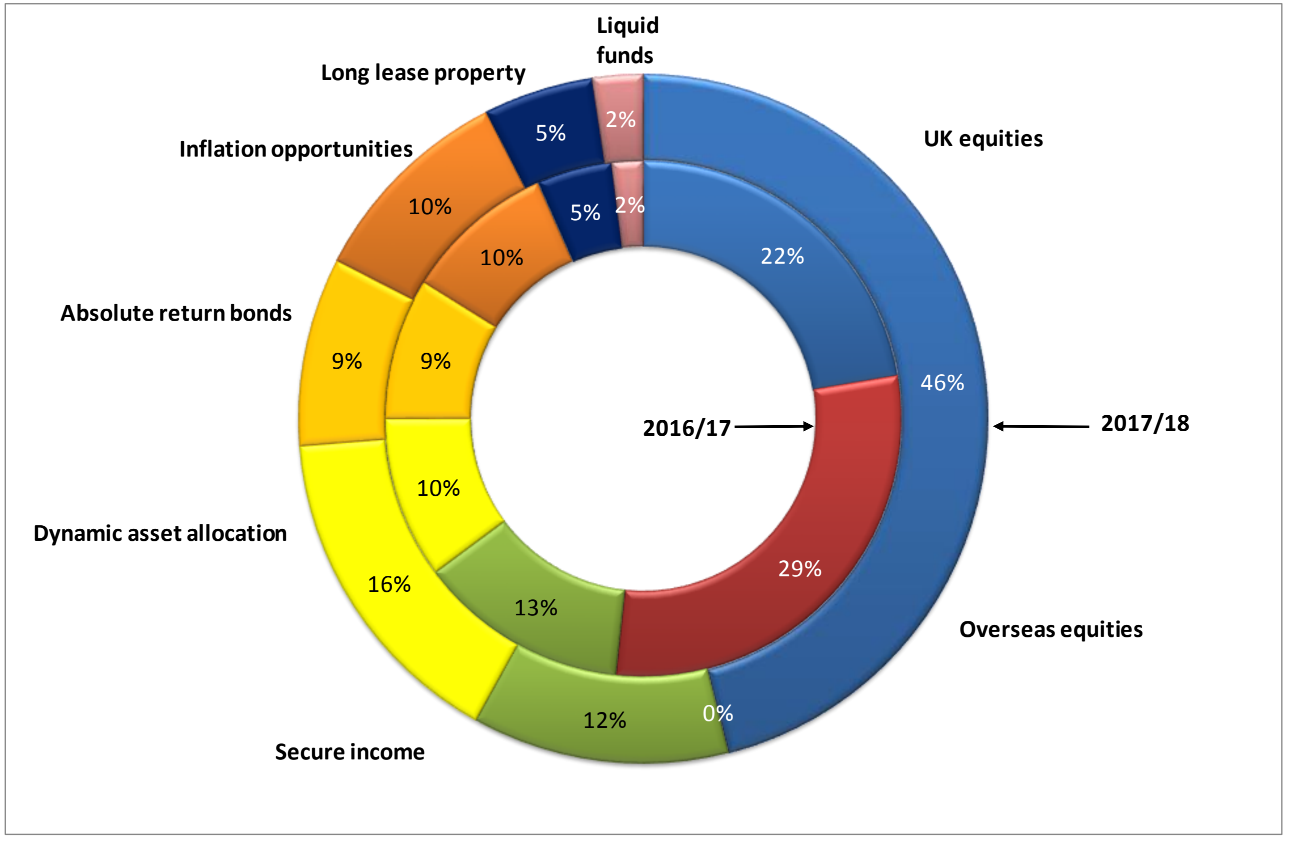
Investment portfolios are reviewed at each Committee meeting in discussion with the Investment Adviser and Officers, and Fund Managers are called to a Sub-Committee meeting if there are issues that need to be addressed. Officers meet Fund Managers regularly and advice is taken from the Investment Adviser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

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.

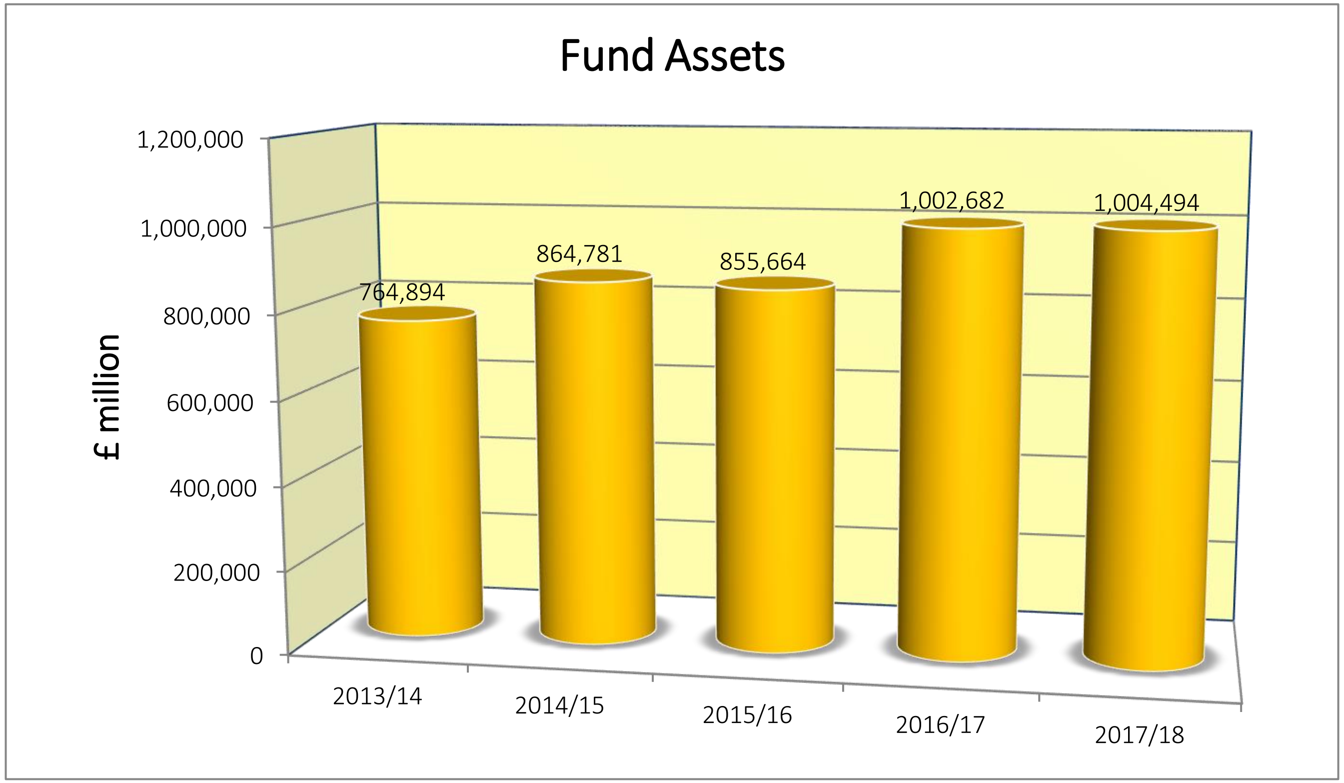


Asset Allocation (continued)

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 and continued with a slight increase in 2017/18 of 1.2%

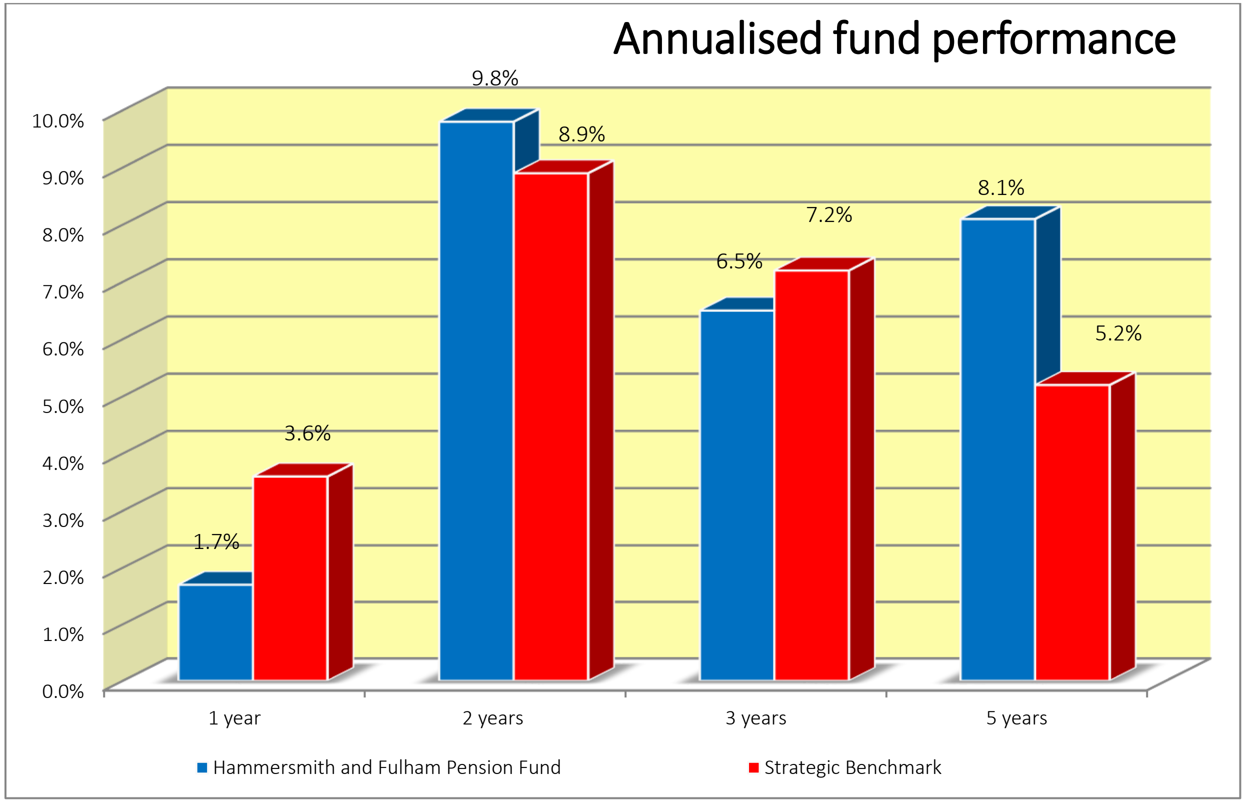
The Fund is invested to meet liabilities over the medium to long-term and therefore its performance should be judged over a corresponding period. Annual returns can be volatile and do not necessarily indicate the underlying health of the Fund.



Investment Performance

The Fund's overall performance in 2017/18 underperformed the benchmark for the year by 2.4%, as shown below.

Annualised performance has exceeded the benchmark since inception, and over the past 2 and 5 years.



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.

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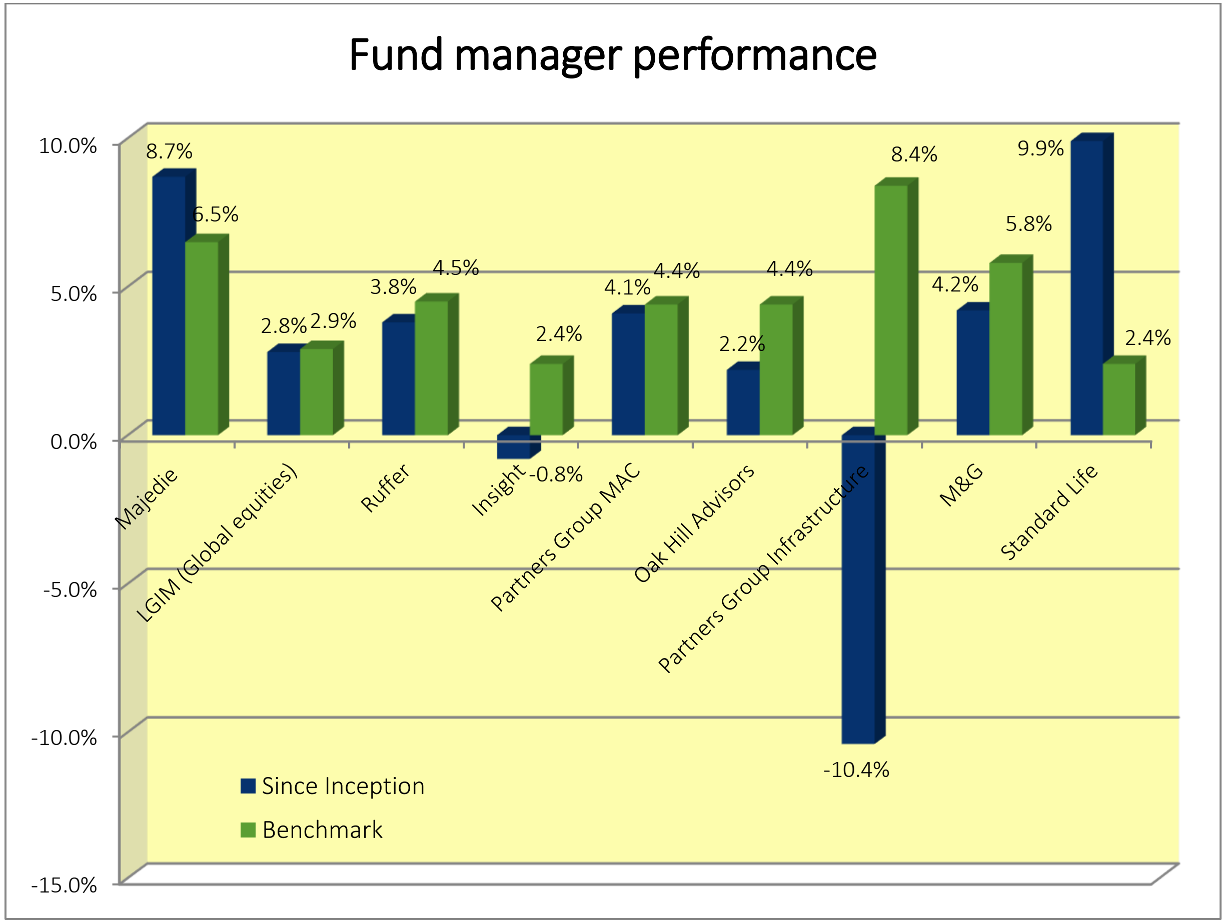


The portfolio is a mixture of active and passively managed asset classes:

- 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.

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.

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 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

Fund Managers have the delegated authority to vote at shareholder meetings in accordance with their own guidelines, which have been discussed and agreed with the Pensions Sub-Committee. The Committee keeps under close review the various voting reports that it receives from Fund managers.

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 continued to trade and the Hammersmith and Fulham Pension Fund transferred the Ruffer mandate (valued at £102m) into the CIV in June 2016. This was followed by the transferring £127m of Majedie assets in May 2017.

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.

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.

Section 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 18 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 90. 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.

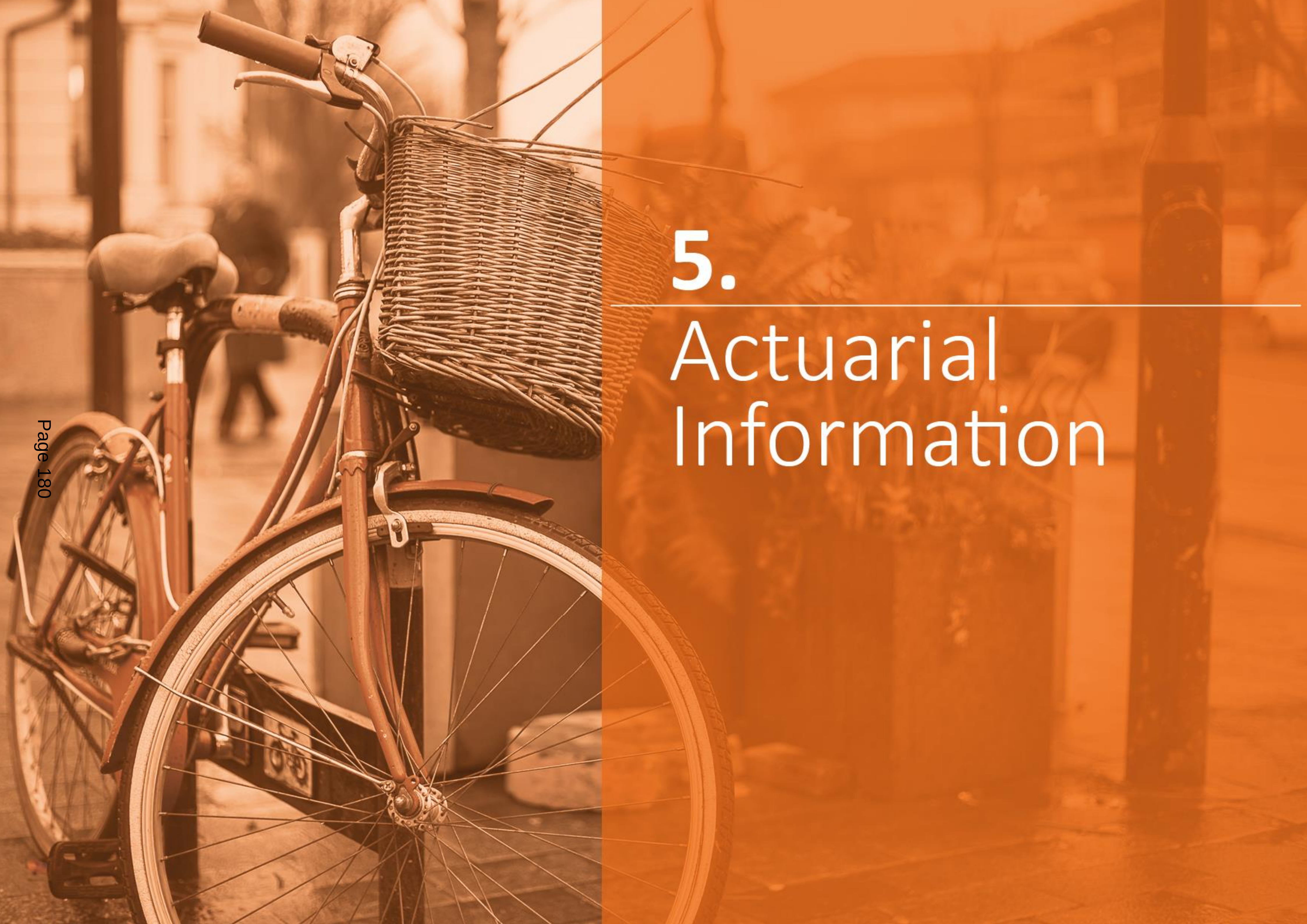
IDRP Stage 3 is a referral of the complaint to the Pension Ombudsman.

- 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 have been received or referred to the Pensions Ombudsman in 2017/18

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 2018 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 2018 has improved compared with the position as at 31 March 2016 although the primary rate has increased due to changes in market conditions.

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 and Governance 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 and Governance has:

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

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 and governance, Section 151 Officer

Date: 31 May 2018

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 2018 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 2017/18

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 & GOVERNANCE 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 2017/18, 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.

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 2018 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 2017/18 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 2018

Pension Fund Accounts and Explanatory Notes

FUND ACCOUNT

2016/17		Notes	2017/18
£'000			**£'000**
	Dealings with members, employers and others directly involved in the fund		
	Contributions		
(22,494)	From Employers	8	(24,268
(6,937)	From Members	8	(6, 781)
(2,090)	Individual Transfers in from Other Pension Funds		(3,012)
(753)	Other income		607
(32,274)			(33,454)
	Benefits		
30,002	Pensions	9	31,465
5,685	Commutation, Lump Sum Retirement and Death Benefits	9	7,256
	Payments to and on Account of Leavers		
5,046	Individual Transfers Out to Other Pension Funds		4,087
37	Refunds to Members Leaving Service		20
40,770			42,828

Pension Fund Accounts and Explanatory Notes (continued)

2016/17		Notes	2017/18
£'000			**£'000**
8,496	Net (Additions)/Withdrawals from Dealings with Members		9,374
6,530	Management Expenses	10	4,503
	Returns on Investments		
(12,822)	Investment Income	11	(10,283)
23	Taxes on Income (Irrecoverable Withholding Tax)		-
(148,740)	(Profit) and loss on disposal of investments and changes in the market value of investments	12	(10,384)
(161,539)	Net return on investments		(20,667)
(146,513)	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		(6,791)
(856,319)	Opening Net Assets of the Scheme		(1,002,832)
(1,002,832)	Closing Net Assets of the Scheme		(1,009,623)

Net Assets Statement for the year ended 31 March 2018*

2016/17		Notes	2017/18
£'000			**£'000**
	Investment assets		
112,475	Equities	13	-
765,856	Pooled Investment Vehicles	13	891,097
47,037	Pooled Property	13	51,933
68,973	Private equity/infrastructure	13	55,261
	Derivative Contracts:		
(1)	Forward Foreign Exchange	13	-
7,856	Cash deposits	13	6,168
	Other Investment Balances:		
521	Income Due	13	35
76	Debtors	13	-
	Investment Liabilities		
(111)	Amounts outstanding on purchase of investments	13	-
1,002,682	Net investment assets	13	1,004,494

Net Assets Statement for the year ended 31 March 2018* (continued)

2016/17		Notes	2017/18
£'000			**£'000**
1,539	Current Assets	22	2,059
(4,223)	Current Liabilities	23	(1,291)
2,834	Cash Balances		4,361
1,002,832	**Net Assets of the Fund Available to Fund Benefits at the Period End**		**1,009,623**

* 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 20a.

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 2018. Employer contributions are set based on the triennial actuarial funding valuation, as detailed in Note 20. b) Pensions Sub-Committee.

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

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.

d) Investment Principles

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Sub-Committee approved an Investment Strategy on 20 June 2017 (available on the Council's website). The Statement shows the Authority's compliance with the Myner's principles of investment management.

The Sub-Committee has delegated the management of the Fund's investments to regulated investment managers (see note 12), appointed in accordance with the regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

Note 1 Description of Hammersmith and Fulham Pension Fund (continued

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 Deferred member numbers include 865 undecided leavers, who are no longer paying contributions or in receipt of benefits.

The following table summarises the membership numbers of the scheme:

31 Marc 2017		31 March 2018
45	Number of employers with active members	61
4,383	Active members	4,166
4,800	Pensioners receiving benefits	4,920
6,670	Deferred Pensioners*	6,603
15,853		**15,689**

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Note 2 Basis of preparation of financial statements

The Statement of Accounts summarise the Fund's transactions for 2017/18 and its position at year end as at 31st March 2018. The accounts been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (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).

The pension Fund Accounts have been prepared on a going concern basis.

Note 3 Summary of significant accounting policies

FUND ACCOUNT – REVENUE RECOGNITION

a) Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date.

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.

c) Investment Income

Investment income is reported gross of withholding taxes which are accrued in line with the associated investment income. Investment income arising from the underlying investments of the Pooled Investment Vehicles is either reinvested within the Pooled Investment Vehicles and reflected in the unit price or taken as a cash dividend to support the Fund's outgoing cash flow requirements.

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is recognised as a current financial asset.

Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset. Where the amount of an income distribution has not been received from an investment manager by the balance sheet date, an estimate based upon the market value of their mandate at the end of the year is used.

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits and losses during the year.

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

Pension fund management expenses are accounted for in accordance with the CIPFA guidance "Accounting for Local Government Pension Scheme Management Costs 2016".:

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.

All investment management expenses are accounted for on an accruals basis. The Pension-Sub Committee has appointed external investment managers to manage the investments of the Fund. Managers are paid a fee based on the market value of the investments they manage and/or a fee based on performance.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of the mandate as at the end of the year is used for inclusion in the fund account.

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. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the value of the asset are recognised in the Fund account.

The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 15a).

h) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see Note 15a).

i) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and deposits with financial institutions which are repayable on demand without penalty.

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 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, the financial statements include a note disclosing the actuarial present value of retirement benefits (see Note 20a).

m) Additional Voluntary Contributions

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, but are disclosed as a note only (Note 23). There are also some residual policies with Equitable Life, which are disclosed in Note 23, but it is not open for new members.

Note 3 Summary of significant accounting policies (continued)

n) Additional Voluntary Contributions

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 26.

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 £153m. A 0.2% increase in assumed earnings would increase the value of liabilities by approximately £4m, a 0.2% increase in pension increases would increase the liability by about £56m and a one year increase in life expectancy would increase the liability by about £61m

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 £5.6m.

The fair value of the Partners Multi Asset Credit 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 £49.6m.

Note 5 Assumptions made about the future and other major sources of uncertainty

Preparing financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end and the amounts reported for income and expenditure during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However the nature of estimation means that the actual results could differ from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rates 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 fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £182m. A 0.2% increase in assumed earnings would increase the value of liabilities by approximately £8m, a 0.2% increase in pension increases would increase the liability by about £70m and a one year increase in life expectancy would increase the liability by about £62m.

Note 6 Accounting Standards issued but not yet adopted

At the balance sheet date, the following new standards and amendments to existing standards had been published but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom:

- **IFRS 9 Financial Instruments**, which introduces extensive changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables to amortised cost. There are not expected to be any changes in the measurement of financial assets and the Fund does not at this stage anticipate any adjustments for impairments.
- **IFRS 15 Revenue from Contracts with Customers**, presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Fund does not have any revenue streams within the scope of the new standard.
- **IAS 7 Statement of Cash Flows (Disclosure Initiative)**, will potentially require some additional analysis of Cash Flows from Financing Activities, however since the Fund is not currently required to prepare a Cash Flow Statement it does not anticipate any additional disclosure.
- **IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses)**, applies to deferred tax assets related to debt instruments measured at fair value. Currently the Fund does not hold such financial instruments.

Note 7 Events after the Balance Sheet date

There were no material events arising after the Balance Sheet date.

Note 8 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.

BY AUTHORITY

2016/17		2017/18
£'000		£'000
23,290	Administering Authority	24,292
3,158	Scheduled bodies	3,244
2,983	Admitted bodies	3,513
29,431		**31,049**

BY TYPE

2016/17		2017/18
£'000		£'000
6,937	Employees' normal contributions	6,781
	Employer's contributions:	
13,450	Normal contributions	16,368
9,044	Deficit recovery contributions	7,900
29,341		**31,049**

Note 9 Benefits payable

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

BY TYPE

2016/17		2017/18
£'000		£'000
30,002	Pensions	31,465
5,093	Commutation and lump sum retirement benefits	6,360
592	Lump sum death benefits	896
35,687		**38,721**

BY AUTHORITY

2016/17		2017/18
£'000		£'000
33,353	Administering Authority	35,914
1,977	Scheduled Bodies	2,427
357	Admitted Bodies	380
35,687		**38,721**

Note 10 Management Expenses

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

2016/17		2017/18
£'000		£'000
520	Administration Expenses	403
267	Oversight and Governance	452
5,743	Investment Management Expenses	3,648
6,530		**4,503**

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		2017/18
£'000		£'000
4,310	Management fees	3,223
997	Performance fees	343
54	Custody fees	44
382	Transaction costs*	38
5,743		3,648

*Transaction costs incurred on segregated assets only

Note 11 Investment Income

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

2016/17		2017/18
£'000		**£'000**
35	Income from Bonds	(47)
9,975	Equity dividends	(5,331)
16	Interest and cash deposits	(17)
2,796	Private Equity/Other	(4,888)
12,822	Total before taxes	(10,283)
(23)	Taxes	-
12,799	**Total**	**(10,283)**

Note 12 Investment Management Arrangements

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.

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 £127m Majedie portfolio transferred to CIV in May 2017. Work was also undertaken to realise some of the equity gains made on the Majedie segregated equity fund, which resulted in the £60m proceeds being temporarily invested in the LCIV Ruffer Fund. These monies will be used to cover future capital call payment for the Partners Group & the new Aviva Infrastructure Funds totalling £30m each, over the next few years which was agreed at the September 2017 Sub-Committee.

The market value and proportion of investments managed by each fund manager at 31 March 2018was as follows:

31 March 2017 Market Value	%	Fund Manager	Mandate	31 March 2018 Market Value	%
£'000				£'000	
		Investments managed by London CIV Ltd asset pool			
101,628	10.1%	Ruffer	Absolute Return (Active)	157,466	15.7%
-	0.0%	Majedie	UK Equity (Active)	125,194	12.5%
101,628	**10.1%**			**282,660**	**28.1%**
		Investments managed outside of London CIV Ltd asset pool			
294,433	29.4%	LGIM	World Equity (Passive)	302,920	30.2%
224,141	22.4%	Majedie	UK Equity (Active)	33,940	3.4%
89,121	8.9%	Insight	Bonds	88,885	8.8%
10,827	1.1%	LGIM	Liquidity Fund	10,868	1.1%
52,593	5.2%	Partners Group	Private Equity	41,711	4.2%
8,743	0.9%	Partners Group	Private Infrastructure	7,923	0.8%
70,334	7.0%	Oak Hill advisers	UK Equity (Active)	72,371	7.2%
94,998	9.5%	M & G	Inflation Opportunities	99,302	9.9%
47,037	4.7%	Standard Life	Long Lease Property	51,933	5.2%
5,366	0.5%	Invesco	Private Equity	3,757	0.4%
2,945	0.3%	Unigestion	Private Equity	1,871	0.2%
366	0.0%	In-house Cash	Cash	6,168	0.6%
150	0.0%	London CIV Ltd		150	0.0%
901,054	89.9%			721,799	71.9%
1,002,682	**100.0%**		**Total**	**1,004,458**	**100.0%**

Note 13 Reconciliation in movement in investments

The table below shows a reconciliation of the movement in the total investment assets by Asset Class during 2017/18, as opposed to by Fund Manager, as was previously the case:

2017/18	Market value 1 April 2017	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 2018
Asset Class	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Equities	112,475	6,485	(120,878)	1,918	-
Pooled equity investments	765,856	197,903	(74,163)	1,500	891,096
Pooled property investments	47,037	-	(248)	5,144	51,933
Private equity/infrastructure	68,973	5,614	(20,065)	739	55,261
Derivatives:					
Forward foreign exchange	(1)	1	-	-	-
Total	994,340	210,004	(215,354)	9,301	998,291
Cash deposits	7,856			1,065	6,168
Amounts receivable from sales of investments	76			-	-
Investment income due	521			-	35
Spot FX contracts	0			18	-
Amounts payable for purchases of investments	(111)			-	-
Net investment assets	1,002,682	**210,004**	**(215,354)**	**9,468**	**1,004,494**

Note 13 Reconciliation in Movement in Investments (continued)

The equivalent analysis for 2016/17 is provided below:

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
Asset Class	£'000	£'000	£'000	£'000	£'000
Bonds	36,771	1,624	(39,237)	842	-
Equities	141,522	42,916	(95,168)	23,205	112,475
Pooled equity investments	562,331	1,005,823	(919,863)	117,565	765,856
Pooled property investments	43,925	-	(224)	3,336	47,037
Private equity/infrastructure	62,336	12,461	(10,230)	4,406	68,973
Derivatives:					
Forward foreign exchange	(368)	4,777	(3,658)	(752)	(1)
Total	846,616	1,067,601	(1,068,479)	148,602	994,340
Cash deposits	7,544			181	7,856
Amounts receivable from sales of investments	278			(1)	76
Investment income due	1,242			-	521
Spot FX contracts	-			(42)	-
Amounts payable for purchases of investments	(16)			-	(111)
Net investment assets	**855,664**	**1,067,601**	**(1,068,479)**	**148,740**	**1,002,682**

Note 14 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 2017 Market Value		Holding	31 March 2018 Market Value	
	% Holding		£'000	% Holding
294,433	29.4%	Legal & General World ex UK Dev equity fund index	302,920	30.2%
101,628	10.1%	LCIV Ruffer Absolute Return*	157,480	15.7%
-	0.0%	LCIV Majedie UK Equity	125,193	12.5%
94,998	9.5%	M&G Inflation Opportunities Fund V	99,302	9.9%
89,121	8.9%	Insight Investment Bonds Plus Fund	88,885	8.8%
70,334	7.0%	Oak Hill Advisers Diversified Credit Strategies Fund	72,371	7.2%
47,037	4.7%	Standard Life Long Lease Fund	51,933	5.2%
52,593	5.2%	Partners Group Multi Asset Credit 2014 Fund	41,711	4.2%
224,141	22.4%	Majedie Focus Fund	33,946	3.4%
974,285	97.2%	Total Top Holdings	973,741	96.9%
1,002,682	**100.0%**	**Total Value of Investments**	**1,004,458**	**100.0%**

* 2016/17 restated as LCIV Ruffer assets were not included

Note 15a Classification of Financial Instruments

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

31 March 2017				31 March 2018		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Financial Assets	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Equities			
98,241			UK quoted			
14,234			UK unquoted			
			Pooled funds - investment vehicles			
665,907			UK Equity Funds	791,194		
10,827			UK Cash Funds	10,867		
47,037			UK Property Fund	51,933		
89,121			Overseas fixed Income Fund	88,885		
-			London LGPS CIV	150		
52,587			UK Venture Capital	41,711		
16,386			Overseas Venture Capital	13,551		
521			Investment income due		35	
76			Pending trade sales			
	7,856		Cash deposits with fund managers		6,168	
	1,539		Debtors		2,059	
	2,834		Cash balances (held by fund)		4,361	
994,937	12,229	-		998,291	12,623	-
			Financial Liabilities			
(111)			Pending trade purchases	-		
		(3,568)	Creditors			(620)
(111)	-	(3,568)		-	-	(620)
994,826	12,229	(3,568)	Total	998,291	12,623	(620)

Note 15b 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 2017		31 March 2018
£'000		£'000
	Financial Assets	
149,311	Designated at fair value through profit and loss	10,235
181	Loans and receivables	149
149,492		10,384
	Financial Liabilities	
(752)	Designated at fair value through profit and loss	-
(752)		-
148,740	**Total**	**10,384**

Note 15c 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.

Level 1 – where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities (quoted equities, quoted fixed securities, quoted index linked securities and unit trusts). Listed investments are shown at bid prices. The bid value is based on the market quotation of the relevant stock exchange.

Level 2 – where market prices are not available, for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 – where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, neither of which the Fund currently invests in.

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 2017				31 March 2018		
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			
217,252	707,965	69,123	Financial assets at fair value through profit and loss	33,940	908,939	55,412
486	0	0	Financial liabilities at fair value through profit and loss	0	0	0
217,738	707,965	69,123		33,940	908,939	55,412
	994,826				**998,291**	

Note 16a Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market- based information.

Description of asset	Valuation hierarchy 16/17	Valuation hierarchy 17/18	Bas of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Investments - Equity Funds UK and Overseas Managed Funds	Level 1	Level 2	Published bid market price ruling on the final day of the accounting period.	Evaluated price feeds.	Not required.
Forward foreign exchange derivatives	Level 2	Level 2	Market forward exchange rates at the year-end.	Exchange rate risk.	Not required.
Pooled Long Lease Property Fund	Level 2	Level 2	The Standard Life Long Lease Property Fund is priced on a Single Swinging Price.	In house evaluation of market data.	Not required.
Private equity	Level 3	Level 3	Valuations are prepared by Fund managers based on the latest profit forecasts and other financial information available at the time of preparing the Fund's financial statements .	Fund managers valuation statements are prepared in accordance with ECVA Guidelines.	Key sensitivities include market prices achieved by comparable investments, future income projections and the cost of replacing key business assets.
Infrastructure funds	Level 3	Level 3	Valued by Fund Managers at the lower of cost and fair value.	Managers use their judgement having regard to the EVCA guidelines noted above for valuing unquoted investments.	Upward valuations are only considered where there is validation of the investment objectives and such progress can be demonstrated. Downward valuations are enacted where the manager considers there is an impairment to the underlying investment.
Pooled Investments – Property Funds	Level 3	Level 2	Closing bid price where bid and offer prices are published.	Adjusted for net capital current assets	Estimated acquisition and disposal costs.

Note 16b Transfers between Levels 1 and 2

£127m of Majedie UK Equities (Level 1) were sold & the proceeds used purchase assets in the London CIV Majedie Fund (Level 2)

£60m of Majedie Focus Fund (Level 1) assets were sold, in order to realise some of the profits gained on Equities, the proceeds were used to re-balance the portfolio and resulting funds were used to purchase an assets in the London CIV Ruffer Fund (Level 2), for the purposes of future capitals due on Partners Group Infrastructure & the new Aviva Infrastructure Fund.

TRANSFERS BETWEEN LEVELS 2 AND 3

As a result of additional pricing information becoming available during the year:

	Now	Previously
LGIM - STERLING LIQUIDITY FUND	Level 2	Level 1
LONDON LGPS CIV RUFFER - LT RF ABSOLUTE RETURN A GBP	Level 2	Level 3
INSIGHT - LDI SOLUTIONS PLUS BONDS PLUS B GBP	Level 2	Level 1

Note 16c Reconciliation of Fair Value Measurements within Level 3

Transferred from level 2 to level 3 due to reappraisal of property valuation techniques – balances restated due to cash balances held in the property portfolio

2017/18	Opening balance	Transfers in/out Level 3	Purchases	Sales	Unrealised gains/losses	Realised gains/losses	Closing balance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
UK Equities	150	(150)	-	-	-	-	-
Overseas Venture Capital	16,386	-	5,614	(7,672)	(2,540)	1,763	13,551
UK Venture Capital	52,587	-	-	(12,393)	1,516	-	41,711
London LGPS CIV	-	150	-	-	-	-	150
Total	**69,123**	**-**	**5,614**	**(20,065)**	**(1,024)**	**1,763**	**55,412**

Note 17 Nature and extent of risks arising from Financial Instruments

RISK AND RISK MANAGEMENT

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Responsibility for the Fund's risk-management strategy rests with the Committee. Risk management policies are established that aim to identify and analyse the investment risks faced by the Fund and these are regularly reviewed in the light of changing market and other conditions.

a) Market Risk

Market risk is the risk of loss emanating from general market fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investment activities. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of asset class, geographical and industry sectors and individual securities. To mitigate market risk, the Committee and its investment advisors undertake regular monitoring of market conditions and benchmark analysis.

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 share and derivative 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 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.

The following table demonstrates the change in the net assets available to pay benefits if the market price had increased or decreased by 10%. The analysis excludes cash, debtors, creditors, other investment balances and forward foreign exchange, as these financial instruments are not subject to price risk.

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 2017	994,340	1,093,774	894,906
As at 31 March 2018	**998,291**	**1,098,120**	**898,462**

Note 17 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 Committee and its investment advisors regularly monitor the Fund's interest rate risk exposure during the year. The Fund manages its interest risk exposure through the use of futures derivatives (see Note 15).

Fixed interest securities, cash and cash equivalents are exposed to interest rate risk. The table below demonstrates the change in 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	Value on 1% price decrease
	£'000	£'000	£'000
As at 31 March 2017	210,364	212,468	208,261
As at 31 March 2018	**220,573**	**222,779**	**218,367**

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.

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 2017	360,756	396,832	324,680
As at 31 March 2018	**418,816**	**460,698**	**376,934**

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

Note 17 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.

There is a risk that some admitted bodies may not honour their pension obligations with the result that any ensuing deficit might fall upon the Fund. To mitigate this risk, the Fund regularly monitors the state of its admitted bodies.

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 10.2% of the Fund's Net Assets at 31st March 2018 (12.1% at 31st March 2017). The remaining investments can all be liquidated within days.

Manager	Portfolio	Value at 31 March 2017	Value at 31 March 2018
		£'000	£'000
Partners Group	Multi Asset Credit	52,587	41,711
Partners Group	Infrastructure	16,386	7,924
Standard Life	Property	43,925	51,933
Invesco	Private Equity	5,301	3,757
Unigestion	Private Equity	3,524	1,871
Total		**121,723**	**107,195**

Note 18 Contingent liabilities and contractual commitments

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

	31 March 2017 £000	31 March 2018 £000
Invesco Partnership Fund V L.P.	451	-
Partners Group Direct Infrastructure Fund 2015	38,553	45,851
Aviva Infrastructure	-	30,000
	39,004	75,851

Note 19 Stock Lending

The Fund did not participate in stock lending or underwriting.

Note 20 Funding Arrangements

The LGPS 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 Fund was carried out by Barnett Waddingham, the Fund's actuary, as at 31 March 2016 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 31 March 2017.

The 2016 valuation certified a common contribution rate of 15.5% of pensionable pay (13.6% as at March 2013) to be paid by each employing body participating in the Fund, based on a funding level of 88% (83% as at March 2013). 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 £851.2m and the Actuary assessed the present value of the funded obligation at £965.6m. This indicates a net liability of £114.4m,

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 2019 and will be published in 2020.

Note 20a Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31st March 2018. 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.

	31 March 2018	31 March 2017
	£'000	£'000
Present Value of Promised Retirement Benefits*	1,629,783	1,656,377
Fair Value of Scheme Assets (bid value)	(992,168)	(1,000,383)
Net Liability	**637,615**	**655,994**

*Present Value of Promised Retirement Benefits comprise of £1,592.5m (2016/17: £1,613.3m) and £37.3m (2016/17: £43.0m) in respect of vested benefits and non-vested benefits respectively as at 31 March 2018.

ASSUMPTIONS

The assumptions applied by the actuary are set out below: To assess the value of the Fund's liabilities at 31 March 2018, the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2016 have been rolled forward, using financial assumptions that comply with IAS19.

DEMOGRAPHIC ASSUMPTIONS

The demographic assumptions used are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2016, hence they are different from those used for the 2017/18 statement of accounts.

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 2018	31 March 2017
Retiring today	Males	24.5	24.4
	Females	26.1	26.0
Retiring in 20 years	Males	26.8	26.6
	Females	28.4	28.3

FINANCIAL ASSUMPTIONS

The main financial assumptions are:

Financial Assumptions	31 March 2018 %	31 March 2017 %
RPI increases	3.3	3.6
CPI increases	2.3	2.7
Salary increases	3.8	4.2
Pension increases	2.3	2.7
Discount rate	2.6	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.

Note 21 Current Assets

31 March 2017		31 March 2018
£'000		£'000
	Debtors:	
334	Contributions due - employers	736
113	Contributions due - employees	197
1,085	London Borough of Hammersmith and Fulham	228
7	Sundry debtors	898
1,539		2,059
2,834	Cash balances	4,361
4,373	**Total**	**6,420**

ANALYSIS OF DEBTORS

31 March 2017		31 March 2018
£'000		£'000
1,117	Local authorities	228
422	Other entities and individuals	1,831
1,539	**Total**	**2,059**

Note 22 Current Liabilities

31 March 2017		31 March 2018
£'000		£'000
	Creditors	
(2,439)	Unpaid benefits	(75)
(1,062)	Investment management expenses	(369)
(655)	HM Revenues and Customs	(672)
(67)	Sundry creditors	(175)
(4,223)	**Total**	**(1,291)**

ANALYSIS OF CREDITORS

31 March 2017		31 March 2018
£'000		£'000
(67)	Local authorities	(158)
(655)	Central government bodies	(672)
(3,501)	Other Entities and individuals	(461)
(4,223)	**Total**	**(1,291)**

Note 24 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.

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.

31 March 2017 Market Value		31 March 2018 Market Value
£'000		£'000
	Zurich Assurance	
1,172	Market Value at 31st March	824
21	Contributions during the year	35
41	Number of members at 31st March	40
	Equitable Life Assurance	
193	Market Value at 31st March	203
-	Contributions during the year	-
30	**Number of members at 31st March**	**29**

Note 25 Related Party Transactions

London Borough of Hammersmith and Fulham

The Pension Fund is administered by the London Borough of Hammersmith and Fulham. The Council incurred costs of £0.285m in 2017/18 (£0.240m in 2016/17) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses.

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 Members of the sub-committee are required to make a declaration of interests at the beginning of each meeting.

Key management personnel

The key management personnel of the Fund are the Members of the Pension Sub-Committee, the Strategic Director of Finance, the Tri-Borough Director of Pensions and Treasury and the Director of People Services. Total remuneration payable to key management personnel in respect of the pension fund is set out below:

31 March 2017		31 March 2018
£'000		£'000
37	Short-term benefits	26
39	Post-employment benefits	(3)
7	Termination benefits	-
174	**Total**	23

Note 26 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. In 2017/18 the pension fund paid discretionary awards of £2.342 (£2.588m in 2016/17). £766k was outstanding from the Council at year end.

2016/17		2017/18
£'000		£'000
2,588	Payments on behalf of London Borough of Hammersmith and Fulham	2,342
2,588		2,342

NOTE 27 External Audit Costs

The external audit fee payable to Fund's external auditors, KPMG LP, was £21,000 (£21,000 in 2016/17).

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.

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.

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 of 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

Hammersmith and Fulham Pensions Website

www.lbhfpensionfund.org

Shared Service Pensions Finance Team
City Hall
5 The Strand
London
WC2N 5HR

Telephone: 020 7641 6925

Email: pensionfund@lbhf.gov.uk

Bi-borough Pensions Manager
c/o Royal Borough of Kensington and Chelsea
The Town Hall
Hornton Street
London
W8 7NX

Email: pensions@rbkc.gov.uk

Surrey County Council
Pension Services
Surrey County Council
Room 243 County Hall
Penrhyn Road
Kingston upon Thames
Surrey, KT1 2DN

Email: myhelpdeskpensions@surreycc.gov.uk

Telephone: 020 8213 2802

National Local Government Pension Scheme information website

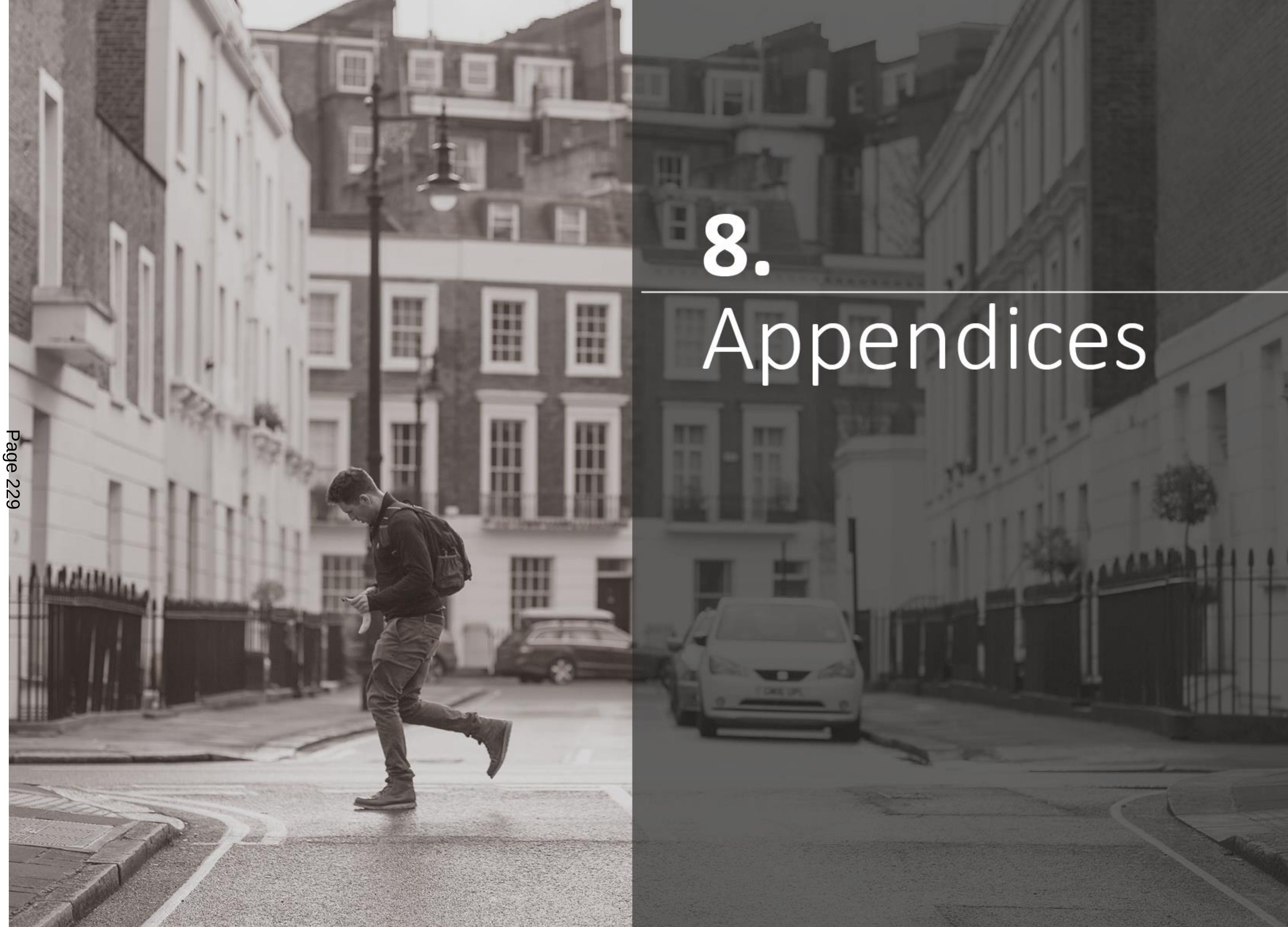
www.lgps.org.uk

The Pensions Advisory Service (TPAS)
11 Belgrave Road
London SW1V 1RB
Telephone: 0845 601 2923

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



8. Appendices

Governance Compliance Statement

BACKGROUND

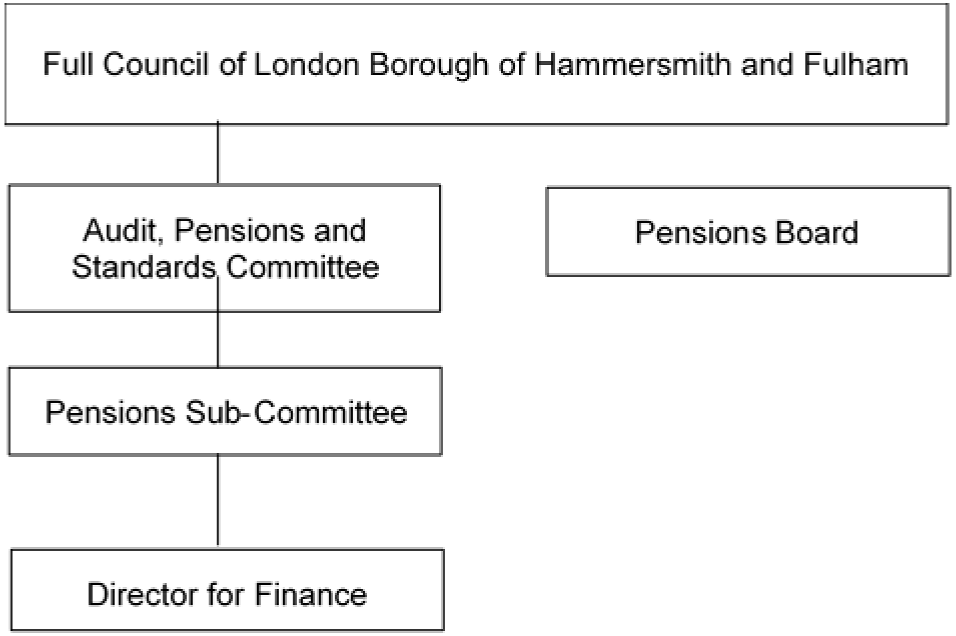
The London Borough of Hammersmith and Fulham is the administering authority for the London Borough of Hammersmith and Fulham ("the Fund") and it administers the Local Government Pension Scheme on behalf of the participating employers.

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.

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 *ad hoc* 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

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

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 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
Employers meetings				✓		Annually	Notifications sent					✓						
Briefing papers	✓				✓	When required	Within Committee papers dispatch							✓	✓			
Committee Reports	✓				✓	With the committee cycle	Within Committee papers dispatch							✓	✓			
Training and Development				✓	✓	Available and/or as when requested	On request	✓			✓			✓	✓			
Press releases					✓	As required	Email										✓	
Other employers joining the fund					✓	As required	Email											✓
Pension disputes IDRP					✓	As required	Email											✓
Statutory returns and questionnaires					✓	As required	Email							✓	✓			✓

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 IDRP

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 though 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.

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.

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.

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.

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.

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.

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 INVESTMENT STRATEGY STATEMENT 2017/18

1. INTRODUCTION

1.1 This is the first Investment Strategy Statement (ISS) adopted by the London Borough of Hammersmith & Fulham Pension Fund ("the Fund").

Under The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the London Borough of Hammersmith & Fulham Pension Fund is required to publish this ISS. It replaces the Statement of Investment Principles which was previously required under Schedule 1 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Regulations require administering authorities to outline how they meet each of 6 objectives aimed at improving the investment and governance of the Fund.

1.2 This Statement addresses each of the objectives included in the 2016 Regulations:

- A requirement to invest fund money in a wide range of instruments
- The authority's assessment of the suitability of particular investments and types of investment
- The authority's approach to risk, including the ways in which risks are to be measured and managed
- The authority's approach to pooling investments, including the use of collective investment vehicles
- The 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

We deal with each of these in turn below.

1.3 The Pension Sub-Committee of the Fund oversees the management of the Fund's assets. Although not trustees, the Members of the Pension Sub-Committee owe a fiduciary duty similar to that of trustees to the council-tax payers, who would ultimately have to meet any shortfall in the assets of the Fund, as well as to the contributors and beneficiaries of the Fund.

1.4 The relevant terms of reference for the Pension Sub-Committee within the Council's Constitution are:

- To make all decisions under Regulations made pursuant to Sections 7, 12 or 24 of the Superannuation Act not otherwise falling to the Director of Finance to determine as set out in the officers' scheme of delegation.
- Consideration and approval of the authority statement of accounts in accordance with the relevant Accounts & Audit Regulations made from time to time.
- The Committee shall be a member of the Local Authority Pension Fund Forum.

The role of the Pensions Sub-Committee is to have responsibility for all aspects of the investment and other management activity of the Fund:

- 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 ISS, 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 Fund and to approve the Annual Report.
- To receive actuarial valuations of the Fund regarding the level of employers' contributions necessary to balance the 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 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 Pension Sub-Committee has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes

- Appointing the investment managers, an independent custodian, the actuary, the investment advisor(s) and any other external consultants considered necessary

- Reviewing on a regular basis the investment managers' performance against benchmarks, portfolio risk and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls

- Monitoring compliance with the ISS & Funding Strategy Statement (FSS) and reviewing its contents

- Reviewing policy on social, environmental and ethical considerations, and on the exercise of voting rights

The Director of Finance and the appointed consultants and actuaries support the Committee. The day-to-day management of the Fund's assets is delegated to investment managers.

1.5 This ISS will be reviewed at least once a year, or more frequently as required - in particular following valuations, future asset/liability studies and performance reviews, which may indicate a need to change investment policy, or significant changes to the FSS.

1.6 Under the previous Regulations the Statement of Investment Principles required administering authorities to state how they complied with the revised six investment principles as outlined within the CIPFA Pensions Panel Principles. Although not formally required under the 2016 Regulations this information is given in Appendix A.

2. OBJECTIVE 7.2 (A): A REQUIREMENT TO INVEST FUND MONEY IN A WIDE RANGE OF INSTRUMENTS

2.1 Funding and investment risk is discussed in more detail later in this ISS. However, at this stage it is important to state that the Committee is aware of the risks it runs within the Fund and the consequences of these risks.

2.2 In order to control risk the Pension Sub-Committee recognises that the Fund should have an investment strategy that has:

- Exposure to a diverse range of sources of return, such as market, manager skill and through the use of less liquid holdings.

- Diversity in the asset classes used.

- Diversity in the approaches to the management of the underlying assets.

A consequence of this approach is that the Fund's assets are invested in a wide range of instruments.

2.3 This approach to diversification has seen the Fund dividing its assets across 7 broad categories; UK equities, Global equities, Secure Income, Dynamic Asset Allocation, Absolute Return Bonds, Inflation Opportunities and Long Lease Property. The table in Section 5 (on page 8) below shows current asset allocation. The size of assets invested in each category will vary depending on investment conditions. However, it is important to note that each category is itself diversified.

2.4 The main risk the Pension Sub-Committee is concerned with is to ensure the long-term ability of the fund to meet pension and other benefit obligations, as they fall due, is met. As a result the Pension Sub-Committee place a high degree of importance on ensuring the expected return on the assets is sufficient to do so, and does not have to rely on a level of risk which the Pension Sub- Committee considers excessive.

The Fund currently has a surplus of income over expenditure when taking into account investment income. The Pensions Sub-Committee keeps the liquidity within the Fund monitored through regular reporting of cash flows.

At all times the Pension Sub-Committee takes the view that their investment decisions, including those involving diversification, in the best long term interest of Fund beneficiaries.

2.5 To mitigate these risks the Pension Sub-Committee regularly reviews both the performance and expected returns from the Fund's investments to measure whether it has met, and is likely to meet in future, its return objective. In addition to keeping their investment strategy and policy under regular review the Pension Sub-Committee will keep this ISS under review to ensure that it reflects the approaches being taken.

3. OBJECTIVE 7.2(B): THE AUTHORITY'S ASSESSMENT OF THE SUITABILITY OF PARTICULAR INVESTMENTS AND TYPES OF INVESTMENT

3.1 When assessing the suitability of investments the Fund takes into account a number of factors:

- Prospective return

- Risk

- Concentration

- Risk management qualities the asset has, when the portfolio as a whole is considered

- Geographic and currency exposures

- Whether the management of the asset meets the Fund's ESG criteria.

3.2 Suitability is a critical test for whether or not a particular investment should be made.

3.3 Each of the Fund's investments has an individual performance benchmark which their reported performance is measured against.

3.3 The Pension Sub-Committee monitors the suitability of the Fund's assets on a quarterly basis. To that end, they monitor the investment returns and the volatility of the individual investments together with the Fund level returns and risk. This latter point being to ensure the risks caused by interactions between investments within the portfolio is properly understood. Where comparative statistics are available the Pension Sub-Committee will also compare the Fund asset performance with those of similar funds.

3.4 The Pension Sub-Committee relies on external advice in relation to the collation of the statistics for review.

4. OBJECTIVE 7.2(C): THE AUTHORITY'S APPROACH TO RISK, INCLUDING WAYS IN WHICH RISKS ARE TO BE MEASURED AND MANAGED

4.1 The Pension Sub-Committee recognises that there are a number of risks involved in the investment of the assets of the Fund amongst which are the following:

4.2 Geopolitical and currency risks:

- are measured by the value of assets (the concentration risk), in any one market leading to the risk of an adverse influence on investment values arising from political intervention; and
- are managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

4.3 Manager risk:

- is measured by the expected deviation of the prospective risk and return as set out in the manager(s) investment objectives, relative to the investment policy; and
- is managed by monitoring the actual deviation of returns relative to the objective and factors inherent in the manager(s) investment process.

4.4 Solvency and mismatching risk:

- are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies; and
- are managed by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

4.5 Liquidity risk:

- is measured by the level of cash flow required over a specified period; and
- managed by assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment cash policy

4.6 Custodial risk:

- is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

4.7 Employer contributions are based upon financial and demographic assumptions determined by the actuary. The main risks to the Fund are highlighted within sections 12 to 15 of the Funding Strategy Statement. The risks to the Fund are controlled in the following ways:

- The adoption and monitoring of asset allocation benchmarks, ranges and performance targets constrain the investment managers from deviating significantly from the intended approach while permitting the flexibility for managers to enhance returns
- The appointment of more than one manager with different mandates and approaches provides for the diversification of manager risk

4.8 The investment management agreements constrain the manager's actions in areas of particular risk and set out the respective responsibilities of both the manager and the Fund.

4.9 The Fund and the Pension Sub-Committee are aware investment risk is only one aspect of the risks facing the Fund. The other key risk they are aware of is the ability of the Fund to ascertain the required future contributions, support the investment risk (i.e. the level of volatility of investment returns) and underwrite actuarial risk, namely the volatility in the actuarial funding position and the impact this has on contributions.

4.10 The Fund and the Pension Sub-Committee are of the view that the diversification of the Fund assets is sufficiently broad to ensure the investment risk is low and will continue to be low. When putting in place the investment strategy the Pension Sub-Committee carefully considered both the individual asset risk characteristics and those of the combined portfolio to ensure the risks were appropriate.

Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and also the correlation between them. These can be based on historic asset class information for some of the listed asset classes the Fund uses. However, for other private market and less liquid assets it is much more difficult.

The Pension Sub-Committee is also mindful that correlations change over time and at times of stress can be significantly different from they are in more benign market conditions.

To help manage risk the Pension Sub-Committee uses an external investment adviser to monitor the risk. In addition when carrying out their investment strategy review the Pension Sub-Committee also had different investment advisers asses the level of risk involved.

4.11 The Fund targets a return of 5.9% as aligned with the latest triennial valuation from the actuary. The investment strategy is considered to have a low degree of volatility.

4.12 When reviewing the investment strategy on a quarterly basis the Pension Sub- Committee considers advice from their advisers and the need to take additional steps to protect the value of the assets that may arise or capitalise on opportunities if they are deemed suitable.

4.13 At each review of the Investment Strategy Statement the assumptions on risk and return and their impact on asset allocation will be reviewed.

5. OBJECTIVE 7.2(D): THE AUTHORITY'S APPROACH TO POOLING INVESTMENTS, INCLUDING THE USE OF COLLECTIVE INVESTMENT VEHICLES.

5.1 The Fund recognises the Government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures maximum cost effectiveness for the Fund, both in terms of return and management cost.

5.2 The Fund has formally agreed to join the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

5.3 The Fund has already transitioned assets into the London CIV with a value of

£101.6m or 10.3% of the assets and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

5.4 The Fund will transition liquid assets into the London CIV when there are suitable investment strategies that meet the asset allocation and investment strategy available on the London CIV platform. The Fund anticipates being able to transition some of the liquid assets across in advance of April 2018.

5.5 The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds to meet the Fund's investment strategy requirements.

5.6 The Fund holds £278.6m or 28.4% of its assets in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool.

5.7 The Fund holds £71.6m or 7.3% of the Fund held in illiquid assets and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

5.8 The Fund and the Pension Sub-Committee are aware that certain of the assets held within the Fund have limited liquidity and moving them would come at a cost. Whilst it is the expectation to make use of the London CIV for the management of the majority of the Fund assets in the longer term, the Pension Sub-Committee recognises that transitioning from the current structure to the London CIV will be a protracted exercise spread over a number of years to ensure unnecessary costs are not incurred.

London Borough of Hammersmith & Fulham Pension Fund	Value as at 31 Dec 2016 (£m)	Available on CIV	Transferred (£m)
UK Equities			
Majedie	221.0	Due April 2017	
Overseas Equities			
L&G World Equity	278.6	Not yet – see 5.6 above	
Secure Income			
Oak Hill Advisers	69.2	Not yet	
Partners Group Multi Asset Credit	53.5	n/a – illiquid	
Infrastructure			
Partners Group Infrastructure	8.3	n/a – illiquid	
Dynamic Asset Allocation			
Ruffer	101.6	Yes	101.6
Absolute Return Bonds			
Insight Bonds	88.9	Not yet	
Inflation Opportunities			
M&G Inflation Opportunities Fund	91.6	Not yet	
Long Lease Property			
Standard Life	45.8	Not yet	
Private Equity			
Invesco	6.2	n/a – illiquid	
Unigestion	3.6	n/a – illiquid	
Cash and liquidity funds			
L&G Liquidity Fund	13.8	n/a – illiquid	
Total	**982.1**		**101.6**

5.9 At each review of the investment strategy, which will happen at least every three years, the investment of the above assets will be actively considered by the Fund, including in particular whether a collective investment option is appropriate.

5.10 More information on the London CIV and its operation is included in Appendix D of this statement.

6. OBJECTIVE 7.2(E): HOW SOCIAL, ENVIRONMENTAL OR CORPORATE GOVERNANCE CONSIDERATIONS ARE TAKEN INTO ACCOUNT IN THE SELECTION, NON-SELECTION, RETENTION AND REALISATION OF INVESTMENTS

6.1 The Fund recognises that the neglect of corporate governance and corporate social responsibility may lead to poor or reduced shareholder returns. The Pensions 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 Pensions Sub-Committee has delegated social, environmental and ethical policy to the investment managers, but also approved a Governance Strategy. The Pensions 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 Pensions Sub-Committee maintains a policy of non-interference with the day-to-day decision making of the investment managers

6.2 As a responsible investor the Fund wishes to promote corporate social responsibility, good practice and improved performance amongst all companies in which it invests. Whilst there has been a great deal of emphasis on the relationship of business, financial and economic factors to investment performance, the impact on returns of less tangible non-financial and reputational factors is more difficult to identify. Nevertheless, it is clear that adverse publicity relating to low corporate, environmental or social standards can have an adverse impact on shareholder value, the Fund, its beneficiaries and local taxpayers. By having a good public image, the morale of the workforce will be higher, thus making it easier to attract and retain quality employees. The Fund considers that the pursuit of high corporate social responsibility standards by Companies will lead to higher returns in the long term. A good public image may help to increase sales volumes. An improved financial standing will improve credit ratings, thus allowing a company to attract lower cost funding. By addressing outside factors, the company is able to demonstrate an above average standard of management competence which will improve the long term potential and sustainability of the organisation. At the very least the Fund expects the Companies in which it invests to comply with all applicable laws and regulations in home markets and to conform to local best practice when operating overseas.

6.3 In furtherance of this stance, the Fund will support standards of best practice by Companies in both the disclosure and management of corporate social responsibility issues consistent with the Fund's fiduciary responsibilities. To this end the Fund will pursue a policy of active shareholder engagement with companies using its own efforts, those of its Fund managers and alliances with other investors. The Fund is a member of the Local Authority Pension Fund Forum.

6.4 The Fund will consider excluding certain types of investment from its actively managed portfolios, following appropriate advice on the implications for performance and diversification. Fund managers are instructed not to invest segregated elements of their portfolio in companies that generate over half of their income from tobacco products on investment prospects grounds. Fund managers are required to have policies regarding Environmental, Social and Governance (ESG) issues and to monitor their compliance with those policies.

6.5 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pension Sub-Committee undertakes training on a regular basis and this will include on training and information sessions on matters of social, environmental and corporate governance.

6.6 Sections 6.7 to 6.12 below relate to the Fund's holdings in the London CIV.

6.7 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

6.8 The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund, such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

6.9 Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

6.10 The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

6.11 The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

6.12 The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

7. OBJECTIVE 7.2(F): THE EXERCISE OF RIGHTS (INCLUDING VOTING RIGHTS) ATTACHING TO INVESTMENTS

7.1 The Fund is committed to making full use of its shareholder rights. The Fund's policy on voting rights is based on the Cadbury, Greenbury and Hampel codes, as well as the stock exchange combined code, and the principles of protecting shareholder rights, minimising risk and enhancing value.

7.2 The Fund expects its Fund Managers to vote in an appropriate and informed manner and report their voting actions in their quarterly investment reports. The exercise of shareholder's rights is delegated to the Fund Managers as part of their mandate. Fund Managers will vote in accordance with their Corporate Governance Policy Statements. These policy statements have been developed with the recommendations of Institutional Shareholder Service, National Association of Pension Funds and the Association of British Insurers.

7.3 The Pensions Sub-Committee has delegated the Fund's voting rights to its investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. The Committee expects the investment managers to vote in the best interests of the Fund.

7.4 Sections 7.5 to 7.20 below relate to the Fund's holdings in the London CIV.

7.5 The investment managers are required to regularly report voting actions and highlight where they do not vote in accordance with their stated policy.

7.6 The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests, recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

7.7 The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

7.8 The Fund will incorporate a report of voting activity as part of its Pension Fund Annual Report which is published on the Council website: http://democracy.lbhf.gov.uk

7.9 The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the 7 Principles of the Stewardship Code.

7.10 The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.

7.11 In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

7.12 The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which it invests

8 FEEDBACK ON THIS STATEMENT

Any feedback on this investment Strategy Statement is welcomed. If you have any comments or wish to discuss any issues then please contact:

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020 7641 2832

Investment Strategy Statement: Appendix A

Compliance with CIPFA Pensions Panel Principles for investment decision making in the local government pension scheme in United Kingdom

DECISION MAKING

Regulation 12(3) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires an administering authority to report on its compliance with the six Myners' Principles, in accordance with guidance given by the Secretary of State. The guidance for the Local Government Pension Scheme is set out in the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012".

The Fund aims to comply with all of the Myners' Principles, recognising it is in all parties' interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is also recognised as important to demonstrate how the Fund meets such principles and best practice.

The Secretary of State has previously highlighted the principle contained in Roberts

v. Hapwood whose administering bodies exercise their duties and powers under regulations governing the investment and management of Funds:

"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others".

The Myners' Principles are seen as supporting this approach. The principles, together with the Fund's position on compliance, are set out below:

PRINCIPLE 1 - EFFECTIVE DECISION-MAKING

Administrating 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; and
- Those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Full Compliance

The Council has delegated the management and administration of the Fund to the Pension Sub-Committee, which meets at least quarterly. The responsibilities of the Pension Sub-Committee are described in paragraph 1.4 of the ISS.

The Pension Sub-Committee is made up of elected members of the Council who each have voting rights. Representatives from the admitted and scheduled bodies within the Fund and from trade unions may attend as observers.

The Pension Sub-Committee obtains and considers advice from and is supported by the Director of Finance, Corporate Finance and as necessary from the Fund's appointed actuary, investment managers and advisors. A review of the investment advice received by the Fund was completed in 2016/17 to ensure it continues to be fit for purpose in the changing investment and legislative environment.

The Pension Sub-Committee has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the scheme's regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

Business plans are presented to the Pension Sub-Committee annually and progress is monitored on a quarterly basis.

Several of the Pension Sub-Committee members have extensive experience of dealing with Investment matters and training is made available to new Pension Sub-Committee members. Pension Sub-Committee Members are required to undertake a minimum of three days of investment training a year – there is an on-going programme of training available to members.

PRINCIPLE 2 - CLEAR OBJECTIVES

An overall investment objective(s) should be set for the Fund that takes account of the pension 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 advisors and investment managers.

Full Compliance

he aims and objectives of the Fund are set out within the FSS and the ISS. The main Fund objective is to meet the cost of pension liabilities and to enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the taxpayers and admitted bodies.

The investment strategy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Fund while achieving a good return on investment (see paragraphs 4 and 5 above). The approach taken reflects the Fund's liabilities and was decided upon without reference to any other funds. The Fund's performance is measured against the investment objective on a quarterly basis.

The Fund's strategy is regularly reviewed.

PRINCIPLE 3 – RISK AND LIABILITIES

In setting and reviewing their investment strategy, administrating 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.

Full Compliance

The Pension Sub-Committee has, in conjunction with its advisers, agreed an investment strategy that is related to the Fund's liabilities. An actuarial valuation of the Fund takes place every three years, with the most recent triennial valuation taking place in 2016. The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk.

The asset allocation of the Fund is set to maximise the potential to close the funding deficit over future years. The current allocation is outlined in Section 5 of the ISS.

During 2014/15, the Fund established an Admitted/Scheduled Body policy, which outlines its approach to assessing the strength of the covenant for participating employers and the risk assessment undertaken when new employers wish to join the Fund.

PRINCIPLE 4 – PERFORMANCE ASSESSMENT

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members

Full Compliance

The Pensions Sub-Committee has appointed investment managers with clear index strategic benchmarks within an overall Investment objective which place maximum accountability for performance against that benchmark on the manager.

The managers are monitored at quarterly intervals against their agreed benchmarks. Independent detailed monitoring of the Fund's performance is carried out by Deloitte, the Fund's investment adviser and by Northern Trust, the Fund's custodian who provide the performance figures. Moreover, portfolio risk is measured on quarterly basis and the risk/return implications of different strategic options are fully evaluated.

The investment adviser is assessed on the appropriateness of asset allocation recommendations and the quality of advice given.

The actuary is assessed on the quality and consistency of the actuarial advice received. Both the advisor and the actuary have fixed term contracts which when expired are tendered for under the Official Journal of the European Union (OJEU) procedures.

The Pension Sub-Committee monitors the investment decisions it has taken, including the effectiveness of these decisions. In addition the Pension Sub- Committee receives quarterly reports as to how the Fund has performed against their investment objective. The performance figures are included in the extract from the accounts which is sent to stakeholders annually.

PRINCIPLE 5 – RESPONSIBLE OWNERSHIP

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents.
- Include a statement of their policy on responsible ownership in the statement of investment principles.
- Report periodically to scheme members on the discharge of such responsibilities.

Full Compliance

The Fund is committed to making full use of its shareholder rights. The approach used is outlined in Section 7 of the ISS. Authority has been delegated to the investment managers to exercise voting rights on behalf of the Fund. The investment managers are required to report how they have voted in their quarterly reports.

The Fund believes in using its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance in the companies in which it invests – the Fund's approach to this is outlined in Section 7 of the ISS.

The ISS is publically available to all scheme members.

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.
- Provide regular communications to scheme members in the form they consider most appropriate.

Full Compliance

Links to the Governance Compliance Statement, the ISS, the FSS, the SRI Policy and the Communications Statement are all included in the Pensions Fund Annual Report which is published and is accessible to stakeholders of the Fund on the Council's web site, internal intranet and a website developed specifically for the Fund.

All Pensions Sub-Committee meetings are open to members of the public and agendas and minutes are published on the Council's website and internal intranet. The Fund's Annual Report includes an assessment of the Fund's performance and an extract from the accounts is sent to stakeholders annually.

Risk Register

Ref	Risk	Mitigating Actions	Residual risk score: Likelihood	Residual risk score: Impact	Risk Rating	Officer responsible	Review Date
1	**STRATEGIC: INVESTMENT** That the combination of assets in the investment portfolio fails to fund the liabilities in the long term.	• Investment strategy in place and reviewed periodically. • Performance is measured against a benchmark. • Fund performance is reviewed quarterly.	2	3	Low 6	Director of Treasury & Pensions	Nov 2016
2	**STRATEGIC: INVESTMENT** Fund managers fail to achieve the returns agreed in their management agreements.	• Independent monitoring of fund manager performance by custodian against targets. • Investment adviser retained to keep watching brief. • Fund manager performance is reviewed quarterly.	3	3	Low 9	Director of Treasury & Pensions	Nov 2016
3	**STRATEGIC: INVESTMENT** Failure of custodian or counterparty.	• At time of appointment, ensure assets are separately registered and segregated by owner. • Review of internal control reports on an annual basis. • Credit rating kept under review.	2	3	Low 6	Director of Treasury & Pensions	Nov 2016
4	**STRATEGIC: FUNDING** The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	• Review at each triennial valuation and challenge actuary as required. • Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	4	3	Medium 12	Director of Treasury & Pensions	Nov 2016
5	**STRATEGIC: FUNDING** There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	• Cashflow forecast maintained and monitored. • Cashflow position reported to sub-committee quarterly. • Cashflow requirement is a factor in investment strategy reviews.	2	1	Very Low 2	Director of Treasury & Pensions	Nov 2016
6	**STRATEGIC: FUNDING** Scheme members live longer than expected leading to higher than expected liabilities.	• Review at each triennial valuation and challenge actuary as required.	4	2	Low 8	Director of Treasury & Pensions	Nov 2016

7	**STRATEGIC: FUNDING** Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	• Review maturity of scheme at each triennial valuation. • Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. • Cashflow position monitored quarterly.	2	3	Low 6	Director of Treasury & Pensions	Nov 2016
8	**STRATEGIC: REGULATION** Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	• Maintain links with central government and national bodies to keep abreast of national issues. • Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	3	4	Medium 12	Director of Treasury & Pensions and Bi-borough Director of HR	Nov 2016
9	**STRATEGIC: REGULATION** Introduction of European Directive MiFID II results in a restriction of Fund's investment options and an increase in costs.	• 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 this developing issue.	2	2	Very Low 4	Director of Treasury & Pensions	Nov 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
10	**OPERATIONAL: GOVERNANCE** Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	• Officers maintain knowledge of legal framework for routine decisions. • Eversheds retained for consultation on non-routine matters.	2	2	Very Low 4	Director of Treasury & Pensions	Nov 2016
11	**OPERATIONAL: GOVERNANCE** Sub-committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	• External professional advice is sought where required • Knowledge and skills policy in place	3	3	Low 9	Director of Treasury & Pensions	Nov 2016
12	**OPERATIONAL: GOVERNANCE** Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	• Person specifications are used at recruitment to appoint officers with relevant skills and experience. • Training plans are in place for all officers as part of the performance appraisal arrangements. • Shared service nature of the pensions teams provides resilience and sharing of knowledge.	3	3	Low 9	Director of Treasury & Pensions and Bi-borough Director of HR	Nov 2016

13	**OPERATIONAL: GOVERNANCE** Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	• At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. • Sub-committee and officers scrutinise and challenge advice provided.	2	2	Very Low 4	Director of Treasury & Pensions	Nov 2016
14	**OPERATIONAL: GOVERNANCE** London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	• Pensions sub-committee Chair is a member of the Joint member Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. • Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV.	3	2	Low 6	Director of Treasury & Pensions	Nov 2016
15	**OPERATIONAL: FUNDING** Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	• 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. • Review of bond status within all admission agreements to be undertaken and finished in Quarter 2.	3	2	Low 6	Director of Treasury & Pensions and Bi-borough Director of HR	Nov 2016
16	**OPERATIONAL: FUNDING** Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	• Review "budgets" at each triennial valuation and challenge actuary as required. • Charge capital cost of ill health retirements to admitted bodies at the time of occurring. • Occupational health services provided by the Council and other large employers to address potential ill health issues early.	3	2	Low 6	Director of Treasury & Pensions and Bi-borough Director of HR	Nov 2016
17	**OPERATIONAL: FUNDING** Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	• Monitor numbers and values of transfers out being processed. • If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values.	2	3	Low 6	Director of Treasury & Pensions and Bi-borough Director of HR	Nov 2016
18	**OPERATIONAL: ADMINISTRATION** Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	• Third parties regulated by the FCA and 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. • Mortality screening arrangements reviewed by HR and Surrey County Council leading to improvements.	4	2	Low 8	Director of Treasury & Pensions and Bi-borough Director of HR	Nov 2016

19	**OPERATIONAL: ADMINISTRATION** Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	• Contract monitoring in place with all providers. • Procurement team send alerts whenever credit scoring for any provider changes for follow up action.	3	1	Very Low 3	Director of Treasury & Pensions and Bi-borough Director of HR	Nov 2016
20	**OPERATIONAL: ADMINISTRATION** Failure of financial system leading to lump sum payments to scheme members and supplier payments (to fund managers and advisers) not being made and Fund accounting not being possible.	• Contract in place with BT to provide service enabling smooth processing of payments. • Officers are tracking payments through the system to ensure scheme members and suppliers receive them. • Officers undertaking regular reconciliation work to verify accounting transactions.	2	2	Very Low 4	Director of Treasury & Pensions	Nov 2016
21	**OPERATIONAL: ADMINISTRATION** Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	• Pensioner payroll system is subject to daily software backups and off-site duplication of records. • Disaster recovery procedures allow for pensioner payrolls to be run from alternative sites if required.	1	5	Very Low 5	Bi-borough Director of HR	Nov 2016
22	**OPERATIONAL: ADMINISTRATION** Failure to pay pension benefits accurately leading to under or over payments.	• SCC's Altair system allows for all pensioner benefits to be automatically calculated by the administration system. • Pensioner benefits are double-checked by another team member in SCC before being released. • Spot checks are undertaken by the Client Team for accuracy.	2	3	Low 6	Bi-borough Director of HR	Nov 2016
23	**OPERATIONAL: ADMINISTRATION** Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	• Pensioner administration system Altair is subject to daily software backups and off-site duplication of records. • Disaster recovery procedures allow for Altair to be run from an alternative site if required. Payments can be made from other UK sites other than SCC's HQ.	1	5	Very Low 5	Bi-borough Director of HR	Nov 2016

Ref	Risk	Mitigating Actions	Residual risk score: Likelihood	Residual risk score: Impact	Risk Rating	Officer responsible	Review Date
24	**OPERATIONAL: ADMINISTRATION** Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	• SCC's pension teams are highly skilled and knowledgeable in the area of LGPS administration. • The work is split across multiple officers to ensure skills are fully developed so that there is no single point of failure. • Team members received regular training on LGPS and on changes or enhancements to the pension administration system. • There are regular monthly meetings with the Client Manager to review performance.	2	3	Low 6	Bi-borough Director of HR	Nov 2016
25	**OPERATIONAL: ADMINISTRATION** The quality of scheme member data inherited from Capita does not meet the comprehensiveness and level of accuracy required for Surrey County Council to correctly administer the LGPS to scheme members.	• Some key data cleansing work was undertaken as part of the data preparation for the triennial review data to be given to the Actuary in July 2016. • Data deficiencies inherited from Capita have been identified by Surrey County Council. A data recovery plan is expected to be agreed with Surrey and LBHF staff by the end of September 2016. • Surrey County Council has been given authority to recruit 2 additional FTE for an initial period of 1 year (shared with RBKC) to work through data deficiencies.	3	5	Medium 15	Bi-borough Director of HR	Nov 2016

Investment Strategy Statement: Appendix C

INFORMATION ON LONDON CIV

Stewardship Statement is attached – Other London CIV details are included in ISS main Statement

London CIV Draft Stewardship code Statement

The London Collective Investment Vehicle (CIV) was formed as a voluntary collaborative venture by the London Local Authorities in 2014 to invest the assets of London Local Government Pension Scheme (LGPS). The London CIV and its London Local Authority investors recognise the importance of being long term stewards of capital and in so doing supports the UK Stewardship Code, which it recognises as best practice.

The London LGPS CIV Limited ("London CIV") is fully authorised by the FCA as an Alternative Investment Fund Manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme fund (ACS Fund). The London CIV in the management of its investments has appointed a number of external investment managers. We therefore see our role as setting the tone for the effective delivery of stewardship managers on our behalf and on behalf of our investing Funds. We are clear that we retain responsibility for this being done properly and fully in the interests of our own shareholders.

This Statement sets out how the London CIV implements the seven principles of the Code.

Principle 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The London CIV on behalf of its London Local Authority Shareholders recognises its position as an investor on their behalf with ultimate responsibility to members and beneficiaries and recognises that effective stewardship can help protect and enhance the long-term value of its investments to the ultimate benefit of all stakeholders in the LGPS.

As we do not invest directly in companies, we hold our fund managers accountable for the delivery of stewardship on our behalf in terms of day-to-day implementation of its stewardship activity. We require the appointed fund management teams to be responsible for holding to account the management and boards of companies in which they invest. The London CIV believes that this approach is compatible with its stewardship responsibilities as it is the most effective and efficient manner in which it can promote and carry out stewardship activities in respect of its investments, and ensure the widest reach of these activities given the CIV's investment arrangements.

A key related area where stewardship is integrated into the wider process is in the selection and monitoring of external investment managers. When considering the appointment of external investment managers the consideration of Environmental Social and Governance (ESG) integration and stewardship activity of each investment manager is part of the selection process.

The London CIV expects its equity investment managers to adhere to the principles within the UK Stewardship Code. This position is communicated to the Fund's investment managers and forms the basis of the approach to monitoring the investment managers as outlined in this document. Whilst the Stewardship Code is primarily directed at UK equity investments, the CIV encourages its investment managers to apply the principles of the Code to overseas equity holdings where possible.

The primary mechanisms for the application of effective stewardship for the CIV are exercise of voting rights and engagement with investee companies. The CIV expects its external equity investment managers that invest directly in companies, to pursue both these mechanisms. We receive quarterly reporting from managers which includes their stewardship and voting activities where appropriate. We seek consistently to ensure that these stewardship activities are carried out actively and effectively in the furtherance of good long-term investment returns.

We expect all of the CIV's equity managers to be signatories to the Code and have publicly disclosed their policy via their Statements on how they will discharge their stewardship responsibilities. We expect managers that invest in companies directly to discharge their responsibilities by:

- having extensive dialogue with the company's management throughout the year on a range of topics such as governance, financial performance and strategy; and
- voting, either directly or via the services of voting agencies.

Principle 2

Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

Day-to-day implementation of the Fund's stewardship activity has been delegated to external investment managers. The CIV expects its investment managers to document their approach to stewardship, which should include how they manage any conflicts of interest that arise to ensure that the interests of the CIV's Investors are prioritised. The CIV will review annually the conflicts of interest policy of its managers and how any conflicts have been managed during the year.

The London CIV has policies in place to manage conflicts of interest that may arise for the Board and its officers when making decisions on its behalf. The Conflicts of Interest policy is reviewed by the CIV board on a regular basis. A Conflicts of Interest Register is maintained.

Shareholders of the CIV attending the Pensions Sectoral Joint Committee are required to declare any conflicts of interest at the start of any meeting.

Principle 3

Institutional investors should monitor their investee companies.

We recognise that active and ongoing monitoring of companies is the foundation of good stewardship, reminding companies in which we invest that they have obligations to their shareholders to deliver returns over the appropriate long-term investment timeframe and, consistent with this, to manage any related environmental and social risks responsibly.

The CIV requires its external investment managers to monitor investee companies. Issues to be monitored are likely to vary, however typically these might include a company's corporate strategy, financial performance, risk (including those from environmental and social factors), capital structure, leadership team and corporate governance. The CIV encourages its investment managers to satisfy themselves that investee companies adhere to the spirit of the UK Corporate Governance Code.

The CIV reviews investment managers in this area as part of their regular meetings. For equity investment managers this includes consideration of:

- who has overall responsibility for ESG risk analysis and integration;
- resources and experience of the team;
- at what stages of the process ESG risks are considered;
- exposures to environmental, social or governance risk within the portfolio; and
- the investment manager's willingness to become an insider and, if so, whether the manager has a policy setting out the mechanisms through which this is done.

Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

The CIV recognises that constructive engagement with company management can help protect and enhance shareholder value. Typically, the CIV expects its investment managers to intervene with investee companies when they view that there are material risks or issues that are not currently being adequately addressed.

The CIV reviews investment managers in this area as part of their regular meeting. For equity investment managers that invest directly in Companies, this includes consideration of:

- whether voting activity has led to any changes in company practice;
- whether the investment manager's policy specifies when and how they will escalate engagement activities;
- overall engagement statistics (volume and areas of focus);
- example of most intensive engagement activity discussed as part of the manager's annual review meeting; and
- the estimated performance impact of engagement on the strategy in question.

Given the range of fund managers and Fund investments, the CIV carries out its monitoring at the manager level to identify:

- trends to ensure progress is being made in stewardship activities;
- specific managers where progress or the rate of progress is not adequate; and
- appropriate specific actions necessary.

Principle 5

Institutional investors should be willing to act collectively with other investors where appropriate.

As day-to-day management of the Fund's assets has been delegated to external investment managers, the CIV expects its investment managers to get involved in collective engagement where this is an efficient means to protect and enhance long-term shareholder value.

In addition the London CIV will work collectively with other investors including other LGPS Asset pools and the Local Authority Pension Fund Forum (LAPFF) to enhance the impact of their engagement activities.

Principle 6

Institutional investors should have a clear policy on voting and disclosure of voting activity.

The CIV has delegated its voting rights to the Fund's investment managers and requires them to vote, except where it is impractical to do so. The CIV also monitors the voting alerts of the LAPFF and where these are issued, requires the investment managers to take account of these alerts as far as practical to do so. Where the investment manager does not vote in line with the LAPFF voting alerts, the CIV will require detailed justification for non compliance.

The CIV reviews and monitors the voting policies and activities of its investment managers, this includes consideration of:

- the manager's voting policy and, what areas are covered;
- the level of voting activity
- whether the investment manager typically informs companies of their rationale when voting against or abstaining (and whether this is typically in advance of the vote or not);
- if securities lending takes place within a pooled fund for the strategy, whether the stock is recalled for all key votes for all stocks held in the portfolio; and
- whether a third party proxy voting service provider is used and, if so, how.

Principle 7

Institutional investors should report periodically on their stewardship and voting activities.

The London CIV encourages transparency from its investment managers and expects its managers to report publicly on their voting in an appropriate manner. In addition the London CIV receives reviews and monitors quarterly the voting and stewardship engagement activities of its investment managers.

The CIV reports quarterly to its investors and will include information on voting and engagement activities from investment managers where appropriate including updates as required on updated stewardship and voting policies of managers. The CIV also requires its managers to provide it with annual assurances on internal controls and compliance through recognised framework such as the AAF01/06 or equivalent.

This statement will be reviewed regularly and updated as necessary.

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London Borough of Hammersmith & Fulham Pension Fund
Tri-Borough Treasury & Pensions
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Agenda Item 6

London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 17 JULY 2018	
TREASURY OUTTURN REPORT 2017/18	
Report of the Cabinet Member for Finance – Councillor Max Schmid	
Open Report	
Classification: For Information **Key Decision: No**	
Consultation: None	
Wards Affected: None	
Accountable Director: Hitesh Jolapara, Strategic Director of Finance and Governance	
Report Author: Miriam Adams, Strategic Finance Manager	**Contact Details:** Tel: 020 7641 4176 E-mail: madams@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1. The purpose of this report is to:

- ➢ Present the Council's annual Treasury Management Outturn Report for 2017/18 in accordance with the Council's treasury management practices. It is a regulatory requirement for this outturn report to be presented to Council each year.

1.2. Treasury management comprises:

- ➢ managing the Council's borrowing to ensure funding of the Council's future capital programme is at minimal cost;

- ➢ investing surplus cash balances arising from the day-to-day operations of the Council to obtain an optimal return while ensuring security and liquidity.

1.3. This report complies with CIPFA's Code of Practice on Treasury Management, and covers the following:

- a review of the Council's investment portfolio for 2017/18 to include the treasury position as at 31 March 2018;
- a review of the Council's borrowing strategy for 2017/18;
- a review of compliance with Treasury and Prudential Indicator Limits for year to 31 March 2018;
- an economic update for 2017/18.

1.4 The Council has complied with all elements of the Treasury Management Strategy Statement (TMSS).

2. RECOMMENDATIONS

2.1. That this report be noted.

3. INTRODUCTION AND BACKGROUND

3.1. Treasury management in this context is defined as:

"The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks."[1]

3.2. This annual treasury report covers:

- the treasury position as at 31 March 2018;
- the borrowing strategy for 2017/18;
- the borrowing outturn for 2017/18;
- compliance with treasury limits and prudential indicators;
- investment strategy for 2017/18; and
- investment outturn for 2017/18.

4. TREASURY ACTIVITY

4.1. The Council's debt, all held with the Public Works Loan Board (PWLB), and investment positions at the beginning and end of the year were as follows:

	31 March 2018 (£m)	Rate (%)	31 March 2017 (£m)	Rate (%)
General Fund (GF)	37.14	4.89	38.40	5.01
Housing Revenue Account (HRA)	180.27	4.89	186.42	5.01
Total Borrowing	**217.41**	**4.89**	**224.82**	**5.01**
Total Cash Invested	339.23	0.53	326.51	0.45
Net Cash Invested	**121.82**		**101.69**	

[1] Treasury Management Policy Statement adopted by Cabinet on the 31 January 2012 and continues to be adhered to.

4.2. The table below shows the allocation of interest paid and received during the year:

	Interest Paid (£m)	Interest Received (£m)	Net (£m)
General Fund (GF)	1.87	(1.11)	0.76
Housing Revenue Account (HRA)	9.05	(0.15)	8.90
Other*	0.00	(0.16)	(0.16)
Total	**10.92**	**(1.42)**	**9.50**

* Other: Interest paid on balances held for Section 106 and other deposits

4.3. Following the implementation of the self-financing initiative for housing, the Housing Revenue Account (HRA) is responsible for servicing 82.9% of the Council's external debt and the General Fund is responsible for the remainder.

4.4. The table below shows the split of investments by duration as at 31 March 2018:

Maturity Bucket	Bond (£m)	Call (£m)	Fixed (£m)	MMF (£m)	VNAV Fund (£m)	Total (£m)
Liquidity		0.00		83.85	39.88	123.73
< 1 Month	-34.99		38.00			3.01
1 - 3 Month	49.99	25.00	15.00			89.99
3 - 6 Months	15.00	25.00				40.00
6 - 12 Months		20.00	45.00			65.00
1 - 3 Years			17.50			17.50
Total	**30.00**	**70.00**	**115.50**	**83.85**	**39.88**	**339.23**

Treasury Management Strategy for 2017/18

4.5. The Treasury Management Strategy for 2017/18 was approved by the Council on 5 February 2017.

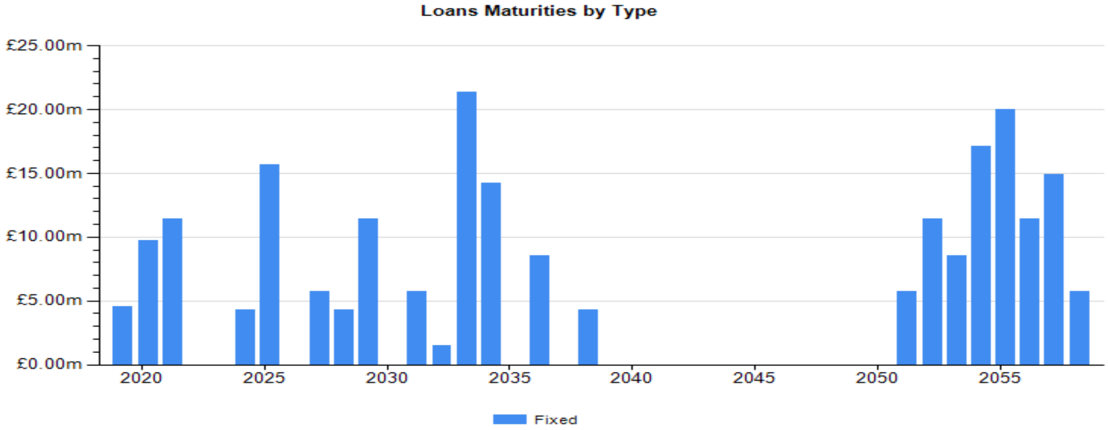
4.6. Taking into account the worldwide economic climate, it was considered appropriate to keep investments short-term and invest only with highly rated or UK Government backed institutions, resulting in relatively low returns compared with borrowing rates.

Treasury Borrowing

4.7. Due to the level of cash balances held by the Council at the start of the year (£327 million at 31 March 2017), it was anticipated that there would be no need to borrow during 2017/18, and no new long-term borrowing was undertaken during the year.

4.8. Public Works Loans Board (PWLB) debt maturing during the year, which was not refinanced, totalled £7.44 million with an average nominal interest rate of 9.3%. This resulted in a reduction in the debt outstanding to £217.41 million and the average interest rate reduced from 5.01% to 4.89%.

4.9. All of the Council's loans are at a fixed rate of interest. The table below shows the debt profile as at 31 March 2018:



4.10. During 2017/18, longer-term PWLB rates were volatile but with little overall direction, whereas shorter-term PWLB rates were on a rising trend during the second half of the year.

Housing Revenue Account (HRA)

4.11. At 31 March 2018, the HRA Debt Cap remains at £254.62m. The PWLB debt apportioned to the HRA of £180.27 million remains below the HRA Capital Financing Requirement (CFR) of £210.27 million in the table below, thereby generating internal borrowing of £30.0m. HRA reserves and working capital, in excess of the internal borrowing, represents cash balances on which interest is allocated from the general fund.

Capital Expenditure and Capital Financing Requirement (CFR)

4.12. The Council currently maintains an internal borrowing position, whereby cash reserves currently earning low interest rates compared with borrowing rates are used to finance the capital program in the short term. This position is in line with the Council's treasury management strategy. It is anticipated that external borrowing will commence as favourable rates become available.

The Closing Capital Financing Requirement analysed between General Fund and Housing Revenue Account in relation to capital program.

General Fund headline CFR increased by £6.29m

	CFR 31 March 2017 £m	**External Debt 31 March 2017 £m**	**CFR 31 March 2018 £m**	**External Debt 31 March 2018 £m**
GF CFR (Excluding DSG Funded Schools Windows Borrowing	47.25	-	50.48	-
GF CFR DSG Funded Schools Windows Borrowing	3.57	-	6.63	-

Total GF Headline CFR	**50.82**		**57.11**	
Finance leases/PFI	11.05		10.33	
Total Closing GF CFR	**61.87**	**38.41**	**67.44**	**37.14**
HRA Total	204.85		204.85	
Deferred Disposal Costs	5.83		5.42	
HRA CFR Total Including Deferred Disposal Costs	**210.68**	**186.41**	**210.27**	**180.27**
Total Capital CFR / Debt	**272.55**	**224.82**	**277.71**	**217.41**

NB: The 'headline' CFR shown above is consistent with capital reports. The annual accounts disclose CFR of £277.71m due to the inclusion of PFI, finance leases and deferred cost of disposal.

The Council's overall CFR is made up of the capital headline CFR and other long term liabilities like PFI and finance leases. The financing of the Council's capital program in 2017/18 is shown in the table below:

	General Fund £m	**Housing Revenue Account (HRA) £m**	**Total £m**
Capital Expenditure 2017/18	**35.64**	**37.91**	**73.55**
Financed by:			
Government & Public Body Grants	10.45	-	10.45
S106 & Other Contributions	15.01	-	15.01
Leaseholder Contributions	-	2.55	2.55
Capital Receipts	5.79	16.56	22.35
Revenue Funding	0.02	0.04	0.05
Major Repairs Reserve (MRR)	-	16.26	16.26
Earmarked Reserve (Revenue)	0.33	-	0.33
Internal Borrowing	4.04	2.51	6.55
Total Capital Financing	**35.64**	**37.91**	**73.55**

Annual Investment Strategy for 2017/18

4.13. At the start of the year, over half of the Council's portfolio (£181m) was held in tradable investments, including Government Treasury Bills (T-Bills), Supra-Nationals Banks and European Agencies, Close to Maturity Bonds, Certificates of Deposit and Commercial Paper. However, market rates in the sector fell significantly during the year. This led to funds being reinvested into fixed term deposits with other Local Authorities, Bank Notice Accounts and Enhanced Cash Funds.

4.14. The Treasury Management Strategy allowed investment in the following areas:

- an unlimited investment limit with the UK Government Debt Management Office (DMO) deposits, UK Gilts, Repos and Treasury Bills;
- up to a maximum of £100m per counterparty in Supra-National Banks, European Agencies and covered bonds debt on a buy to hold basis with maturity dates of up to five years, Transport for London (TfL) and the Greater London Authority (GLA) bonds for up to three years;
- a limit of £20m invested with any UK Local Authority, subject to internal counterparty approval by the Strategic Finance Director and Tri-Borough Director of Treasury and Pensions;

- no more than £30m to be invested with any individual Money Market Fund;
- any financial instrument held with a UK Bank limited to £70m, depending on its credit rating and Government ownership above 25% (limit of £50m); and
- any financial instrument held with a Non-UK Bank limited to £50m, depending on its credit rating.

Investment Outturn for 2017/18

4.15. The investments outstanding at 31 March 2018 amounted to £339.23m invested in short-term deposits. This compares with £326.51m as at 31 March 2017.

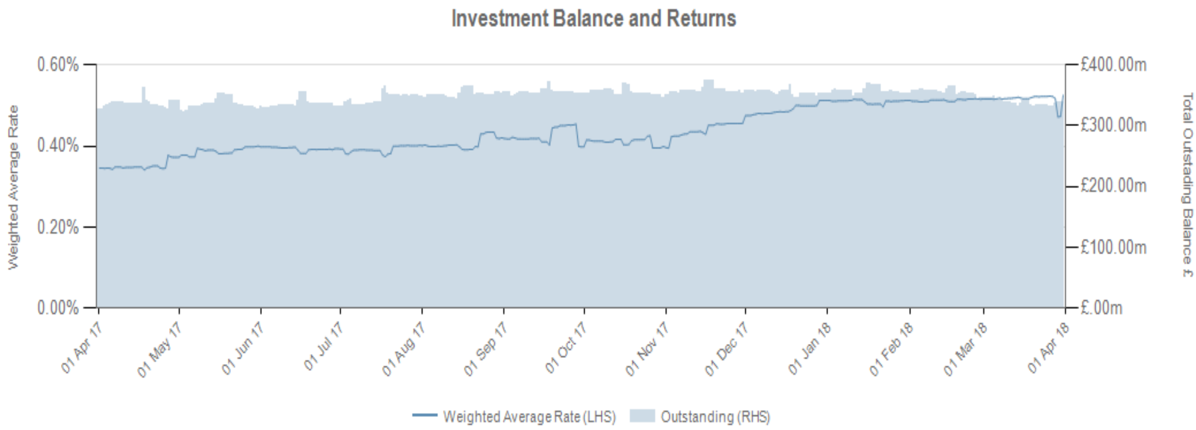
4.16. The table below provides a breakdown of cash investments, together with comparisons from previous years:

(£m)	**31/03/15**	**31/03/16**	**31/03/17**	**31/03/18**
Liquid Deposits	-	0.90	2.35	-
Money Market Funds	34.15	33.70	38.10	83.85
Notice Accounts	14.00	19.90	33.00	70.00
Custodian Held Assets	212.13	204.74	208.06	30.00
Term Deposits	99.50	40.00	45.00	115.50
Enhanced Cash Fund	-	-	-	39.88
Total	**359.78**	**299.24**	**326.51**	**339.23**

4.17. The table below provides a breakdown of the cash investments, split between General Fund and Housing Revenue Accounts:

(£m)	**31/03/15**	**31/03/16**	**31/03/17**	**31/03/18**
General Fund (GF)	296.00	253.60	273.50	292.63
Housing Revenue Account (HRA)	63.80	45.60	53.00	46.60
Total	**359.80**	**299.20**	**326.50**	**339.23**

4.18. The investment balances during the year together with the average returns are shown in the diagram below. Cash balances varied between £326m and £375m, reflecting the timing of the Council's income (council tax, non-domestic rates, government grants and capital receipts) and expenditure (precept payments, payroll costs, supplier payments and capital expenditure).



4.19. The average return achieved on investments managed internally for the year was 0.44% compared with the average seven-day money market rate (uncompounded) of 0.21%. The total interest received amounted to £1.42m (compared with a weighted average of 0.45% and total interest received of £1.55m in 2016/17).

4.20. Interest rates remained low throughout the year. The Council followed a low risk strategy and did not seek potentially higher returns which would have increased counterparty risk.

5. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

5.1. During the financial year, the Council operated within the treasury limits set out in the Council's Treasury Policy Statement and Treasury Management Strategy Statement. The outturn for the Treasury Management Prudential Indicators is shown in A**ppendix 1**.

5.2. Non Treasury related Prudential Indicators are set and monitored as part of the Council's budget process.

6. FUTURE CHANGES: IFRS 9 FINANCIAL INSTRUMENTS

6.1. IFRS 9 Financial Instruments is the new accounting standards for investments, borrowing, receivables and payables, which will apply to local authorities form the 2018/19 financial year onwards.

6.2. The new standard takes effect from 1 April 2019. There are two main changes, the first relating to the impairment of financial assets, where potential losses on investments must be charged to revenue in case actual losses are incurred in future.

6.3. The second impact arises from changes in the treatment of unrealised gains and losses on certain investments, where movements in market value must now be charged to revenue.

6.4. As at 31 March 2018, the Authority has two financial instruments which are classified as 'available for sale', and as the Authority does not hold the asset principally to sell to another party, there would be no change to the accounting treatment of these financial assets as a result of IFRS 9. The Authority will continue to ensure compliance in the accounts.

7. CONSULTATION

7.1. The Cabinet member for Finance has been consulted, and has given his support for the report.

8. EQUALITY IMPLICATIONS

8.1. The Committee is asked to note this report. There are no decisions or actions to be taken and there are no equality implications.

8.2. *Implications verified by: Peter Smith, Head of Policy & Strategy, tel. 0208 753 2206.*

9. LEGAL IMPLICATIONS

9.1. Statutory requirements are discussed within the report. All such requirements have been complied with.

9.2. *Legal Implications completed by Angus Everett, Chief Solicitor, 020 8753 2724*

10. FINANCIAL IMPLICATIONS

10.1. The Report confirms the Treasury Management Outturn for the year. As set out in Appendix 1 there has been full compliance with the Treasury and Prudential indicators set for the year.

10.2. *Financial Implications provided by Andrew Lord, tel. 020 8753 2531 – Head of Strategic Planning and Monitoring.*

11. RISK MANAGEMENT

11.1. Treasury Management contributes positively to our financial efficiency enabling us to reduce the burden on residents by cutting or freezing council tax, as well as charges for services and in accordance with Council Priority of Being Ruthlessly Financially Efficient and contribute positively to the Management of Council Finances. The practices ensure the Council invests where it matters most to ultimately protect and improve front-line services. Treasury management risk has been discussed throughout the report. The Council's approach during the year has been one of a low risk appetite with the security of capital considered paramount. This has resulted in the selection of high quality, low risk counterparties, culminating in a lower investment yield than might be expected with a higher risk appetite approach.

11.2. *Implications verified/completed by: Michael Sloniowski, Risk Manager - 020 8753 2587.*

12. IMPLICATIONS FOR BUSINESS

12.1. There are no implications for business arising from this report.

12.2. *Implications verified/completed by: Albena Karameros, Economic Development Team, 07739 316 597.*

13. PROCUREMENT IMPLICATIONS

13.1. Work is currently being undertaken with regard to the inclusion of asset backed securities (ABS) within the Treasury Management Strategy, and a further report and recommendation is pending. An approved recommendation will result in a market procurement for an external ABS manager.

13.2. *Implications verified/completed by: Phil Triggs, Tri-Borough Director of Treasury & Pensions, tel. 020 76414136.*

14. IT IMPLICATIONS

14.1. There are no IT implications contained within this report.

14.2. *Implications completed by: Veronica Barella, Chief Information Officer, tel. 020 8753 2927*

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

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Capital Programme Monitor and budget Variations 2017/18 (Outturn)	Andrew Lord - ext 2531	Finance

LIST OF APPENDICES:
Appendix 1: Treasury Management Prudential indicators

APPENDIX 1

TREASURY MANAGEMENT PRUDENTIAL INDICATORS 2017/18

During the financial year to 31 March 2018, the Council operated within the Treasury Limits and Prudential Indicators set out in the TMSS approved by Council on 5 February 2017.

Indicator	2017/18 Approved Limit	2017/18 Actual	Indicator Met?
Capital Financing Requirement	279.30m	277.71	Met
HRA debt Cap	254.62m	254.62m	Met
Authorised Limit for external debt[2]	£345.0m	£217.41m	Met
Operational debt boundary[3]	£290.0m		Met

Interest Rate Exposure	Lower Limit	Upper Limit	Actual at 31 Mar 2018	Indicator Met?
Fixed Rate Debt	£0m	£345.0m	£217.41m	Met
Variable Rate Debt	£0m	£69.0m	£0m	Met
Maturity Structure of Borrowing				
Under 12 Months	0%	15%	2%	Met
12 mths to within 24 mths	0%	15%	4%	Met
24 mths to within 5 years	0%	60%	5%	Met
5 years to within 10 years	0%	75%	14%	Met
Over 10 years	0%	100%	75%	Met

[2] The Authorised Limit is the maximum requirement for borrowing taking into account maturing debt, capital programme financing requirements and the ability to borrow in advance of need for up to two years ahead.

[3] The Operational Boundary is the expected normal upper requirement for borrowing in the year.

Agenda Item 7

London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 17 JULY 2018	h&f hammersmith & fulham
CORPORATE ANTI-FRAUD SERVICE END OF YEAR REPORT 1 APRIL 2017 TO 31 MARCH 2018	
Report of the Director of Audit, Fraud, Risk and Insurance – David Hughes	
Open Report	
Classification: For Information **Key Decision: No**	
Consultation: N/A	
Wards Affected: None	
Accountable Director: David Hughes, Director of Audit, Fraud, Risk and Insurance	
Report Author: Andy Hyatt, Head of Fraud	**Contact Details:** Tel: 0207 361 3795 E-mail: andrew.hyatt@rbkc.gov.uk

1. EXECUTIVE SUMMARY

1.1 This report provides an account of fraud related activity undertaken by the Corporate Anti-Fraud Service (CAFS) from 1 April 2017 to 31 March 2018.

1.2 CAFS remains a shared service covering three Councils and continues to reap the benefits of sharing skills and expertise, identifying best practice and the streamlining of anti-fraud related policies and procedures.

1.3 CAFS continues to provide the London Borough of Hammersmith & Fulham with a full, professional counter fraud and investigation service for fraud attempted or committed against the Council.

1.4 Since April 2017 CAFS identified 149 positive outcomes, including over 100 tenancy and housing-related successes. For the period 1 April 2017 to 31 March 2018, fraud identified by CAFS has a value of over £1.2million and is detailed in the following table.

	2016/17	**2017/18**

Activity	Fraud proved	Notional Values (£'s)	**Fraud proved**	**Fraud Value** (£'s)	Notional Values (£'s)
Housing Fraud (including applications, assignments & successions)	17	261,000	25	38,600	450,000
Right to Buy	42	4,363,800	52	107,780	5,356,000
Pro-active operations	-	0	7	10,500	10,500
Prevention subtotal	**59**	4,624,800	**84**	**156,880**	5,816,500
Tenancy Fraud (Council and Registered Providers)	21	990,000	26	186,950	1,247,000
Internal Staff	4	32,000	2	1,500	28,000
High/Medium risk fraud – NNDR, Procurement, ASC/FCS	19	397,800	7	745,632	1,080,281
Low-risk fraud – Parking, Accessible Transport, and Council Tax SPD	18	15,667	12	5,090	12,336
Detection subtotal	**62**	1,435,467	**47**	**939,172**	2,367,617
Proceeds of Crime awarded	8	662,073	7	78,907	360,314
Proceeds of Crime repaid from award	6	310,551	4	30,794	30,794
Press releases and publicity	10	-	7	14,500	14,500
Deterrence subtotal	**24**	972,624	**18**	**124,201**	405,608
Total	**145**	7,032,891	**149**	**1,220,253**	8,589,725

2. RECOMMENDATION

2.1 Note the fraud work undertaken during the year 1 April 2017 to 31 March 2018.

3. REASONS FOR DECISIONS

3.1 To inform the Committee of the actions taken in accordance with the Council's Anti-Fraud and Corruption Strategy and the successful outcomes achieved through the counter fraud response in 2017/18.

4. ANTI-FRAUD AND CORRUPTION STRATEGY

4.1 The Council's Anti-Fraud & Corruption Strategy is based on three key themes: Acknowledge, Prevent and Pursue, and is aligned with the National Strategy: *Fighting Fraud and Corruption Locally.*

4.2 The Strategy places emphasis upon the following anti-fraud activities:

i. **Acknowledge:** recognising and understanding fraud risks and committing support and resource for tackling fraud to maintain a robust anti-fraud response.

ii. **Prevent:** preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.

iii. **Pursue:** punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.

5. ACKNOWLEDGE, PREVENT, PURSUE

(i) ACKNOWLEDGE

Committing support and resource for tackling fraud

5.1 CAFS have recognised the need for a support officer to help facilitate and co-ordinate CAFS investigations. To meet this demand, we have now created and recruited to a new "Assistant Investigator" post; the successful candidate was an apprentice who had previously worked within CAFS on the apprenticeship scheme before her substantive appointment.

5.2 During the forthcoming financial year officer development will continue, and it will include the CIPFA Accredited Counter Fraud Specialist course and refresher training for officers who already hold a Counter Fraud Accreditation.

Maintain a robust anti-fraud response

5.3 There are three critical elements of the operational plan that underpins and drives the Anti-Fraud and Corruption Strategy, and CAFS refer to this as the *Fraud Resilience Triangle***.** The triangle is formed of:

1) Fraud Risk Register *(Acknowledge)*
2) Pro-Active Work Programme *(Prevent)*
3) Reactive Referrals *(Pursue)*

5.4 Responding solely with reactive referrals often fails to provide the levels of coverage required to maintain a robust anti-fraud response. Therefore, during 2017/18 CAFS have begun to dedicate resources to pro-active operations and fraud reviews.

5.5 Guided by the fraud risk register, CAFS undertook five reviews during the year, and details of actions are reported in *Appendix 1*.

5.6 Combining pro-active work plans with reactive capability increase the chances of fraud detection. But regardless of how successful a proactive fraud operation may be in detecting fraud, it can always serve as a deterrent if the work is done visibly and if it is performed in areas that fraud perpetrators may consider operating.

(ii) PREVENT

Corporate investigations

5.7 Corporate investigations are defined as fraud cases which relate to employee fraud or other third party fraud which does not fall within a particular CAFS service areas such as Housing or Tenancy Fraud.

5.8 Since 1 April 2017 work in this area has resulted in:

- Business rate fraud including;
  - ➢ The successful prosecution and imprisonment (18 months) for an offender who tendered counterfeit documents to avoid a business rates liability, and
  - ➢ The detection of a business rate fraud which resulted in the removal of charitable relief and repayment of £988,000
- Pension fraud
- Single person discount fraud
- Accessible transport fraud

Housing/Tenancy Fraud

5.9 CAFS provides an investigative service to all aspects of housing, including the verification applications for housing support, as well as applications for the succession or assignment of tenancies. CAFS also investigate allegations of subletting or other forms of tenancy breaches as well as the checking of all right to buys.

5.10 For the period 1 April 2017 to 31 March 2018, CAFS had successfully prevented four false successions/assignments and removed 21 persons from the housing register when investigations revealed they were no longer in need of support.

5.11 CAFS have also recovered 25 properties including two four-bedroom and two three-bedroom properties, all of which are in high demand and can now be allocated to families in genuine need of assistance. Of the 25 recoveries, 16 involved the return of keys and vacant possession without the need for lengthy and costly legal action and ensuring properties could be promptly reallocated.

5.12 A further seven cases are currently lodged with the Council's solicitors awaiting a court date.

Right to Buy (RTB)

5.13 CAFS apply an enhanced fraud prevention process to all new RTB applications, including anti-money laundering questionnaires as well as financial and residential verification.

5.14 For the period 1 April 2017 to 31 March 2018, CAFS have successfully prevented 52 Right to Buys from completion, where suspicion was raised as to the tenant's eligibility or financial status. In many instances, these have been as a result of the tenant voluntarily withdrawing their application once checking commenced.

5.15 In three cases, the checks undertaken to verify the RTB have uncovered additional criminality, namely subletting, and resulted in the properties being recovered as well as the RTBs being stopped.

5.16 The prevention work undertaken by CAFS in respect of RTB continues to protect valuable Council stock.

National Fraud Initiative (NFI)

5.17 A vital component of the of the anti-fraud and corruption strategy is making better use of information and technology. To this effect, CAFS participate in the National Fraud Initiative (NFI) which is a data matching exercise carried out by the Cabinet Office.

5.18 The exercise matches electronic data within and between public and private sector bodies to identify inconsistencies which then require further investigation.

5.19 The Cabinet Office refer the high-risk cases as "recommended matches" and expect Councils to prioritise them. CAFS identified 1,250 recommended matches, and the table below shows the result of CAFS progress:

Fraud identified	Errors	On-going	Closed no fraud	Outstanding
15	117	32	1,044	42

5.20 The 15 fraud cases were individuals being removed from the Council’s waiting list because they had now acquired housing outside of Hammersmith & Fulham and were no longer eligible. The Cabinet Office valued the fraud identified as £45,360.

5.21 The cases recorded as error all involved housing benefit where the recipient had a change in circumstance but had failed to inform the Council, e.g. increased income. Once all 117 benefit claims had been corrected a total of £337,548 was identified as being overpaid.

(iii) PURSUE

Deterrence

5.22 Stopping fraud and corruption from happening in the first place must be our primary aim. However, those who keep on trying may still succeed. It is, therefore, essential that a robust enforcement response is available to pursue fraudsters and deter others.

Proceeds of Crime Act 2002 (POCA)

5.23 Prompt and efficient recovery of losses is an essential component in the fight against fraud, and the Proceeds of Crime Act is a crucial part of the Council's counter fraud strategy.

5.24 For the period 1 April 2017 to 31 March 2018, CAFS were awarded compensation of £78,907 of which £30,794 has been recovered. A further £15,900 was paid to HM Courts Service before the end of the financial year, but this has yet to be paid to the Council's accounts and will be recorded next year. Currently, four cases are lodged with Legal Services.

5.25 The Act remains a powerful deterrent and is deployed by the Council where appropriate to recover fraud losses and deter potential fraudsters. The use of POCA by CAFS makes fraudsters aware that every effort will be made by the Council to recoup losses and confiscate assets gained as a result of criminal activity.

6. LOCAL GOVERNMENT TRANSPARENCY CODE

6.1 The Local Government Transparency Code 2015 sets out key principles for local authorities in creating greater transparency through the publication of public data.

6.2 The Government believes that in principle all data held and managed by local authorities should be made available to local people. The Government believes that local people are interested in how their authority tackles fraud and have introduced a mandatory requirement in respect of fraud data.

6.3 The table on the following page shows current activity in respect of the required data for the financial year ending 31st March 2018:

Information	17/18
Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers	101
Total number (absolute and full-time equivalent) of employees undertaking investigations and prosecutions of fraud	6.5
Total number (absolute and full-time equivalent) of professionally accredited counter fraud specialists	4.5
Total amount spent by the authority on the investigation and prosecution of fraud, and	£445,600

Information	17/18
Total number of fraud cases investigated	174

7. EQUALITY IMPLICATIONS

7.1 There are no equality implications arising from this report.

8. LEGAL IMPLICATIONS

8.1 The Corporate Anti-fraud Service is responsible for ensuring that investigations are carried out in accordance with relevant legislation and work with Legal Services on identifying and pursuing cases which are suitable for prosecution.

9. FINANCIAL IMPLICATIONS

9.1 The Counter Fraud Plan is delivered within the service budget.

10. IMPLICATIONS FOR BUSINESS

10.1 There are no implications for business arising from this report.

11. COMMERCIAL IMPLICATIONS

11.1 There are no commercial implications arising from this report.

12. IT IMPLICATIONS

12.1 There are no ICT implications arising from this report.

13. RISK MANAGEMENT

13.1 The Counter Fraud Strategy and plan are developed and delivered to cover dealing with reactive fraud referrals, carrying out proactive fraud exercises to assist management in putting effective anti-fraud controls in place.

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

None.

PRO-ACTIVE OPERATIONS

Source	Fraud Review	Details	Risk
Fraud Risk Review	**Special Events and Filming** The objectives of the Fraud Risk Review are to understand the business processes and the prevalent fraud risks, review the existing anti-fraud controls and assess the overall fraud risk for inclusion in the Fraud Risk Register.	A review of the service's assessment of the risk of fraud and the controls in place to prevent and detect it. The key risks identified included bribery and corruption and cash handling, but officers found these risks were mitigated through transparency, low-value transactions and minimal cash transactions. The Risk Review assessed the fraud risk a **Low** with recommendations for improvement agreed in the following areas: • Due diligence: Checks on applicants are undertaken as part of a due diligence process. • Spot checks: Unannounced site visits to ensure compliance with the agreed filming contract or event specifications.	LOW - 3
Pro-active counter fraud work plan	**Procurement Cards** The objectives of this activity were to undertake a review of procurement cards and to establish the level of fraud risks by examining; • Policy and procedures • Supervisor and managerial controls • Substantive testing of transactions	A review of the Procurement Cards revealed that there were only 16 cards issued and that all transactions, which are limited, are published as part of the Council's transparency data. Currently, Corporate Finance, who oversees the service, is planning to move to a new managed service provider for the Procurement Cards. Given the pending changes, the policy and procedures, supervisory and managerial controls were all reviewed as satisfactory, and a deep delve transactional review will be undertaken when the new managed service provider is in place.	Findings of the exercise have reduced the level of fraud risk in this area. **Reduced ↓**

Investigation led to Service Review	**Housing Department** The application forms used for: • Tenant change of name • Succession • Assignment The objective of this review was to assess the forms currently in use and evaluate the deterrence to fraud and the robustness for anti-fraud purposes.	CAFS was asked to investigate an assignment application by a tenant. As part of the investigation, the tenant's assignment forms were reviewed, during which CAFS officers identified several areas for improved controls. CAFS undertook a review of all applications to ensure they contained robust questions and asked for appropriate information. Revised declarations were recommended for three forms including the succession application form which required additional questions. These included the addition of address history to bring the form into line with housing applicants, and questions regarding property ownership and other assets were also enhanced. On the assignment form recommendations included the introduction of a section for the existing tenant and the proposed tenant focusing upon current financial circumstances and asset ownership.	The introduction of improved controls at application stage has reduced the risk of fraud. **All recommendations accepted** **Reduced ↓**
Counter fraud work plan	**RTB improvements** The audit of the Right to Buy process in 2016/17 identified four areas for improvement, and these were treated as actions for completion in the 2017/18 Counter fraud work plan:	All actions have been completed, and they were; 1) Version controlled process maps and form. 2) Homebuy have developed their processes so that a set of spreadsheets detailing the ongoing cases is shared with CAFS and Legal on a regular basis to ensure no case is overlooked. 3) Legal Services will not complete sales without Anti-Money Laundering (AML) approval from CAFS. Once AML and background checks are complete, Legal and, Homebuy are notified of the findings. 4) Checks to only be carried out once a case has been "admitted" and risk assessed. A record of the final communication with Homebuy on the outcome is retained.	The changes had improved processes and ensured documented procedures are made available, but no changes to the level of fraud risk. No change ↔

Pro-active counter fraud work plan	**Data Analytics** Applying analytic data techniques, including Benford's Law, against payment data to identify discrepancies for further investigation. Using analytics gives the work; • Credibility • risk-based analysis • coverage, and • focus	Quarter one, two and three data for all Council payments and all Procurement Card transactions analysed. The payment frequencies and amounts showed no significant peaks or troughs which might signify potential fraud or require closer inspection or sampling. .	The analytics provide assurance but insufficient data to amend risk scores which remain unchanged. No change ↔

NOTEWORTHY INVESTIGATIONS

	Case Description
1.	**TENANCY FRAUD –** CAFS were sent a referral that suggested the tenant of an Aspen gardens flat was living in Berkshire. Searches of finance records revealed a mortgage which was traced to a property in Wokingham, Berkshire, purchased in 2013. There was no evidence to suggest the Aspen Gardens address was being sublet, but when the tenant was found at the Wokingham address it became clear this was her main and principal home, and not her H&F property. Following a long informal interview, the tenant agreed to surrender the property back to the Council and the two-bedroom property was returned for reallocation.
2	**PROCEEDS OF CRIME (POCA)** - In January 2017 a tenancy fraudster, who sublet her Cairns House flat, was found guilty following a four day trial at Isleworth Crown Court. She was sentenced to 18 months' imprisonment, suspended for two years with a requirement that she completes 250 hours of unpaid work. Additionally, the Council also served POCA papers, claiming that she had made unlawful profit from the subletting. In December 2017, almost a year later, a confiscation hearing took place before His Honour Judge Ferris. The Council showed credits to the defendants account more than £35,000, and it was argued that these credits were the proceeds of her crime, namely illegally subletting social housing and the Judge found in favour of the Council. However, the defence also claimed their client had no assets to repay any amounts, but the Council's Financial Investigator was able to show hidden assets totalling £20,000. The Council were awarded a confiscation order for the sum of £20,000, and the defendant ordered to pay within three months, or else the defendant will face a period of imprisonment of six months. The defendant was also ordered to pay costs of £750 within six months.
3.	**TENANCY FRAUD –** CAFS were alerted to a potential fraud when the Council Tax Department received information that suggested a council tenant in Seagrave Road was now living overseas and that his property was left empty. Unnotified visits to the property were unsuccessful, but the door to door enquiries with neighbours suggested that the tenant had moved to Northern Ireland. One neighbour even confirmed that they had helped him arrange a removal service via the internet. Further background and financial enquiries corroborated the intelligence, and a notice seeking possession was served. This prompted the tenant to contact the scheme manager and keys were returned providing housing with vacant possession of a one-bedroom property.

4.	**TENANCY FRAUD/RTB –** As part of the fraud prevention programme CAFS review and verify all Right to Buy (RTB) applications, and it was during this process that several discrepancies were identified on an RTB for Vereker Road. Several visits were made to the address to discuss the application further, but the door was answered by a young male who said the tenant was not at home but refused to provide any further information. This was the fourth occasion the investigator had failed to see the tenant, and now the officer suspected possible subletting. The investigation then revealed a possible link for the tenant with Holland and checks with the Home Office, and financial enquiries found the tenant living in The Hague. Contact was finally made with the tenant, and it transpired that she had vacated the UK over two years ago and began a new life in Holland, but was considering returning to the UK. When challenged regarding her intention to return it became clear this was not true, and when the investigator began to explain the options the Council were considering, the tenant agreed to return the property with vacant possession forthwith and withdraw their RTB immediately.
5.	**TENANCY FRAUD/RTB –** As part of the fraud prevention programme CAFS review and verify all Right to Buy (RTB) applications, and it was during this process that several discrepancies were identified on an RTB for Ashcroft Square where background checks indicated that the tenant was not resident. Suspicion was heightened following several unsuccessful visits. Eventually, the tenant's sister contacted officers, saying she lived there with the tenant who was away at present. Further to this initial contact, a prearranged visit was undertaken, and investigators were greeted by the tenant who showed them around the property. However, the investigators soon realised there were none of the tenant's belongings at the address, no clothes or any children's toys (the tenant had two children). Officers cautioned the tenant at the property and explained that she would need to attend a formal interview. Before the interview under caution, officers made further enquiries across the East Midlands, and they found a trail which led them further north, linking the tenant linked to a property in Leeds, held in her husband's name. A week before the interview the tenant contacted the Council to withdraw her RTB application and contacted the investigating officer to say she was no longer in need of the Ashcroft Square address and terminated her tenancy forthwith. Vacant possession was accepted without the need for lengthy and costly legal action, ensuring the property could be promptly reallocated.
6.	**TENANCY FRAUD –** CAFS were alerted to a potential subletting case in Swanscombe House, W11. Allegations suggested the tenant was no longer resident but subletting to a family. The property, a one-bedroom flat, was visited on several occasions, but the tenant was never

	found at home. CAFS investigations identified the tenant to have a partner and children, all living in Erconwald Street, W12. This was verified during an unnotified visit to the address, and the tenant was called to an interview under caution. She initially denied subletting and refused to verify that the Erconwald address was her main and principal home. However, after the interview the tenant called the investigating officer and surrendered his tenancy forthwith, providing the Council with vacant possession.
7.	**TENANCY FRAUD –** CAFS were contacted by Education Welfare who had received information that the family had removed the children from education to live abroad. CAFS traced the family passports which confirmed the family were living between three countries and sometimes with the tenant's mother in Birmingham. A Notice to Quit was served forthwith, and in December 2017 the Council were awarded outright possession with immediate effect. The two-bedroom property in Crane Court, W12 has now been allocated to a family in genuine need of housing support.
8.	**BUSINESS RATES FRAUD (NNDR) –** CAFS were alerted to a potential fraud when the liable business rates individual refused to pay an outstanding debt. A commercial premise (shop) in Greyhound Road had a debt of £44,756 but was adamant that the liable person was the previous leaseholder of the shop. However, the Business Rates Department were concerned by the documentation provided to support this. Investigators tracked down the person, named in the correspondence as the leaseholder, and she confirmed that she had never met the owner of the premises, and had never been to the premises. Her husband has been an old leaseholder, but that was before the dates concerned. During the period of the investigation, the owner of the premises began to make contributions towards the repayments (£30,000), but the investigation had amassed evidence of intent to defraud the Council by avoiding debt. A summons was issued with three charges under the Forgery and Counterfeiting Act 1981 as well as three charges under the Fraud Act. This led to a pre-trial hearing at Southwark Crown Court where the owner of the premises pleaded guilty to four of the six counts, and therefore a trial was listed to hear counts 5 and 6, set for July 2017, but on the first day, he pleaded guilty to all charges. On 27 July 2017 at Southwark Crown Court, the defendant was sentenced to 18 months' imprisonment, and order to repay the debt in full and costs of £7,368 within 12 months.

9.	**PROCEEDS OF CRIME** – In October 2016 CAFS investigated and successfully prosecuted a council tenant who was caught renting out her home in White City while living and working in the United Arab Emirates (UAE). During the investigation, officers searched the address but found no evidence of her living there. A warrant for her arrest was granted, and she was found re-entering the UK when she was arrested and two USB sticks seized. Forensic examination found the data stick held tenancy agreements between her and subtenants, and also gave useful leads regarding undeclared finances. This led officers to uncovered bank statements which showed credits under the description "rent," as well as incoming payments from Abu Dhabi. Having restrained these assets, the CAFS Financial Investigators served Proceeds of Crime papers upon sentencing where she was handed a 12-month prison sentence, suspended for two years, after admitting to illegal subletting. A confiscation order was awarded for £29,488.46 the amount deemed to be "criminal benefit," and in September 2017 the defendant paid the amount in full rather than face a custodial sentence.
10.	**TENANCY FRAUD –** CAFS were alerted to a potential fraud when allegations were received regarding subletting activity at a property in Da Palma Court. The investigation found evidence to suggest at least four individuals had been subletting the address from the tenant, who investigators discovered was living in Omagh, Northern Ireland. The tenant was asked to attend an interview under caution, but ahead of the meeting on 31 July 2017 the tenant returned the keys to the Council, and vacant possession was obtained with immediate effect. Following a short void period, the one-bedroom property has now been allocated to someone in genuine need of support and assistance.
11.	**TENANCY SUCCESSION** – A case was referred to CAFS to verify the succession application for a property in St. Stephens Avenue following the death of the tenant. An application to succeed the property was made by the son of the tenant, who said he had lived with his late father at the address since 1980. However, investigations traced the son to an address in Slough, where he was liable for council tax and registered to vote. Furthermore, financial enquiries established that the vast majority of transactions (i.e., ATM withdrawals) occurred in the Slough area. Visits to the address were unsuccessful, although officers did manage to gain entrance to the communal hallway where they found a large

	number of unopened letters all addressed to the son. He was asked on several occasions to attend an interview at the Town Hall but failed to attend any of the appointments. Finally, the application for succession was declined, and possession of the two-bedroom flat was obtained by the Council, unchallenged.
12.	**TENANCY FRAUD –** CAFS were alerted to a potential abandonment case via the Anti-Social Behaviour (ASB) Coordinator. ASB's intelligence showed that a one-bedroom flat in Clifton House, W12 had been the subject of a drugs enforcement operation in April 2017. During the search of the residency, three males were arrested, but the tenant was not at the property. He was later arrested at a Westminster address. Following the police action visits to the property were unsuccessful, and there were no signs of anyone returning to the property. CAFS was unable to trace the tenant to the address in Westminster but managed to obtain a mobile number. The tenant was contacted and verbally invited to attend an interview under caution. He stated that he had not lived at Clifton House for over a year but refused to give a forwarding. He refused to attend an interview but verbally agreed to return the keys, and the Council received vacant possession one week later.

London Borough of Hammersmith & Fulham **AUDIT PENSIONS AND STANDARDS COMMITTEE** **17 JULY 2018**	
RISK MANAGEMENT UPDATE REPORT	
Report of the Director for Audit, Risk, Fraud and Insurance – David Hughes	
Open Report	
Classification: For review and comment **Key Decision: No**	
Consultation: *All service departments were consulted as part of the quarterly review.*	
Wards Affected: None	
Accountable Director: David Hughes, Director for Audit, Risk, Fraud and Insurance	
Report Author: Michael Sloniowski, Risk Manager	**Contact Details:** Tel: 020 8753 2587 Michael.sloniowski@lbhf.gov.uk

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 presents them with the Corporate Risk Register for consideration.

2. RECOMMENDATIONS

2.1. The Members of the Audit, Pensions and Standards Committee are requested to: -

a) note the contents of this report;
b) review and consider the contents of the Corporate Risk Register.

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; and,
- 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 Council's 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 Directors, managers and staff, through their Senior Management Teams, to:

- identify risks;
- assess the risk;
- agree and take action to manage the risk; and,
- monitor and review risks.

4.4. This report provides the Committee with an update on corporate risks following recommendations by the Audit, Pensions and Standards Committee to undertake a fundamental review of their presentation. The review was led by the Director of Audit, Risk, Fraud and Insurance and steered by the Strategic Leadership Team with input from Directors. Expectations have increased internally and by the public on how risks are perceived, identified, measured, and mitigated. This has resulted in a higher level of scrutiny of risk management and it is anticipated that this focus will continue for the foreseeable future. The Corporate Risks are listed in Appendix 1. There are currently 21 corporate risks and 2 newly introduced risks represented in the following Heat Maps.

OVERVIEW RISK HEAT MAPS

Chart 1: Quarter 2 - Period: November 17 to January 18

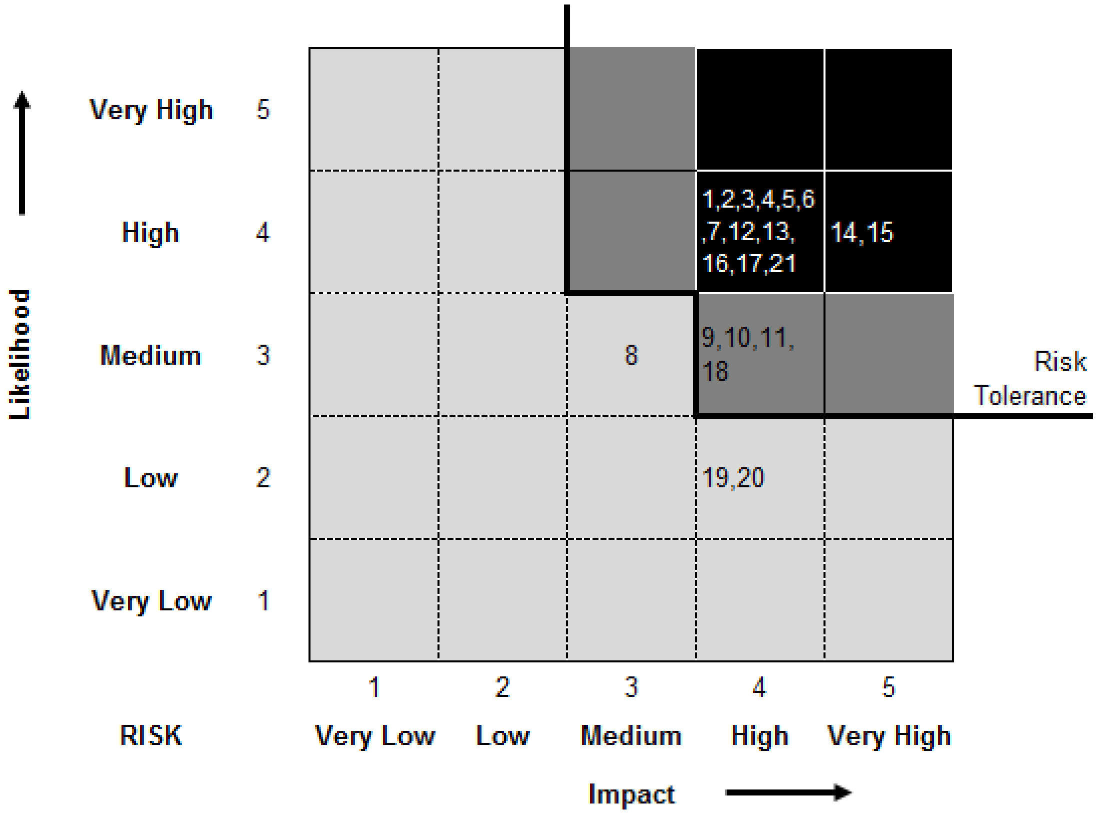
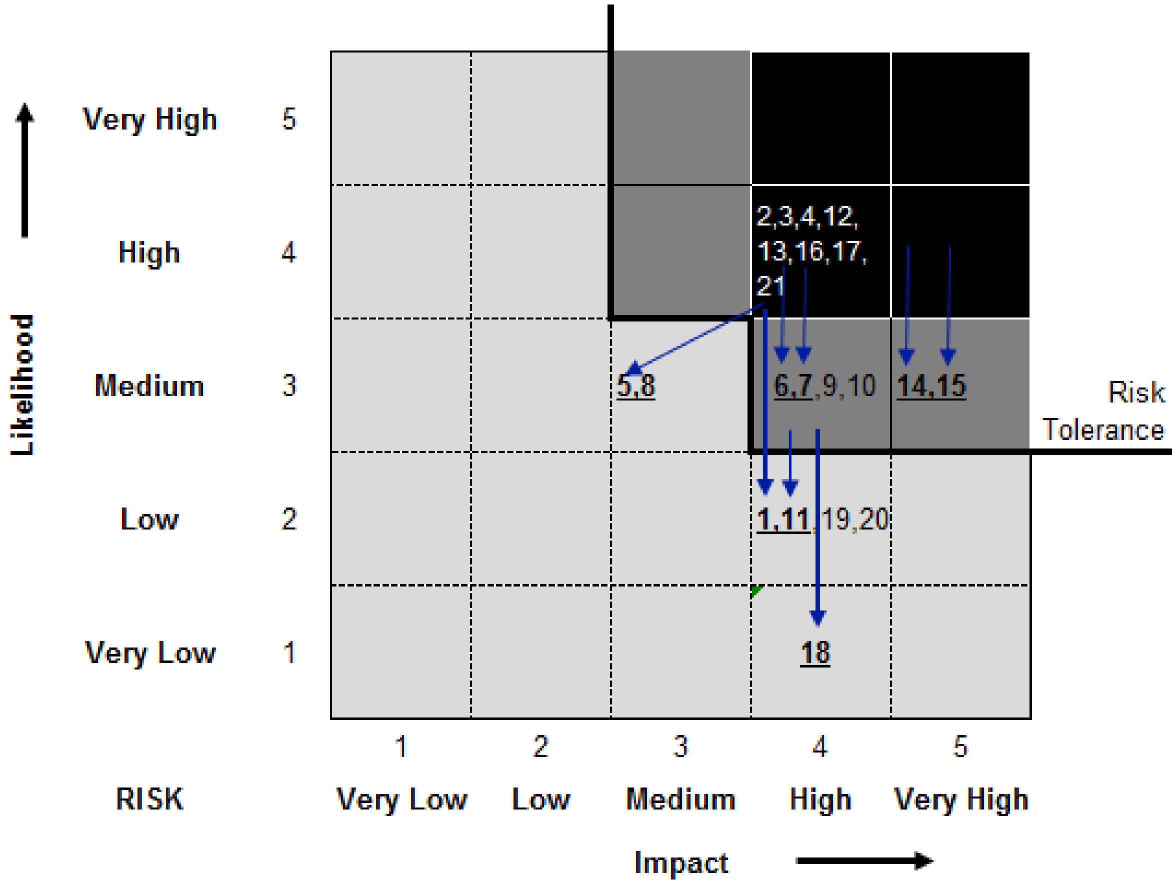
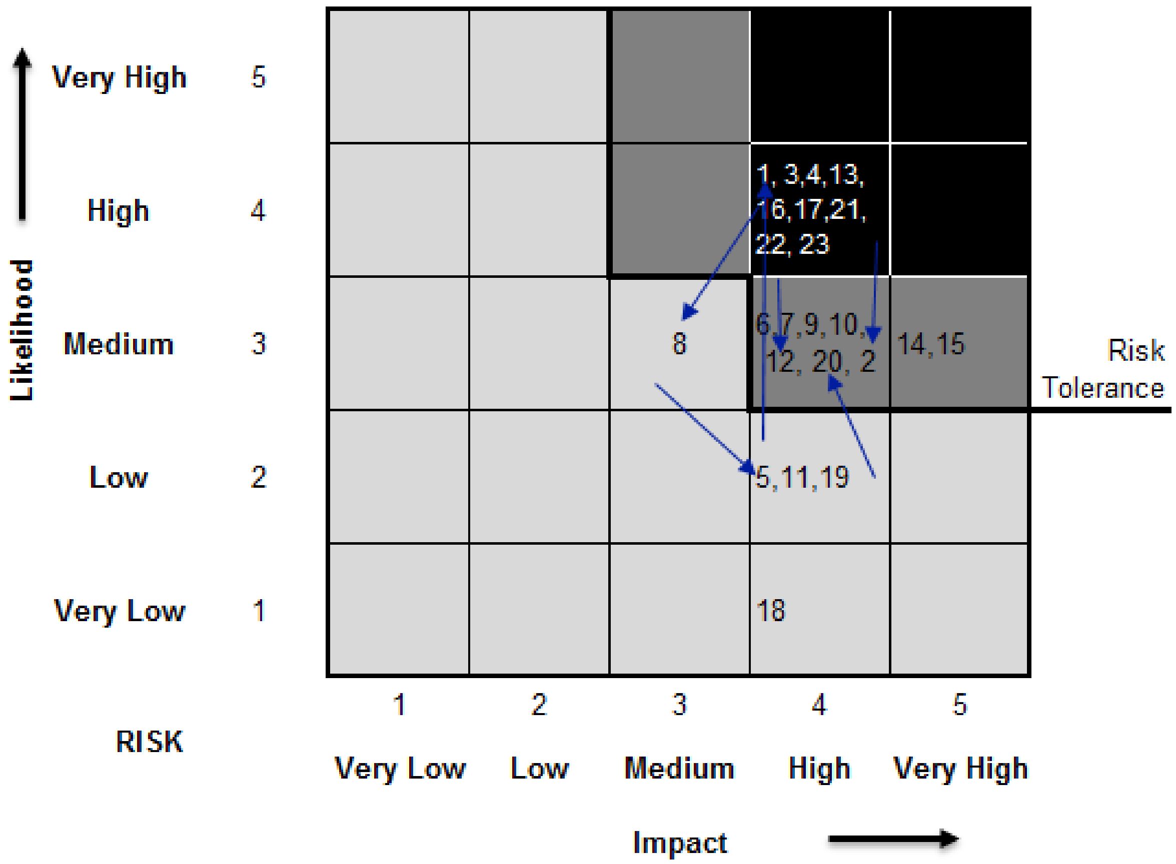


Chart 2: Quarter 3 - Period: to March 2018



Quarter 4 - Period: to June 2018



4.4.1. Essentially movement continues to be in a positive (risk is reducing) direction and, as confirmed at the last Audit, Pensions and Standards Committee meeting, a risk narrative of the principal movements on risks is noted for assistance below:

Risk Narrative

4.4.2. Corp. 1: **Financial Management in year budget 2017/2018 and Medium-Term Planning:**

<u>Action taken</u>
A revised corporate risk noting details of actions to manage financial risks that are contained with context in appendices of Corporate Revenue Monitoring reports. The 2017/18 Corporate Revenue Outturn Report, confirming the financial position as at 31st March 2018, was presented for Scrutiny at the July meeting of the Finance, Commercial Revenue and Contracts Policy & Accountability Committee. The Councils' Accounts closed a month ahead of the statutory deadline of 31st May 2018 and are subject to external audit. The outcome of the audit will be reported to the July Audit Committee.

Recommend that this risk be modified to track the 2018/2019 position.

4.4.3. Corp. 2: **Adult Social Care balanced budget in 2017-2018 and in the medium term.**

Budget position improved by the end of 2017/18, however new pressures in 2018/19 which will need to be managed appropriately to deliver balanced budget.

4.4.4. Corp. 3: **Commercial Contract Management and Procurement risks, rules, outcomes social value, management:**

Action taken
A new range of initiatives to both improve the understanding of the position in relation to contracts and the future management is being developed. This means the Commercial and Procurement Service has procured a stand-alone contracts system and are ensuring that all contracts are entered onto the system for centralised monitoring. The service is developing and analysing management information around contracts and procurements to understand what spend is across the contracts portfolio and what savings can be realised both this year and subsequent financial year.

Next steps
The Commercial Management Initiative is planned to deliver real contract savings and will raise the standards of procurement and contract management across the organisation. A defined governance for the programme is being established and the programme will update the Programme Management Office on a monthly basis. The team is also delivering General Data Protection Regulations compliance across the contract portfolio and assisting developing the business resilience approach. The Service is offering a Capital E sourcing training package across all departments to ensure compliance with the contracts management system.

In development is a revised H&F specific social value policy for procurements and contracts. Ensuring we use the size of our Council and spending power to develop the local community both economically and socially. We will install a mechanism for monitoring the benefits so that we have evidence of the impact of this policy going forward.

4.4.5. Corp. 4: **Public Health funding reduction limiting investment in other departments and priorities:**

In 2018/19, PSR Public Health officers will review and monitor public health investment across the Council, ensuring that funding delivers against the public health outcomes framework and council priorities, in line with the requirements of the budget. A robust process for applying for funding for projects by departments that meet the aspirations of the Council in transforming services and developing innovative ideas with clear outcomes, will also be developed.

4.4.6. Corp. 5: **Business Resilience:**
Issues. Preparedness in the event of (but not limited to): Fire, Water mains bursts, Denial of Access, Supply Chain failure.

Action taken

The ability to respond and recover quickly from an incident is a measure of 'resilience' and is an important aspect of building safer and stronger communities. The last year has been unprecedented in the number and scale of emergency incidents responded to. Incidents outside Hammersmith & Fulham can still have an impact on our planning and service delivery. Officers from Hammersmith & Fulham were heavily involved in the response to Grenfell Tower and provided control room staff to assist the Camden housing evacuation. This is in addition to the Parsons Green tube bombing and two major burst water mains on King Street and Goldhawk Road. An additional level of Member overview has been introduced with a new Annual report on Emergency Planning and Business Continuity produced and considered by Cabinet at its 4th June meeting. A workplan has been established and a review of the Dashboard of Emergency Planning and Business Continuity, updates, training, exercises and incidents to be presented to Strategic Leadership Team twice a year.

Next steps

For 2018/19 the focus for Emergency Planning and Business Continuity is to embed emergency response and planning throughout the organisation with briefings to Department Management Teams, supportive training and exercising of staff, volunteers and external organisations throughout the year.

4.4.7. Corp. 6: **Information Management and digital continuity:**

Action taken

This area has been extensively reviewed as there are obvious links to the introduction of the General Data Protection Regulations (GDPR) in May this year. A readiness statement has been agreed with our Legal Services. The Council is GDPR “ready” and working towards compliance. The Strategic Leadership Team have oversight of a Project that governs its implementation in the Council. The Project Team has mitigated the key risks agreed at the outset except for the following Indirect key risks which remain for:

- Meeting the 95% target for staff completion of mandatory data protection/information security training, currently 49% for data protection and 65% for information security.
- 87% of known contracts on the H&F register are not confirmed as compliant with the General Data Protection Regulations

Project achievements include:

- Raised awareness of Information Management obligations amongst staff.
- Delivery of an information asset register.
- A new data protection policy (currently with SLT and the Trade Unions for approval).

- GDPR clauses for all existing contracts/service level agreements (SLA’s).
- Revised iCasework processes for new data protection rights, including changes to subject access requests (SAR’s).
- A new "interim" data protection officer.
- Revised intranet content and staff guidance.
- A new schedule of lunchtime and "bite-size" sessions for staff development from June

Next steps
Review of existing contracts for GDPR contracts and policies.

4.4.8. Corp. 7: **Managing Statutory Duties:**

Action taken
A Risk register is in place for management of people, systems and property Health and Safety risk; higher and emerging risks are reported corporately. An audit programme, based on the register, is in place and being delivered. The programme includes a review of third party housing provision commissioned by the Council for our vulnerable adults and children. Health and Safety performance reports are provided routinely to the Strategic Leadership Team.

Next steps
A report on organisational performance for the period December to June will be available to the Committee in September.

4.4.9. Corp. 8: **Standards and delivery of care, protection of children and adults:**

Family Support Services (FSS): Safeguarding is embedded into the FSS policies procedures systems and practice. Safeguarding is monitored via the monthly contract management meetings and weekly in the service management meetings. FSS work closely with children’s social care to ensure robust pathways exist, information sharing occurs and opportunities developed to share good practice. As part of the service the department are enhancing the safeguarding policies to embrace all varieties of adult safeguarding issues. Commissioners have a robust safeguarding review framework which they use to analyse the effectiveness of services.

The robust and regular monitoring of contracts and services ensures that the standards and delivery of care are maintained so that residents are safeguarded. Regular monthly monitoring of key services also focuses on opportunities to improve standards and address any areas of concern. In addition, wider monitoring of market stability and sustainability and within care services is undertaken periodically to ensure that the Council can ensure service continuity.

4.4.10. Corp 9: **Failure of partnerships and major contracts (e.g. The Link, 3BM, Shared Service, Commercial Providers):**

<u>Action taken</u>
The Commercial and Procurement Service are leading the ongoing negotiations of exiting both the Shared Services arrangement for facilities management and the TFM contract with Amey. This is in response to inadequate performance of the supplier but requires both the re-establishing of the management information and the development of a new service model going forward.

<u>Next steps</u>
Negotiations are ongoing on a weekly basis with a timeline estimated as negotiations concluded by late Autumn and service transition by the end of the financial year.

4.4.11. Corp 10: **Increase in complexity of working with Health partners:**

<u>Action taken</u>
The newly appointed Interim Director of Public Health will continue to build relationships with health partners ensuring that the opportunities available to all through joint working are capitalised on.

<u>Next steps</u>
In 2018/19, as Public Services Reform (PSR) develops the work programme to transform public services, including public health, it will ensure that health is part of these discussions and sighted on the plans for the borough. Health, alongside other stakeholders, will support PSR to co-produce solutions and continue to deliver against the public health outcomes framework.

4.4.12. Corp 11: **Decision making and maintaining reputation and service standards:**

There has been an increase in abuse of internal communal space from non-residents. The communal areas are being used for loitering, smoking, and dealing drugs with a regular congregation of 5-10 youths. The Neighbourhood Wardens regularly patrol Churchward and Fairburn House. Between November 2017 and the end of April 2018 they attended the blocks on 71 occasions. During the same period, they attended the neighbouring blocks (Desborough and Lickey House) which have onsite concierge, only 4 times. In addition to Anti-Social Behaviour, drug dealing and extreme levels of littering, the acute concern is the rise of the exploitation of vulnerable adults.

<u>Action taken</u>
A proposal has been made setting out the rationale for reinstating the concierge service at Churchward and Fairburn House on the West Kensington Estate to re-open the Churchward and Fairburn House office with a dedicated concierge officer who will have access to the council's

CCTV system and be linked to the other offices by radio and the council's network. They will patrol at least twice a day and pick up on fire safety, Anti-Social Behaviour and tenancy management issues. They will also support residents by acting as a local point of contact for accessing the council's other services.

4.4.13. Corp 12: **Fraud:** A separate detailed report on the activity and risks of the Corporate Anti-Fraud Service has been made available to the Committee.

4.4.14. Corp 13: **Exiting Managed Service arrangements from Agresso:**

A Transfer of HR/Payroll & Finance system is required to exit from the current Agresso system. An exit planned for Autumn 2018. There is some risk of loss/corruption of data when transferring, disruption of services such as payroll service. Time-critical implementation and data migration activities are being actively managed and need to be delivered to ensure new system goes live as planned.

Action taken
There is a specialised project team to work with BT to manage the exit.

4.4.15. Corp. 14: **Compliance with Statutory Duties to undertake inspection regimes:**

This risk was expanded from its original focus on Housing to include wider consideration of corporate buildings and property management statutory compliance risks, management controls and actions.

Action taken
A full audit of Corporate Property Statutory Compliance was undertaken by an independent specialist in May 2018. The audit has tested the following criteria:

- Availability of documents to demonstrate compliance
- Does the document provided address all necessary legal requirements?
- Have all remedial actions identified in the document been either raised and/or complete?

An early indication shows compliance at 25.6%, however, most of the non-compliance has proven so far to be missing documentation. The company responsible for managing statutory compliance for H&F was given an opportunity to respond to the level of non-compliance and have been given to the 13th July to produce the document or an action plan to undertake the necessary works.

Further, Corporate Property are undertaking a full independent asset condition survey of all its equipment in all its corporate buildings. The contractor's property management system has been interrogated for records of maintenance of these assets and where records are inadequate or absent, the contractor will undertake full maintenance of each item. It is estimated that the project will be complete in December 2018.

Compliance performance information for corporate buildings is provided inconsistently which is not acceptable. Control measures at several sites are unsatisfactory. The management of corporate property is currently without clear leadership or accountability creating additional risk. This has been reported to Lead Directors. A review of fire emergency plans of our key sites, including Rivercourt Road and Dalling Road respite care, is on-going.

Fortnightly operational compliance monitoring of Housing continues. Clear management structures with suitable subject matter expertise are in place. Housing have served notice on the principle contractor requiring improvement in performance a few areas including the management of gas and asbestos. The risks are understood and controls in place. Delivery remains on track.

A review of residential tower blocks (18 metres and over) in the private sector for aluminium composite material cladding is complete and risks controlled.

<u>Next steps</u>
Future capital works for Housing to be delivered by specialist contractors. A review of Construction, Design and Management is in progress.

Lift modernisation programme: in support of the Council's Fire Safety Plus initiative and accordance with our Council Priority of Doing thing with, not to Residents, a report seeking approval of a procurement strategy for the completion of the housing lift modernisation programme has been prepared for Cabinet.

There are 216 lifts across the housing portfolio, of which 193 have been scheduled for modernisation as part of a multi-year programme which started in earnest during 2011. 140 lifts have been completed to date, with a further 4 currently being modernised as part of live contracts. 9 lifts are the subject of separate tenders. The proposed strategy will cover the remaining 40 lifts (39 passenger lifts plus a single goods lift).

4.4.16. Corp 18**: Moving on Programme, talent, resource, impact, cost, transition and mobilisation:**

Recommend to close, programme delivered.

4.4.17. Corp 20: **Procurement of replacement HR, Payroll and Finance Services:**

The Transfer of HR/payroll & finance systems planned to go live Sept-Nov 2018. Risks include data transfer from Agresso to HCC and disruption of services such as payroll service.

Action taken
A specialised project team is managing the transfer to new system.

4.4.18. Corp 21: **King Street Regeneration Programme:**

Actions taken
A strategy has been developed for delivery of alternative of office facilities, with cabinet approval for commercial heads of terms intended for March 2018. An Options appraisal on delivery routes and clear legal advice on the process has been secured. Regular monitoring will occur at programme board

Next steps
Detailed financial and commercial advice on legal agreements as part of business case process and ahead of future cabinet approval will be conducted. Appropriate professional advice being procured for this purpose. Completion of best consideration exercises.

New Risks:

4.4.19. The following new risks have been recommended for inclusion in the Corporate Risk Register by Children's Services:

- Corp 22: the number of looked after children in the last 3 years without an increase in budget.
- Corp 23: Increasing budget pressure in the High Needs Direct school block.

5. CONSULTATION

5.1. Consultation has taken place with the Strategic Leadership Team, Service Department Risk Representatives and Subject Matter Experts in Business Continuity, Insurances, Health and Safety, Commercial and Procurement, Internal Audit and Information Management.

6. EQUALITY IMPLICATIONS

6.1. There are no direct Equality implications associated with the presentation of Risk Registers to the Strategic Leadership Team and Audit, Pensions and Standards Committee.

7. LEGAL 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. FINANCIAL IMPLICATIONS

8.1. There are no direct Finance implications associated with the presentation of Risk Registers to the Strategic Leadership Team and Audit, Pensions and Standards Committee.

9. IMPLICATIONS FOR BUSINESS

9.1. 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.

10. COMMERCIAL IMPLICATIONS

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. IT IMPLICATIONS

11.1. 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.

12. OTHER IMPLICATION PARAGRAPHS

12.1. A list of Corporate Risks is required in the narrative of the Council's Statement of Accounts. 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.

12.2. *Implications completed by Michael Sloniowski, Risk Manager, telephone 020 8753 2587.*

13. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name and contact details of responsible officer	Department/ Location
	Risk registers	Michael Sloniowski, Risk Manager, telephone 020 8753 2587	Internal Audit, Risk, Fraud and Insurance

LIST OF APPENDICES
Appendix 1, List of Corporate risks

***Corporate Risks** Profiled as at June 2018 for periods Q2, Q3 and Q4.*

Key	
High risk - immediate management action required.	Black
Medium risk, review controls.	Dark grey
Low risk, monitor and if the risk escalates check controls.	Light grey

			Quarter 2		**Quarter 3**		**Quarter 4**							
Priority	**Risk**	**No.**	**Likelihood**	**Impact**	**Likelihood**	**Impact**	**Likelihood**	**Impact**	**Movement**	**Exposure**	**Officer**	**1st Line of Assurance** *Operational*	**2nd Line of Assurance** *Corporate Oversight*	**3rd Line of Assurance** *Independent*
Being ruthlessly financially efficient	Financial Management in year budget 2017/2018 and Medium-Term Planning.	1	4	4	2	4	4	4	Amended as per APSC review Mar 18	H	HJ	High	High	Very High
Being ruthlessly financially efficient	Adult Social Care balanced budget pressure in 2017/2018 and over the medium term.	2	4	4	4	4	2	4	Improved	L	LR	High	High	Very High
Being ruthlessly financially efficient	Commercial Contract Management and Procurement risks, rules, outcomes social value, management.	3	4	4	4	4	4	4	Stable	L	RW-T (interim LR)	Low	Moderate	Moderate
Being ruthlessly financially efficient	Public Health funding reduction limiting investment in other departments and priorities.	4	4	4	4	4	4	4	Stable	H	RW-T (interim LR)	Moderate	Moderate	High
Being ruthlessly financially efficient	Business resilience risks, systems, processes, resources, IT and accommodation moves.	5	4	4	3	4	2	4	Improved	L	NA	Moderate	Moderate	High
Being ruthlessly financially efficient	Information management and digital continuity, regulations, legislation and compliance.	6	4	4	3	4	3	4	Stable	M	VB	Moderate	Moderate	High
Creating a compassionate council	Managing statutory duties, health and safety, equalities, human rights, duty of care regulations, highways etc.	7	4	4	3	4	3	4	Stable	M	KD	High	High	High
Creating a compassionate council	Standards and delivery of care, protection of children and adults.	8	3	3	3	3	3	3	Stable	L	JL/SM	Very High	Very High	Very High
Creating a compassionate council	Failure of partnerships and major contracts (The Link, 3BM, Shared Service, Commercial Providers)	9	3	4	3	4	3	4	Stable	M	RW-T (interim LR)	Moderate	Moderate	Moderate
Creating a compassionate council	Increase in complexity of working with Health partners.	10	3	4	3	4	3	4	Stable	M	RW-T (interim LR)	High	High	High
All Council Priorities	Decision making and maintaining reputation and service standards. Governance, conduct, external inspections, information management.	11	3	4	2	4	2	4	Stable	L	HJ/RD	Very High	High	High
Being ruthlessly financially efficient	Failure to identify and address internal and external fraud.	12	4	4	4	4	3	4	Improved	M	HJ/DH	High	High	High
Being ruthlessly financially efficient	Managed Services (Existing Human Resources and Financial Transactional Service)	13	4	4	4	4	4	4	Stable	H	MG	High	High	High
Doing things with, not to residents	Compliance with the statutory duties to undertake inspection regimes covering Management of Asbestos, Electrical Testing, Fire Risk, Plant and Equipment, Water/Legionella.	14	4	5	3	5	3	5	Stable	M	HJ/JR/ NA	Moderate	Moderate	Moderate

Priority	Risk	No.	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Movement	Exposure	Officer	1st Line of Assurance *Operational*	2nd Line of Assurance *Corporate Oversight*	3rd Line of Assurance *Independent*
Doing things with, not to residents	Co-ordination and response to calls on the Council for Mutual Aid in a crisis	15	4	5	4	5	3	5	Improved	M	NA	High	High	High
All Council Priorities	Change Readiness e.g. Smartworking, New systems.	16	4	4	4	4	4	4	Stable	H	MG	High	Moderate	High
All Council Priorities	Challenges in Recruitment and retention.	17	4	4	4	4	4	4	Stable	H	MG	High	Moderate	High
Creating a compassionate council	Moving on Programme, talent, resource, impact, cost, transition and mobilisation.	18	3	4	1	4	1	4	Proposed that this risk is closed, delivered.	L	RW-T (interim LR)	High	High	High
Doing things with, not to residents	Coroner's Office (The Council Acts as a Lead for Services to other Local Authorities).	19	2	4	2	4	2	4	Stable	L	RD	High	Very High	High
Being ruthlessly financially efficient	Procurement of replacement HR, Payroll and Finance Services	20	2	4	2	4	3	4	Increased risk	M	MG	High	High	High
Doing things with, not to residents	King Street Regeneration Programme	21	4	4	4	4	4	4	Stable	H	JR	Very High	Moderate	Moderate
Creating a compassionate council	Children's services placements. number of looked after children in the last 3 years without an increase in budget.	22					4	4	New risk	H	SM	High	High	High
Creating a compassionate council	High needs budget pressure in the Direct school block.	23					4	4	New risk	H	SM	High	High	High

Agenda Item 9

London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 17 JULY 2018	
INTERNAL AUDIT UPDATE REPORT FOR THE PERIOD 1 JANUARY – 31 MARCH 2018	
Report of the Director of Audit, Fraud, Risk and Insurance	
Open Report	
Classification: For Information **Key Decision: No**	
Wards Affected: None	
Accountable Director: David Hughes, Director of Audit, Fraud, Risk and Insurance	
Report Author: David Hughes, Director of Audit, Fraud, Risk and Insurance	**Contact Details:** Tel: 0207 361 2389 E-mail: David.HughesAudit@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 January to 31 March 2018 as well as reporting on the performance of the Internal Audit service and progress against 2016/17 external audit recommendations and 2016/17 Annual Governance Statement agreed actions.

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 January to 31 March 2018, and is for the Committee to note.

4.2. The report also provides an update on actions arising from work carried out by the external auditor on the Council's accounts for 2016/17 and from the Annual Governance Statement for 2016/17.

Internal Audit Coverage

4.3. 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.

4.4. A total of 16 audit reports were finalised in the fourth quarter of 2017/18 from 1 January to 31 March 2018, including 2 Substantial Assurance, 10 Satisfactory Assurance and 3 Limited Assurance reports.

4.5. The audit of Legal Services Budget Management was added to the Internal Audit plan at the request of management. The reviewed received a Limited Assurance opinion with 3 high priority, 4 medium priority and 1 low priority recommendation being raised. These recommendations were due for implementation between March and July 2018. It is noted that this review was undertaken while Legal Services was being delivered under a tri-borough arrangement but that it became a sovereign service, under the leadership of the Assistant Director of Legal Services, from 1 April 2018. All of the recommendations raised have been confirmed as implemented.

4.6. The audit of Corporate Property Services Framework received Limited Assurance with 1 high priority and 1 medium priority recommendation. These recommendations are due for implementation in July 2018.

4.7. The audit of Agresso Payroll (Shared Services) also received Limited Assurance with 4 high and 1 medium priority recommendation. These recommendations were due for implementation by May 2018.

4.8. A summary of the limited assurance reports is set out in Appendix B.

4.9. 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.

4.10. Three Follow Ups of Limited Assurance reports were undertaken in the period. In two cases, all recommendations were found to be implemented. In one case (Trading Accounts) 3 recommendations were partly implemented and 2 were not implemented.

Outstanding audit recommendations

4.11. The Internal Audit service works with key departmental contacts to monitor the implementation of agreed recommendations.

4.12. There are now 8 audit recommendations where the target date for the implementation of the recommendation has passed and they have not been fully implemented. The recommendations relate to two reports relating to the Public Services Reform directorate and are shown at Appendix C. This compares to 6 outstanding as reported at the end of the previous quarter. We will continue to work with departments to reduce the number of outstanding issues.

4.13. 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.

Implemented recommendations

4.14. 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	Recommendations implemented
2015/16	254	254
2016/17	219	216
2017/18	50	44

Internal Audit Service

4.15. 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 for the 2017/18 financial year are below.

Performance Indicators 2017/18

Ref	Performance Indicator	Target	Actual	Variance	Comments
1	% of draft reports issued within 10 working days of exit meeting or end of fieldwork (whichever is later)	95%	91%	-4%	30 out of 33 draft reports issued within 10 working days of exit meeting or end of fieldwork.
2	% of final reports issued within 5 working days after agreement of management responses (this does not include reports which do not require director approval, e.g. follow up or other special deliverables)	100%	96%	+1%	22 out of 23 final reports issued within 5 working days after agreement of management responses.
3	% of plan complete based on deliverables (draft reports and Mgt letters)	95%	94%	-1%	47 deliverables issued out of a total plan of 50.
4	% of audit briefs issued 10 days before start of audit (Accounting for Exceptions)	95%	100%	+5%	26 out of 26 draft reports issued within 10 working days of exit meeting.
5	% of audit follow ups completed	100%	100%	0%	4 out of 4 audit follow ups completed

Update on External Audit Recommendations

4.16. All recommendations arising from the External Audit Report 2016/17 have now been reported by management as implemented, with the final two completed since the last report to the Committee shown in Appendix D. Internal Audit has not verified the information provided and can therefore not give any independent assurance in respect of the reported position. All such recommendations are followed up by the external auditor and are reported to the Committee as part of the annual audit report.

Update on Annual Governance Statement recommendations

4.17. One item from the 2016/17 Annual Governance Statement remains open and will be completed when the Council moves from the current BT Agresso system to the SAP solution provided by Hampshire County Council. The update provided previously to the Committee is shown in Appendix E for completeness.

5. OPTIONS AND ANALYSIS OF OPTIONS

5.1. The Director of Audit, Fraud, Risk and Insurance is required to provide an annual report and opinion on the Council's system of internal control under the Public Sector Internal Audit Standards. To enable this, an annual Internal Audit Plan covering the Council's key risks is devised in consultation with the Strategic Leadership.

6. CONSULTATION

6.1. The report has been subject to consultation with the Strategic Leadership team.

7. EQUALITY IMPLICATIONS

7.1. There are no equality implications arising from this report.

8. LEGAL IMPLICATIONS

8.1. Internal Audit is a statutory requirement as set out in the Accounts and Audit Regulations 2015.

9. FINANCIAL IMPLICATIONS

9.1 The Internal Audit Plan is delivered within the service budget. Actions required as a result of audit work, and any associated costs, are the responsibility of the service managers and directors responsible for the areas which are reviewed.

10. IMPLICATIONS FOR BUSINESS

10.1. There are no implications for business arising from this report.

11. COMMERCIAL IMPLICATIONS

11.1 There are no commercial implications arising from this report.

12. IT IMPLICATIONS

12.1. There are no ICT implications arising from this report.

13. RISK MANAGEMENT

11.1 The Internal Audit Plan is developed and delivered to cover the key risks faced by the Council, to provide assurance on the key controls in operation and the effective management of key risks.

14. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Full audit reports covered in this report	David Hughes 0207 361 2389	Corporate Services, Internal Audit Town Hall, King Street Hammersmith W6 9JU

LIST OF APPENDICES:

Appendix A Audit reports issued 1 January to 31 March 2018
Appendix B Summary of Limited Assurance Reports
Appendix C Outstanding Internal Audit Recommendations
Appendix D 2016/17 External Audit Recommendations Update
Appendix E 2016/17 Annual Governance Statement Actions Update

APPENDIX A

Audit reports Issued 1 January to 31 March 2018

We have finalised a total of 16 audit reports for the period of 1 January to 31 March 2018 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	ASC Contract Management – Advocacy Services	Lisa Redfern	Satisfactory
2	2017/18	Council Tax	Belinda Black	Substantial
3	2017/18	NNDR	Belinda Black	Substantial
4	2017/18	IT Service Governance	Veronica Barella	Satisfactory
5	2017/18	ICT Service Transformation Programme	Veronica Barella	Satisfactory
6	2017/18	Legal Services Budget Management	Tasnim Shawkat / Rhian Davies	Limited
7	2017/18	Supporting People – Housing Related Support Contracts	Lisa Redfern	Satisfactory
8	2017/18	St Peter's CE Primary School	Steve Miley	Satisfactory
9	2017/18	Utilities Management	Maureen McDonald Khan	Satisfactory
10	2017/18	Property Services Framework Procurement	Maureen McDonald Khan	Limited
11	2017/18	Transfer from Gassys to iWorld	David McNulty	Satisfactory
12	2017/18	Car Pound	Mahmood Siddiqi	Satisfactory
13	2017/18	Occupational Health	Mark Grimley	Satisfactory
14	2017/18	Payroll	Mark Grimley	Limited
15	2017/18	Accounts Payable	Hitesh Jolapara	Satisfactory
16	2017/18	Pension Investments	Phil Triggs (WCC)	Satisfactory

Substantial Assurance	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and few material errors or weaknesses were found.
Satisfactory Assurance	While there is a basically sound system, there are weaknesses and/or omissions which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited Assurance	Weaknesses and / or omissions in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
No Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

Other Reports

Follow ups

No.	Audit Year	Audit Title	Total Recs	Recs Implemented	Partly Implemented	Not Implemented
17	2016/17	Service Charges	3	3	0	0
18	2016/17	Premises Licensing	5	5	0	0
19	2016/17	Trading Accounts	5	0	3	2

Ref	Audit and Scope	Details	Assurance/Risk
1	**Legal Services Budget Management** The objectives of this review were to assess and evaluate the controls in the following areas: • Budget Planning; • Budget Monitoring, Variances and Reserves; • Verification of S113 Charges; • Alterations and Virements; • Management Reporting; and • Management Control of Budget Drivers and Exception Reports.	At the request of the Strategic Finance Director on 25 January 2018, we undertook internal audit work on Legal Services Budget Management within in the London Borough of Hammersmith and Fulham. This audit was requested by the Strategic Finance Director following a forecasted overspend of £380K being reported by Legal Services in period 9 of the Council's financial year forming part of an overall projected overspend across the Council of £6.181m. A similar situation occurred last year with an overspend of £223K reported. Hammersmith and Fulham, like all Councils, have had significant reductions in funding, For Hammersmith and Fulham this has resulted in general Government grant funding reducing from £160m in 2010/11 to £90m by the end of 2018/19, a reduction of £70m (54% real terms and 43% cash). In addition, a further £8.6m reduction is expected by 2019/20. In response to this, Councils across the country are reorganising their services to reduce costs and focus on long term financial sustainability through prevention and demand management. The total budget for Legal Services for 2017/18 is £780,700 (income). The structure of Legal Services is due to change with LBHF transitioning from a shared service across the three boroughs to a sovereign legal service. In March 2017 Legal Services started working on a project to potentially merge with LGSS Law Ltd (subject to due diligence and final decision). In October 2017 LBHF decided not to proceed with the project and form a sovereign legal Service. One high, two medium and three low priority recommendations were raised as follows: 1) The Legal Services budget for LBHF should be reviewed by Corporate Finance with involvement from Legal Services annually to account for lessons learnt from previous years and confirm the budget is still achievable. 2) All elements of the budget should be monitored and reviewed on a monthly basis and a forecast prepared by Legal services with support from Corporate Finance. Senior Managers in Legal Services and staff from Corporate Finance must make themselves available on a monthly basis to review the budget and forecast. 3) Recharges between the three boroughs should be raised on a monthly basis. 4) Senior managers in Legal services should ensure that the time management system is kept up to date and compliance with this should be monitored on a monthly basis. Action should be taken where staff continue to be behind in inputting their time. 5) Management should maintain more detailed records of non-chargeable time to enable them to monitor non-chargeable time of staff. 6) Consideration should be given to simplifying the spreadsheets use for recharges. Training and / or written guidance should be provided to other officers in the maintenance and use of the spreadsheets.	**Limited**

Ref	Audit and Scope	Details	Assurance/Risk
2	**Procurement Compliance – Corporate Property Services Framework** The objectives of this review were to assess and evaluate the controls in the following areas: • Strategic Assessment and Business Justification (Strategic Outline Business Case); • Project Governance; • Contract Strategy; and • Delivery/Procurement Strategy (Outline Business Case & Options Appraisal and Authorisation to Proceed to Procurement).	The London Borough of Hammersmith and Fulham established and procured a Framework consisting of eight lots in October 2013 from which to commission corporate property work. The current framework expired in October 2017, however an extension to 1 January 2018 was agreed to allow its re-procurement to take place. The main users of the framework are officers from Corporate Property Services, Housing, and Planning procuring property services and advice. A review of the current framework has been undertaken to help inform revisions to the next property services framework lots to be procured. The Council is seeking to procure six lots for the provision of a range of property advice that may be required in respect of LBHF assets. Building and Property Management Senior Management Team (chaired by the Director) is acting as the Project Board. The Head of Asset Strategy & Portfolio Management is the Senior Responsible Officer for the procurement work. One high and one medium priority recommendation was raised as follows: 1) A shared file directory should be used for all procurement documentation and be accessible to all officers involved in a procurement project's management. The documents that could not be provided should be located and made accessible. 2) Where areas of the project over-run, the Council should implement measures and form an action plan to ensure the task is completed as soon as possible and the project brought back into time. A lessons learnt log should be produced and all lessons recorded to it along with cause, effect and correcting actions where initiated. The lessons learnt should be taken to an immediate post-completion lessons learnt report. The lessons learnt report should be filed with the PMO (or equivalent). The lessons learnt should be disseminated as necessary by the PMO.	**Limited**

Ref	Audit and Scope	Details	Assurance/Risk
3	**Agresso Payroll – Shared Services** The objectives of this review were to assess and evaluate the controls in the following areas: • Policies and Procedures; • Reporting and Monitoring; • Starters to Payroll; • Leavers to Payroll; • Variations to Pay; • Standing Data; and • Management Reports.	As part of the Managed Services agreement, BT is 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 Framework 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. An appropriate replacement solution to Agresso has been identified and, following approval by Cabinet, the Council will be using the Hampshire Partnership SAP solution to replace BT in providing the managed services for HR, payroll and finance. It is anticipated that the Hampshire Partnership SAP solution will be implemented in the Autumn 2018. 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. Four high and one medium priority recommendation was raised as follows: 1) Historical payroll errors need to be verified and action to resolve these agreed by the Councils as soon as possible with timelines for action clearly stated. 2) The Intelligent Client Function should ensure that the Block 3 Delivery Plan actions and change requests which impact on data integrity are satisfactorily completed and take such other actions as are possible so that: a) The data which is migrated to the new solution is as accurate and complete as possible; and b) The fullest possible audit trail of supporting documentation for new starters is maintained and available. 3) The Intelligent Client Function should ensure that the Block 3 Delivery Plan actions and change requests which impact on data integrity are satisfactorily completed and take such other actions as are possible so that: a) The data which is migrated to the new solution is as accurate and complete as possible; and b) The fullest possible audit trail of supporting documentation for new payroll leaver records is maintained and available. c) The Framework Intelligent Client Function should work with the Retained HR teams to encourage line managers to improve the completion of SN10 forms 4) The Intelligent Client Function should ensure that the Block 3 Delivery Plan actions and change requests which impact on data integrity are satisfactorily completed and take such other actions as are possible so that: a) The data which is migrated to the new solution is as accurate and complete as possible; and b) The fullest possible audit trail of supporting documentation for payroll variations to pay records is maintained and available. c) The Framework Intelligent Client Function should work with the Retained HR teams to encourage line managers to improve the processing of variable payments by employees and line managers. 5) The Intelligent Client Function should liaise with BT to identify any steps that can be taken to improve the quality and integrity of standing data.	**Limited**

Summary of Outstanding Internal Audit Recommendations **APPENDIX C**

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
Public Services Reform: Procurement Governance (2016/17 review) – **Satisfactory Assurance**					
1	The drafted Corporate Procurement Strategy should be reviewed for adequacy, updated where necessary, and then approved in order to provide clarity on the strategic direction of LBHF Corporate Procurement.	2	31/03/2018	Rachel Wright Turner – Director of Public Services Reform	In 2017 a corporate procurement strategy was devised and approved by SLT and Cabinet. From this a Commercial Management programme is being developed. This programme is designed to deliver two main work streams on being contract savings and one developing a future target operating model to develop our procurement approach. In line with this it is intended to revisit the Council Standing Orders to better reflect the changing way the Council are wanting to engage with suppliers and the wider market.
2	The Corporate Procurement Team should review the Council spend data across service departments on a regular basis to identify high risk projects (allocating additional assistance / resources as required), to confirm compliance with the Contract Standing Orders and to identify instances where contracts should be formalised to obtain better value for money through aggregated spend.	2	31/03/2018	Rachel Wright Turner – Director of Public Services Reform	As part of the development of the Commercial Management Initiative programme we have updated all contract information and spend analysis for our contracts. This has included entering the inclusion of any contracts not on the central Cap E system so that we have a complete and dedicated list of information. It has been necessary to develop the management information around contracts. This activity is not a one off event but developing an ongoing process to create dashboards and undertake monitoring. This has now been completed and we are now in a position whereby data can be interrogated to identify areas suitable to extract savings, to monitor contracts which pose a greater risk to the council. and enable the development of future strategies for delivering services from the market.
Public Services Reform: Contractor Resilience (2017/18 review) – **Limited Assurance**					
3	Corporate guidance should be updated to clarify the checks and monitoring of continuity arrangements that should be undertaken where services are procured from a framework. This may be through requesting evidence and/or assurance from the framework provider rather than duplicating checks that have already been undertaken.	2	01/01/2018	Rachel Wright Turner – Director of Public Services Reform	Guidance is delivered through the corporate team, via the intranet, and we have recruited to vacancies to ensure that guidance can be maintained. This team works closely across the corporate governance process and the legal representatives to ensure the information we give is correct in order to meet the legal frameworks in which to procure. We are also reviewing the Council Standing Orders as well as procuring a new standalone system for ongoing monitoring of contract and procurement activity. In addition to this we are assessing the management information coming through the CMI programme and working closely with the Strategic Finance team to ensure there is a joined up approach between procurement, contracts and budgets.
4	Contract Managers and Officers involved in procurement should be reminded that checks on contractor financial standing and business continuity plans must be undertaken as part of the procurement process, that these checks should be recorded and confirmed in the Decision report recommending the award of the contract. Compliance spot checks should be undertaken to confirm that this	1	01/01/2018	Rachel Wright Turner – Director of Public Services Reform	As part of the procurement process a review of the financial position of the companies bidding for contracts are undertaken. This is supplemented by ongoing credit checks on a regular basis of the highest priority suppliers so that contingency action can be developed and taken if necessary. The Corporate Procurement team also holds the gate keeper role for agreeing and signing of cabinet and member reports to ensure that the financial and

Ref	Recommendation	Priority (1/2/3)	Agreed Target Date	Sponsor (Name/Title)	Status
	requirement is being complied with.				procurement function are considered and complement each other. Anomalies are highlighted and corrected. To date, there have been no spot check on contracts as there has been a focus on cleansing data to ensure that all contracts are recorded, along with ongoing financial and business continuity checks, and can be subject to compliance monitoring and reporting.
5	An assessment of supplier criticality should be undertaken to assign a priority to each supplier in accordance with corporate guidance. The assessment outcome and rationale for priority provided should be documented for each service assessed. The response to supplier resilience should then be proportionate to the priority rating. Sample checks should be undertaken to gain assurance that all suppliers have been accurately assessed. Consideration should also be given to reporting on key suppliers to SRG and SLT including determining: • Which contracts should be reported (e.g., all critical contracts) • What information is needed to assist with oversight, assurance and risk management of these contracts.	1	31/03/2018	Rachel Wright Turner – Director of Public Services Reform	Ongoing prioritisation is undertaken on contracts to identify those suppliers that pose the highest risk. This work is ongoing and will be part of business as usual going forward once the exercise is completed. Reporting upstream to SLT and Audit needs to be developed so a dashboard approach can be devised and maintained. Assessment of supplier criticality and understanding the risks will be managed and improved throughout this financial year. This will be enabled by having a complete dataset of current contracts centrally recorded, to identify those contracts which represent the highest risk so they will be managed more effectively and where appropriate, to direct more specialised resource towards their management.
6	Resilience strategies and supply chain risk assessments should be developed for all suppliers considered critical to the Council's operations. Supplier continuity plans should also be subject to periodic testing. Sample checks should be undertaken to gain assurance that adequate resilience strategies are in place and that continuity plans are being tested. Assurance on the outcome of testing and sample checks should be reported to directorate management teams and SRG and / or SLT as appropriate.	1	31/03/2018	Rachel Wright Turner – Director of Public Services Reform	The corporate team are in early discussion in developing a corporate wide approach to resilience. This activity happens on certain contracts but is ad hoc in its approach. A more defined approach needs to be developed using the management information we are collecting, the ongoing credit checks being undertaken and the prioritisation exercise being completed in this financial year.
7	Contract Managers should be reminded to maintain regular and open channels of communication with suppliers to allow them an opportunity to raise issued relating to resilience.	2	01/01/2018	Rachel Wright Turner – Director of Public Services Reform	As part of the CMI programme we are looking at standardising contract managing and how we contract manage. This is also assessing how many contract managers we have in post and that they are trained to the right standard. The IACCM contract management qualification has been made available across the organisation for those engaged in contract management. As part of the CMI we are again engaging with contract managers across the council. The review of the Cap E sourcing system has highlighted that contract managers details have not been kept up to date and this is being addressed.
8	Sample checks should be undertaken to confirm that alerts are being acted on. The distribution list for credit alerts should be reviewed to confirm that recipients are appropriate. Consideration should be given to whether an officer, or officers, within each department should communicate alerts to contract managers or keep the distribution list manageable and up to date.	2	01/01/2018	Rachel Wright Turner – Director of Public Services Reform	Credit checks and alerts are run through the corporate procurement function and so any reports that cause concern are raised and communicated. This then needs to flow into a contingency and resilience plan that we have highlighted is being developed.

2016/17 External Audit Recommendations Update

APPENDIX D

Recommendation/Areas of Improvement	Initial response and timescale	Responsible Officer	Update to Audit, Pensions and Standards Committee
R2 - Accruals identification/calculation - (Priority 2) 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 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. **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.	**Agreed** 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 **By when: December 2017**	Strategic Director of Finance and Governance	COMPLETED
R4 - IT Control Deficiency- Change Documentation (Priority 3) 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. 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. **Recommendation:** Storage of change documents related to IT change requests should be reinforced to key officers.	**Agreed** 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. **By when: March 2018**	Strategic Director of Finance and Governance	COMPLETED

Issue	Responsible Officer	Action Plan	Progress To date
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.	Director of Corporate Services	This progress report deals with the resolution of the challenges that have arisen with respect to the delivery of the Managed Services Programme since go-live on 1st April 2015. The decision to go live with the system was taken in the knowledge that the SERCO contract with Westminster could not be extended and there was no resource available to update the H&F and RBKC systems such that they could be relied on after March 2015. It was recognised that this was not an ideal position and it has given rise to significant problems. A programme stabilisation plan has been created around the workstreams and the programme governance arrangements that existed before go live including risks and issues management and stage gate reviews. Programme reporting and programme assurance have been strengthened. A summary of the deliverables for each workstream is given below is given below. 1. **Finance –** this workstream is tasked with ensuring that the all finance processes and core data are fully operational and stable (Purchase to Pay; Record to Report, Order to Cash, Fixed Assets, Income Manager, Access and Authorisations, Planning and Forecasting). 2. **Organisation structure** – a corrected organisation structure supported by appropriate online forms, standard operating procedures and establishment reporting. 3. **Human Resources** – This workstream is tasked with the delivery of stable HR processes, the resolution of system configuration issues and enabling reporting and alerts. 4. **Payroll –** Key deliverables for this workstream are stabilisation of pay impacting incidents, improving self-service accuracy, rationalisation of payroll codes, resolution of pension issues and 3rd party pension provider access, enabling effective reporting for both councils and schools, resolving payroll deductions and overpayments and complete payroll reconciliation. 5. **Organisation readiness** – this workstream is responsible for the analysis of training needs, the delivery of training programmes, e-learning and reference materials and supporting the transition of council personnel to self-sufficiency, including communication of progress to all staff. 6. **Schools and academies** – delivering self-service access to Agresso for key personnel in schools, providing accurate and stable payroll processes, ensuring effective management of starters and leavers and providing accurate and timely reports and management information. 7. **Service management and governance** – this workstream is responsible for the management of the contract and implementation of all contractual service management deliverables, reporting and management information, oversight of the BT Shared Service Centre improvement and incident recovery plan and on-going quality assurance and performance monitoring as well as supporting the transition to business as usual and putting in place the Intelligent Client Function 8. **Solution and environment assurance** – this workstream is focussed on ensuring effective environment, system and data control, confirmation that what has been delivered is what was specified, reconciliation and integrity assurance, improving system performance, documentation and the simplification of the access and authorisations model. 9. **Interfaces** – is tasked with developing and implementing mechanisms to send and receive data files from source systems to target systems (so that key council service areas can exchange data with Agresso), including the creation of translation tables, transformation rules and secure transport protocols.	Subject to the exit plan for BT and implementation of an alternative system.

London Borough of Hammersmith and Fulham | The Royal Borough of Kensington and Chelsea | Westminster City Council

London Borough of Hammersmith and Fulham

Final Internal Audit Report

Legal Services Budget Management

March 2018

Contents

1 Introduction

At the urgent request of the Strategic Finance Director on 25 January 2018, we have undertaken internal audit work on Legal Services Budget Management within in the London Borough of Hammersmith and Fulham. This audit was requested by the Strategic Finance Director following a forecasted overspend of £380K being reported by Legal Services in period 9 of the Council's financial year forming part of an overall projected overspend across the Council of £6.181m. A similar situation occurred last year with an overspend of £223K reported.

Hammersmith and Fulham, like all Councils, have had significant reductions in funding, For Hammersmith and Fulham this has resulted in general Government grant funding reducing from £160m in 2010/11 to £90m by the end of 2018/19, a reduction of £70m (54% real terms and 43% cash). In addition, a further £8.6m reduction is expected by 2019/20. In response to this, Councils across the country are reorganising their services to reduce costs and focus on long term financial sustainability through prevention and demand management.

Responsibilities of Directors in relation to Budgetary control are set out in the financial regulations of the Council as follows:

- To maintain budgetary control within their departments, in adherence to the principles set out in these Financial Regulations, and to ensure that all income and expenditure is properly recorded and accounted for.
- To ensure that an accountable budget manager is identified for each item of income and expenditure under the control of the Director (an accountable budget manager may be responsible for a series of cost centres). As a general principle, budget responsibility should be aligned as closely as possible to the decision-making that commits expenditure.
- To ensure that spending remains within the department's overall control total, and that individual budget heads are not overspent, by monitoring budgets and taking appropriate corrective action where significant variations from the approved budgets are forecast.
- To ensure that expenditure is committed only against approved budgets.
- To assess the risk of overspending on budgets under their control on a monthly basis.
- To take any appropriate mitigating management action to contain overspends within existing budgetary provision. This may be within the particular service area, or another service area managed by the Director.
- To ensure that a monitoring process is in place to review performance levels and levels of service in conjunction with budget monitoring and to assure themselves that the process is operating effectively.
- To prepare and submit to the CFO for collation and onward transmission to Strategic Leadership Team and Members (monthly for revenue), in line with the Scheme of Delegation, reports on the department's actual, committed and projected expenditure compared with its approved budget in accordance with the format and deadlines specified.
- To ensure all officers responsible for committing expenditure comply with relevant guidance and these Financial Regulations.
- To ensure compliance with the scheme of virement as set out in the Financial Regulations.
- To consult with the relevant Director where it appears that a budget proposal, including a virement proposal, may impact materially on another department's responsibilities or Directors level of service activity.
- To review service codes and balance sheet codes every month to ensure that all revenue impacts are reported as promptly as possible.
- To advise the CFO of potential contingent liabilities for inclusion in the Revenue Monitor and to review these on a regular basis.
- To discuss each Revenue Monitor with the relevant Lead Cabinet Member.

All organisations must manage performance so that their financial and strategic objectives are achieved and stakeholders can be confident in the process. Effective budgetary control is central to this, and safeguards the organisation's viability and effective delivery of its objectives.

Organisations require a comprehensive financial planning and approval framework; consistent and rigorous processes for constructing budgets; sound methodologies for assessing the financial impact of proposed budgets; compatibility with other management and performance data, and a control system that sets clear responsibilities and produces prompt and accurate information on performance against budgets.

The total budget for Legal Services for 2017/18 is £780,700 (income). The structure of Legal Services is due to change with LBHF transitioning from a shared service across the three boroughs to a sovereign legal service.

In March 2017 Legal Services started working on a project to potentially merge with LGSS Law Ltd (subject to due diligence and final decision). In October 2017 LBHF decided not to proceed with the project and form a sovereign legal Service.

2 Executive Summary

2.1 Assurance Opinion

	Nil	Limited	Satisfactory	Substantial
Audit Opinion		L		

The assurance opinion provided is based on the period from 1 April 2017 to 31 December 2017. It should be noted that a number of improvements have been made to the budget management process from late 2017 which are intended to improve the ability to prepare regular and accurate forecasts. We have been unable to fully test the effectiveness of the strengthened processes as they are not yet fully embedded. If processes are fully embedded we would expect them to significantly improve the budget management process.

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
Budget Planning			0	1	0
Budget Monitoring, Variances, and Reserves			1	0	2
Verification of S113 Charges			0	0	1
Alterations and Virements			0	0	0
Management Reporting			0	0*	0
Management Control of Budget Drivers and Exception Reports			0	1	0
Total			1	2	3

* Recommendations relating to Management Reporting have been raised in other areas.

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 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.

Design of and compliance with controls to address the key risks identified

- Budget setting forms part of the business planning and medium term financial planning processes. For the last 2-3 years, the Legal Services budget has been set by rolling forward the previous year's budget with minimum involvement with Legal Services. Evidence was not available to demonstrate the budget was reviewed to confirm it remained achievable, and savings targets can be achieved, prior to being approved. Savings targets were applied without discussion in the summer of 2017. It was noted that the 2016/17 budget was overspent by £223K.
- Following the decision in October 2017 to move away from a shared Legal Service across the three boroughs, the Council appointed an Assistant Director for the new Hammersmith and Fulham Legal Service in March 2018. As part of this move to a sovereign Legal Service, the 2018/19 budget is being reviewed to ensure that it can be delivered without additional growth.
- Budget monitoring reports are prepared by Corporate Finance on a monthly basis and sent to the Business Manager within Legal Services for review and inputting of forecasts. Budget monitoring meetings should be held between Corporate Finance and the Business Manager on a monthly basis to discuss the budget and forecasts. Whilst budget monitoring reports have been produced by Corporate Finance and sent to the Business Manager, there was no evidence of these reports having been reviewed and no overspend was forecast until January 2018 by Legal Services. An introductory meeting was held between the Director, Legal Services Budget Manager and Finance Business Partner & Corporate Projects on 5 May 2017, when it was confirmed that regular meetings would take place between Legal Services Budget Manager and Corporate Finance Team member to be recruited. For a number of reasons these meetings did not take place. No budget monitoring meetings have been held between Corporate Finance and Legal Services until January 2018 when the forecasted overspend was reported. It is understood that this has been due in part to Corporate Finance not having the capacity to meet up to October 2017, the Business Manager not being available to meet in one case in October, and a misunderstanding on the part of new staff in Corporate Finance about who was responsible for monitoring the budget in Legal Services. Responsibilities have since been clarified.
- The monthly monitoring reports include a section for recording action plans on budget overspends. Budget is monitored monthly but not all the elements were pulled together until process improvement work had been completed by January 2018 when the overspend was identified. Once the overspend of approximately £328K had been identified in P9, a mitigation plan was prepared by the Business Manager, which is forecasted to improve the adverse variance by £255K. It is acknowledged that Legal Services operates a trading account and therefore some variances would be expected throughout the financial year; however, identifying these variances at an earlier stage may allow them to be managed more effectively.
- We were able to trace the forecasted overspend back to source records to gain assurance it is accurate. In addition, the actions and values given in the recovery plan appeared reasonable and were supported by evidence. However, it should be noted that the accruals identified in the mitigation plan will need to be processed. Departments have agreed to accrue for March legal charges and a timetable which fits in with the overall accrual timetable is being

developed. Each accrual will need to be agreed by the receiving department and this has been identified as a risk.

- Various spreadsheets are maintained by the Business Manager to support the recharges. Examination of these spreadsheets and discussions with Corporate Finance indicated that these spreadsheets are complex and that the Business Manager appears to be the only officer that fully understands them. The steps required to maintain these spreadsheets are not documented.
- The Local Government Act 1972 under Section 113, provides for the placing of staff of local authorities at disposal of other local authorities. The three Councils currently operate a number of shared services with approximately 20 Section 113 agreements currently in place. Schedule 4 of the agreement describes how the costs of running the services will be apportioned across the three boroughs.
- The Legal Services Section 113 agreement states the following:
  - For managers who do not have chargeable hours, the full cost of that manager will be allocated a third to each council. All other managers in the management structure have allocated chargeable hours. The rest of their time is considered to be management time which will be re-charged to the other boroughs. The method of calculating this cost is either on a one third basis or based on number of staff managed depending on the seniority of the manager.
  - For the Senior Management Team (Chief Solicitors for Litigation and Social Care, and Chief Solicitor for Contracts, Employment, Planning and Property) the management costs will be allocated an equal third to each council.
  - The full staff cost of the 100 non-chargeable hours worked by Deputy Team Leaders will be allocated a third to each council annually.
- There are only records of time spent for each borough for chargeable time. Management time is split as per the S113 agreement and the management time spent on each borough is not recorded. As such we could not confirm how much management time was spent on each borough.
- For a sample of officers tested, we confirmed that the allocation of S113 charges was in accordance with the agreement. A further summary review of other recharges against Schedule 4 of the Section 113 agreement did not identify and cases where recharges had been applied incorrectly.
- Legal services fee-earning recharges to other LBHF departments have been raised on a quarterly basis. This facilitates accurate forecasting to be prepared each quarter. However, the data for these recharges is dependent on the timely inputting by each lawyer / fee-earner, of chargeable hours undertaken into the case management system, which is not always completed by the monthly deadline, as required. But there is a process for chasing on a monthly basis and managers given information on a weekly basis.
- It was noted that the recharges across the three boroughs' trading accounts (i.e. the management time) have not been raised on a quarterly basis with the first recharges being raised in January 2018 covering the period April 2017 to December 2017. It is understood that this was not done for the first two quarters due to resources being directed to projects to improve management information including ensuring income from legal services for property related cases was correctly allocated. This project was undertaken to address historic systemic problems. We were advised that this project would positively impact on the service's

ability to prepare accurate forecasts and prioritising this project would reap longer term benefits.

- Outstanding debts are followed up by the debt recovery team and Corporate Finance circulate a monthly debt report along with budget monitoring reports.
- There has been one virement of £19K to the 2017/18 budget with regards to pension valuation.
- There are chargeable time targets in place for staff and timely recording of time is part of each lawyer's appraisal target. Monthly reminders are sent by business support to input time for the previous month by a certain date. Budget performance also forms part of one to ones and performance appraisals. There is a process for chasing on a monthly basis and managers given information on a weekly basis.
- Whilst the completion of time recording is monitored on a monthly basis, this was not strongly enforced by all team managers throughout 2017/18. We were informed that time recording by some lawyers was not being completed on a timely basis. This would also impact on the ability of the service to prepare accurate budget forecasts and take timely corrective action where variances are identified. In January, the Director of Law reiterated to staff the importance of completing timesheets promptly and each team manager is monitoring this closely.
- A monthly report is produced detailing the analysis of chargeable hours, which is reviewed by Legal Management Team (LMT). A weekly report of time recorded is also produced for LMT. However, the non-chargeable time is not generally recorded and hence utilisation of staff is not monitored in detail. Discussions established that it was not seen as productive to record non-chargeable time; however, in Internal Audit's opinion, more detailed information on the nature of non-chargeable time (such as team meetings, training, general administration, sickness absence) would allow the service to ensure chargeable time, and therefore income generation, is maximised.
- The trading account operates on the basis that if all fee-earners achieve their target then the service should recover its costs. This message has been reinforced to staff and each lawyer is expected to meet their target hours.

4 Acknowledgements

We would like to thank the following members of staff for their time and assistance during the audit:

- Tasnim Shawkat – Director of Law
- Rhian Davies – Chief Solicitor
- Richard Cutbush – Business Manager
- Danielle Wragg – Finance Business Partner
- William Stevens - Principal Accountant

Appendix 1: Management Action Plan

1. Budget Setting

Priority	Issue	Risk	Recommendation
Medium	Legal Services operates a trading account and the budget for 2017/18 is a £781K credit budget. For the last three years, Corporate Finance have been setting the Legal Services budget by rolling it forward from previous years with minimal involvement with Legal Services. No evidence was available from either Legal Services or Corporate Finance to confirm the budget was reviewed to confirm it remained realistic prior to being approved. It was noted that the 2016/17 budget was also overspent by £223K. As part of this move to a sovereign Legal Service, the 2018/19 budget is being reviewed.	Where budget planning does not take into account lessons learnt from previous years or changes in the service that may impact on the budget, there is an increased risk of an unrealistic budget being set leading to budget overspends or objectives of the service not being achieved.	The Legal Services budget for LBHF should be reviewed by Corporate Finance with involvement from Legal Services annually to account for lessons learnt from previous years and confirm the budget is still achievable.

Management Response
Recommendation accepted. An introductory meeting was held between the Director, Legal Services Budget Manager and Finance Business Partner & Corporate Projects on 5th May 2017, when it was confirmed that all services including Legal Services would have a 7% savings target. Legal Services were working on a couple of projects which could have delivered the savings ie demand management and proposal to merge with LGSS Law Ltd. It was agreed that regular meetings would take place between Legal Services Budget Manager and Corporate Finance Team member to be recruited. Unfortunately, for a number of reasons these meetings did not take place until the period 9 forecast appeared. The regular meetings have now been re-instated. LBHF Legal are currently working with LBHF Finance to deliver this recommendation for the start of 2018/19.

Responsible Officer	Deadline
Rhian Davies from 1 April 2018 but to 31 March it will be Richard Cutbush	End of April 2018

2. Budget Monitoring

Priority	Issue	Risk	Recommendation
High	Whilst budget monitoring reports have been produced by Corporate Finance and sent to the Business Manager within Legal Services for review and inputting forecasts, there was no evidence of these reports having been reviewed and no overspend was forecast until January 2018. It was also noted that no budget monitoring meetings have been held between Corporate Finance and Legal Services until January 2018.	Where budgets are not monitored on a regular basis and budget monitoring meetings involving Corporate Finance are not held on a monthly basis, there is an increased risk of overspend or underspends not being identified in timely manner. This may not allow sufficient time for an effective course of corrective action to be taken.	All elements of the budget should be monitored and reviewed on a monthly basis and a forecast prepared by Legal services with support from Corporate Finance. Senior Managers in Legal Services and staff from Corporate Finance must make themselves available on a monthly basis to review the budget and forecast.

Management Response
Recommendation accepted. Legal resources were directed to reviewing and updating internal processes to ensure that accurate forecasting could take place. Therefore, although the budget was monitored not all elements of the budget was reviewed. It was also expected that fee-earners would catch up with their time recording and there would not be an overspend. As mentioned before an introductory meeting was held between the Director, Legal Services Budget Manager and Finance Business Partner & Corporate Projects on 5th May 2017, when it was confirmed that regular meetings would take place between Legal Services Budget Manager and Corporate Finance Team member to be recruited. Unfortunately, for a number of reasons these meetings did not take place until the period 9 forecast appeared. Regular monitoring meetings between Finance and Legal Services would have picked up a number of issues as well as the financial process improvement projects the Business Support Team was involved in. The regular meetings have now been re-instated. Legal will be working with finance to ensure that meetings are setup 18/19 and monthly forecasts produced.

Responsible Officer	Deadline
Sucheta Naik / Rhian Davies	Monthly

3. Recharges Across the three Boroughs trading accounts

Priority	Issue	Risk	Recommendation
Low	Whilst we confirmed that departmental recharges have been raised on a quarterly basis, the recharges between the three boroughs' legal trading accounts had not been raised on a quarterly basis, with the first ones being raised in January 2018 covering the period April 2017 to December 2017. This was not prioritised as resources were diverted to a project to correct a historical system issue and other projects intended to improve management information.	Where recharges across boroughs are not raised on a timely basis, there is an increased risk of budget monitoring information not being accurate and up to date. This may impair the ability of the service to prepare accurate budget forecasts.	Recharges between the three boroughs should be raised on a monthly basis.

Management Response
Recommendation accepted Quarterly departmental recharges have been raised, so that client department are aware of the costs of legal services on a quarterly basis. What was not done quarterly was Legal Services internal recharges between the three trading accounts. This would not have had an impact on client departments and it was felt this was worth deprioritising this in order to allow the small team of Business Support officers to work on the project to review of the service's processes, set out below. This was completed in January 2018. Legal Services were then in a position to carry out all recharges and invoicing on a monthly basis. This started with journals and invoices to the end of February 2018. A further set of final journals and invoices will be completed at the start of April to cover March 2018. It should be noted that with LBHF Legal Services becoming a sovereign service from 1st April 2018, administration for recharging will be materially simplified and reduced. Management will be introducing performance targets for the preparation of data for monthly charges and also the completion of charges themselves in time for P1 208/19 billing. These reports will be made available to the Legal Management Team and finance monthly. 1. Introduced monthly reports showing time recording errors. These are sent to relevant fee earners and business support officers to make the required changes to their records. This ensures that data is of high quality when quarterly billing takes place. 2. Recategorised disbursements on our case management system so they are clearly labelled as being paid by legal services or by the client. This significantly speeds up the processing of disbursements during billing and minimises the possibility of any errors. 3. Redesigned processes for all property work to ensure that the correct work types are used and fee charged to the client. This is essential to ensure that work that is paid for by internal clients and those by external parties are clearly identified. Also for ensuring that client income is correctly categorised with the right analysis code. This was done by working closely with client department.

4. Worked with property client departments to ensure communications with the third parties makes clear that fees will cover the cost of providing legal advice.
5. Introduced invoicing as standard for all S106 and S278 income.
6. Had a big push in the middle of summer 2017 to close inactive (not worked on for three months) files. This ensures that correct cost centre data is used for recharging clients.
7. Introduced income allocation form with correct cost centres and analysis codes to be used by fee earners when receiving income. This goes to legal finance to check and ensures that income is correctly categorised eg S106 income, property income etc.
8. Produce weekly chargeable hours reports to assist managers monitor recoding compliance in their teams.
9. Identified areas where efficiency improvements can be made.

Responsible Officer	Deadline
Richard Cutbush to 31 March 2018 and thereafter this is not applicable.	31 March 2018

4. Time Management System

Priority	Issue	Risk	Recommendation
Medium	Whilst the completion of timesheets on the time management system is monitored on a monthly basis, this has not been consistently enforced in 2017/18 and some fee earning staff had not completed timesheets on a timely basis.	Where the time management system is not up to date with staff timesheet entries, there is an increased risk of recharges and invoices being inaccurate, incomplete or not raised in a timely manner. Delays or inaccuracies in recharges may also impact on other departments' ability to effectively manage their budgets.	Senior managers in Legal services should ensure that the time management system is kept up to date and compliance with this should be monitored on a monthly basis. Action should be taken where staff continue to be behind in inputting their time.

Management Response
Recommendation accepted. We welcome this recommendation. The majority of fee earners meet their targets and some exceed their targets, which make up for the deficit created by those who do not meet their targets. Over the years a number of initiatives have been taken by the management team to ensure compliance. Business Support will continue to produce weekly and monthly summary reports showing performance against target. These will continue to be published on the service's Yammer page. Any individual fee earner that is below target (not due to annual leave, ill health etc) in any given month will be required to discuss any challenges they are experiencing with their Chief Solicitor. This audit and the recommendation that action should be taken should also assist.

Responsible Officer	Deadline
Rhian Davies, Angus Everett, Adesuwa Omoregie	Monthly

5. Staff Utilisation and Non-Chargeable Time

Priority	Issue	Risk	Recommendation
Low	Whilst a monthly report is produced detailing the analysis of chargeable hours, which is reviewed by Legal Management Team, the non-chargeable time is not generally recorded and hence utilisation of staff is not monitored in detail. We were advised that the management team have discussed the option of recording non-chargeable time annually but have rejected this on the basis that recording non-chargeable time is not productive and that only work on special projects should be recorded.	Where no chargeable time is not monitored and reported on, there is increased risk of inappropriate non-chargeable time being charged and that this is not identified. This may result in staff not maximising their chargeable hours.	Management should maintain more detailed records of non-chargeable time to enable them to monitor non-chargeable time of staff.

Management Response
Recommendation accepted. Legal Services have tried collecting non-chargeable time date historically and it was Legal Service's view that it became a non-productive exercise and reduced capacity to meet chargeable targets. A decision was taken by Legal management in 2015 to ask staff to record chargeable activities only except for special projects when staff are involved in time consuming projects which are not chargeable. However, as a single borough service LBHF trading account will trial this again.

Responsible Officer	Deadline
Rhian Davies	By July 2018

6. Recharges Spreadsheets

Priority	Issue	Risk	Recommendation
Low	Various spreadsheets are maintained by the Business Manager to support the recharges. Examination of these spreadsheets and discussions with Corporate Finance indicated that these spreadsheets are complex and that the Business Manager appears to be the only one who fully understands them. It should be noted that we did not identify any errors within the spreadsheets through the course of our work and monthly meetings between the two services would help resolve this issue either by understanding of the complexity or by amending the spreadsheet.	Where spreadsheets are complex and only understood by one officer, there is an increased risk of non-continuity in the event of staff absence. There is also the risk that any errors in the spreadsheets will not identified.	Consideration should be given to simplifying the spreadsheets use for recharges. Training and / or written guidance should be provided to other officers in the maintenance and use of the spreadsheets.

Management Response
Recommendation accepted. Once P12 billing has been completed and in advance of P1 billing, the spreadsheets will be updated to reflect the disaggregated service. As LBHF will be a sovereign service from 1st April 2018, the whole billing process will be simplified as the need for cross authority spread sheets and invoicing will have been removed. However, the Legal Finance lead in LBHF will produce a guidance note for the completion and updating of the spreadsheets. Training will be provided to both the LBHF Legal systems and finance manager and the systems and finance officer to provide service resilience. NOTE: this will be a simpler process for a single borough services.

Responsible Officer	Deadline
Richard Cutbush to hand over to Sucheta Naik	30 April 2018

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, and Inherent Risks

This audit was a full risk based review of the arrangements for Legal Services Budget Management and included the following areas:

Ref	Audit Area - Description	Comments on Coverage / Area Objectives
01	Budget Planning	Budgets are set and funds allocated so as to achieve the strategic and operational objectives of the organisation. Budget setting is coordinated with the business planning and medium term financial planning processes and is subject to scrutiny and challenge. Budget planning takes into account lessons learned from previous years, trend analyses, projections of costs and income, and profiling for the year.
02	Budget Monitoring, Variances, and Reserves	Budgets are regularly monitored and variances analysed and communicated so as to minimise the risk of budget under/overspend, and to allow prompt corrective action to be taken where overspends are forecast. Action plans are put in place and monitored, with roles and responsibilities clearly delegated, to help bring adverse variances in line with budget. The action plans set are achievable and viable in order to bring adverse variances in line with budget. Budget forecasts are based on useful and relevant supporting data and information. As part of this area we will also seek to determine what has caused the nil variance to increase significantly to £328k in period 9.
03	Verification of S113 Charges and LGSS Fees and there is sufficient, adequate and reliable evidence to support a 1/3 allocation of all management costs.	The allocation of S113 charges and LGSS fees is in accordance with relevant agreements and Charging policies, with documentation to support fees allocated being maintained. Recharges/invoices are correctly raised and paid in a timely manner.
04	Alterations and Virements	Budget alterations and virements are completely, accurately and validly processed in a timely manner in line with all governance process.
05	Management Reporting	Financial information is completely, accurately, validly and timely produced to allow for effective monitoring and decision making as part of a comprehensive performance management system.

Ref	Audit Area - Description	Comments on Coverage / Area Objectives
06	Management Control of Budget Drivers and Exception Reports	We will seek to establish the following: • Do budget managers regularly monitor and manage their budget drivers. Is this cascaded and do these form a regular part of performance appraisals and one to ones? • Do budget managers regularly monitor, manage and action their exception reports. Is this cascaded and do these form a regular part of performance appraisals and one to ones? • Are accurate regular KPIs produced and looked at by operational management on a timely basis to allow for effective monitoring and decision making as part of a comprehensive performance management system? Do operational managers meet regularly to discuss the budget drivers and exception reports, Are SMART operational plans put in place to ensure performance is optimised and costs are therefore controlled?

Key risks

The risks listed below are potential inherent risks which are common for any system of this type:

- The department having insufficient funds to carry out its planned expenditure.
- Budget overspends are not identified in time for an effective course of action to be taken.
- Amendments are made to the agreed budget without the delegated approval.

Limitations to the Scope of the Audit

The following limitations to the scope of the audit were agreed when planning the audit:

- This is a high level review and will be based on examination of documentation and interviews with key officers with limited testing undertaken;
- The audit review does not provide absolute assurance that material error, loss or fraud does not exist.

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	12/02/2017
Draft Report Issued	27/02/2017
Responses Received	15/03/2018
Final Report Issued	15/03/2018

Audit Team
Client Engagement Manager: James Graham
Auditor: Kanta Patel
Auditees
Tasnim Shawkat – Director of Law
Rhian Davies – Chief Solicitor
Danielle Wragg – Finance Business Partner
Client Sponsor
Hitesh Jolapara - Strategic Finance Director

Report Distribution List
Tasnim Shawkat – Director of Law
Rhian Davies – Chief Solicitor
Danielle Wragg – Finance Business Partner
Copy Recipients of Report
Hitesh Jolapara - Strategic Finance Director

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. 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.

Agenda Item 9b

Shared Services

Agresso Payroll

Final Internal Audit Report

March 2018

Contents

1. Introduction

As part of the internal audit plan for 2017/18, agreed by the Committees of all three Councils (Royal Borough of Kensington and Chelsea, Westminster City Council, and Hammersmith and Fulham), 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 BTs operational site at South Tyneside since all transaction testing was based on tests and data analytic reports carried out on data held on Agresso.

The audit reviewed the effectiveness of controls and processes in place to ensure that the councils' payroll systems are managed appropriately and that all payments made to employees through the payroll are administered, processed and approved in accordance with the Council's rules and regulations.

The audit 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. In addition, the procedure and guideline documents were reviewed.

As part of the Managed Services agreement, BT is 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 Framework 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.

As at January 2018, Westminster City Council (WCC), the Royal Borough of Kensington and Chelsea (RBKC) and London Borough of Hammersmith and Fulham had accepted that they will not seek to extend the BT Managed Services contract beyond the end date of May 2019.

An appropriate replacement solution to Agresso has been identified and all three councils will be using the Hampshire Partnership SAP solution to replace BT in providing the managed services for HR, payroll and finance.

It is anticipated that the Hampshire Partnership SAP solution will be implemented for all three councils during 2018/19.

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 exists 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 2017/18 is summarised below:

Council	Employees	Employee Cost
WCC	3,353	£105.5m
RBKC	3,370	£94.6m
H&F	3,231	£90.7m
Total	**9,954**	**£290.8m**

This audit only covers council employees and excludes school employees and employees of other third parties that the Council pays through the Agresso application. These are covered under separate audit reviews.

As part of this review, Audit were provided with high level read only access to the Agresso payroll and 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.

The audit did not review any of the arrangements in preparation for the migration of payroll data and records from Agresso to the new SAP solution.

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		L		

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			1		
Leavers to payroll			1		
Variations to Pay			1		
Standing Data				1	
Management Reports					
		Total	**4**	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 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.
- Performance monitoring reports for the BT managed payroll services are produced and monitored by the ICF. Additionally, appropriate arrangements also exist to manage the risk of any decline in performance as the BT contract approaches its conclusion.

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 limited the audit checks that could be undertaken on payroll records and their accuracy and consequently the integrity of payroll transactions could not always be confirmed.
- The retention of supporting documentation and maintaining an audit trail for payroll transactions on Agresso by BT remains an area of concern since it was also raised in the 2016/17 audit report and appropriate recommendations made to address this issue. It should be noted that there has been an improvement in this area since the last audit.
- 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 within Agresso as part of transaction testing undertaken.
- 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 fully relied upon due to omissions noted over standing data on Agresso as part of transaction testing undertaken.
- Limited progress has been made in implementing the recommendations from the 201617 audit of payroll. Of the nine high priority recommendations made in the previous audit, four have not been fully implemented all of which relate to maintaining an adequate audit trail for starters, leavers, variations to pay and standing payroll data. It should be noted that BT and the line manager/employee have responsibility for ensuring this is being maintained to an acceptable level.

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 – Paul Lawrence RBKC
- Programme Assurance Manager for MSP – George Lepine WCC
- 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
High	As part of the contractual discussions with RBKC and WCC, a Recovery Plan was agreed with BT which aims to reach an end point at which functionality required for a "good enough" operation of the Agresso application is in place. Audit established that a Block 3 Delivery Plan is currently in place with fortnightly meetings being held with BT to review progress and update senior management. Additionally, a copy of the most recent monthly Payroll Performance reporting pack was provided by the ICF which showed BT performance was in line with targets and at an adequate level. Whilst payroll accuracy has been a major concern across the three Councils with this issue being raised in the 201617 payroll audit, there has been an improvement over the past twelve-month period. As the contract with BT moves towards the termination date, there is a significant risk that the performance of the payroll and HR managed service could fall below expected standards. As such it is important that the Councils have robust monitoring arrangements in place that would highlight any significant performance issues with BT. Audit established that the reporting of payroll under and over payments still remains an outstanding issue and this has been exacerbated by the lack of reliance that can be placed on the data sets provided by BT. While the issue over accuracy of data provided by BT remains unresolved, a final agreement on the value of payroll under and overpayments can't be reached.	There is a risk that payroll corrections, particularly those relating to historic over/under payments, may not be completed before the system is migrated to the SAP solution. This could result in inaccurate data and errors being perpetuated in SAP and Hants CC not be willing or able to deal with the outstanding over or under payments.	1.1 Historical payroll errors need to be verified and action to resolve these agreed by the Councils as soon as possible with timelines for action clearly stated.

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This issue and appropriate recommendations were raised in the 2016/17 payroll audit and whilst some progress has been made, a final agreement has yet to be reached by all parties to sign off.

As at 21 February 2018, payroll overpayments being actively recovered as sundry debtors by BT since April 2015 are shown below:

	No of debtors	Outstanding balance
WCC	56	£129.8k
H&F	84	£163.7k
RBKC	78	£199.1k
Total	**218**	**£492.6k**

A 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 all three councils and BT

Whilst it is acknowledged the issue of reporting and recovery of overpayments has been problematic for varying reasons, it is critical for all parties to come reach a conclusion in advance of the contract end date with BT.

Management Response

The Framework ICF continues to work with BT as part of the Block 3 Delivery Plan to bring to a satisfactory conclusion the production of the under and overpayment case packs on which the resolution of this issue is dependent. The Framework ICF is conscious of the urgency of this matter and the need to bring it to a timely conclusion.

Responsible Officer	Deadline
Intelligent Client Function (Rec 1.1)	Immediate

2. New Starters – Transaction Testing

<table>
<tr><th>Priority</th><th>Issue</th><th>Risk</th><th>Recommendation</th></tr>
<tr>
<td>High</td>
<td>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.

A report showing all new starters for each Council was extracted from Agresso Smartclient for the period April to September 2017. Total new starters for this period and the sample of new starters examined for compliance testing is shown below:

<table>
<tr><th>Council</th><th>New Starters</th><th>Sample tested</th></tr>
<tr><td>WCC</td><td>205</td><td>20</td></tr>
<tr><td>H&F</td><td>140</td><td>20</td></tr>
<tr><td>RBKC</td><td>142</td><td>20</td></tr>
<tr><td>Total</td><td>487</td><td>60</td></tr>
</table>

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:
-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.</td>
<td>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.

In addition, the absence of complete records for new starters may compromise the integrity of the data migration process if incomplete records are migrated from one HR/Payroll system to another.

There is a risk that an incomplete audit trail could compromise the Councils' ability to demonstrate compliance with legislation, particularly the requirement to verify an employee's eligibility to work which could be required if investigated or challenged by the UK Border Agency.</td>
<td>2.1 The Intelligent Client Function should ensure that the Block 3 Delivery Plan actions and change requests which impact on data integrity are satisfactorily completed and take such other actions as are possible so that:

a) The data which is migrated to the new solution is as accurate and complete as possible; and
b) The fullest possible audit trail of supporting documentation for new starters is maintained and available.</td>
</tr>
</table>

Key Findings: the following was noted from transactional testing of new starters:

	WCC	**H&F**	**RBKC**
New Starter Form (SN75/76/110) retained on Agresso a)	**0/20**	**0/20**	**1/20**
New starter set up on Agresso in timely manner	19/20	18/20	19/20
New starter checklist form present to indicate details checked by second BT officer	**0/20**	**0/20**	**4/20**
First salary paid on time	19/20	18/20	19/20
First salary payment correct amount paid	18/20	18/20	14/20
New starter bank detail form retained on Agresso	**0/20**	**0/20**	**1/20**
Employee Tax code correct	a)	a)	a)
Pension opt out processed correctly where present	3/3	2/2	2/2
Occupational Health check form retained	**0/20**	**1/20**	**0/20**
Occupational Health tab on Agresso completed with details by BT	16/20	11/20	18/20
HR Declarations completed	**0/20**	**7/20**	**3/20**
P45/46 retained b)	3/20	2/20	6/20
References retained on Agresso	**0/20**	**0/20**	**0/20**
Signed employment contract retained	**1/20**	**1/20**	**1/20**
Verification of ID retained	**0/20**	**0/20**	**0/20**

Findings in bold denote poor compliance with the control area being tested.

a) Where new starter is processed through e-Recruiter the supporting documentation may be retained on e-Recruiter

b) There is no requirement to file a P45/46 but it is good practice to retain this information.

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	Whilst there has been an improvement in terms of record keeping by BT since the previous audit, there are still anomalies identified from transactional testing in addition to the absence of a full audit trail for payroll transactions. As such Audit are unable to provide complete assurance on the robustness and integrity of the new starter process across the three councils.		
Management Response			
The Framework ICF continues to work with BT as part of the Block 3 Delivery Plan to complete the uploading of the backlog of historic letters to employees. The target date for the completion of this action is 30th April 2018. In addition, we will review the findings of this audit report with the BTSSC Service Assurance and Service Desk Manager to identify any further actions which can be taken to improve data integrity.			
Responsible Officer			**Deadline**
Intelligent Client Function			May 2018

3. Leavers – Transaction Testing

<table>
<tr><th>Priority</th><th>Issue</th><th>Risk</th><th>Recommendation</th></tr>
<tr>
<td>High</td>
<td>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.

A report showing all leavers for each Council was extracted from Agresso Smartclient for the period April to September 2017. Total leavers for this period and the sample of leavers examined for compliance testing is shown below:
<table>
<tr><th>Council</th><th>Leavers</th><th>Sample tested</th></tr>
<tr><td>WCC</td><td>169</td><td>20</td></tr>
<tr><td>H&F</td><td>125</td><td>20</td></tr>
<tr><td>RBKC</td><td>160</td><td>20</td></tr>
<tr><td>Total</td><td>454</td><td>60</td></tr>
</table>

Testing Methodology: The following key areas were tested for each leaver by examining the records, data and documents maintained under the Agresso Personnel module:
-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)</td>
<td>There is a risk that where the full audit trail for leavers is not maintained in Agresso, the accuracy and completeness of HR and associated payroll transactions cannot be substantiated.

In addition the absence of complete records for leavers may compromise the integrity of the data migration process if incomplete records are migrated from one HR / payroll system to another.</td>
<td>3.1 The Intelligent Client Function should ensure that the Block 3 Delivery Plan actions and change requests which impact on data integrity are satisfactorily completed and take such other actions as are possible so that:

a) The data which is migrated to the new solution is as accurate and complete as possible; and
b) The fullest possible audit trail of supporting documentation for new payroll leaver records is maintained and available.
c) The Framework Intelligent Client Function should work with the Retained HR teams to encourage line managers to improve the completion of SN10 forms</td>
</tr>
</table>

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	13/20	**7/20**	**9/20**
Leave date agreed with manager reconciles with leave date entered by BT	**9/20**	14/20	**6/20**
SN10 form (where completed) retained on Agresso	7/20	**7/20**	**9/20**
SN10 form (where completed) contains all relevant information (a)	**2/7**	**2/7**	**2/9**
SN10 form completed by line manager in timely manner	7/7	5/7	6/9
Last day service notified agrees with Agresso entry	7/7	6/7	7/9
Leaver removed from payroll in timely manner (responsibility of line manager)	16/20	17/20	14/20
Final salary unable to determine if correctly calculated due to insufficient information being retained.	**9/20**	11/20	12/20

Findings in bold denote poor compliance with the control area being tested.

Following findings also noted in relation to the above:
(a) SN10 forms had missing information such employee name, job title, reason for leaving and resignation date. It should be noted that most of this information is provided by the line manager and BT are not responsible for this.

	Supporting documentation retained for leavers on Agresso was limited or incomplete which would have the potential to make it difficult to verify whether payments made such as redundancy, compromise agreements, payments in lieu, had been correctly made and authorised or represented a potential overpayment. Payroll related queries and incidents are reported to BT through the Service Now portal by council employees. However, these communications are not always uploaded onto Agresso as supporting evidence where issues have been raised and resolved. 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: • Robustness and integrity of the leavers process. • Leavers being promptly removed from the payroll. • Overpayments have not occurred. Audit noted that there has been no significant improvement in maintaining the audit trail for leavers since the 201617 payroll audit where recommendations were made to address this issue.		

Management Response	
The Framework ICF continues to work with BT as part of the Block 3 Delivery Plan to complete the uploading of the backlog of historic letters to employees. The target date for the completion of this action is 30th April 2018. In addition, we will review the findings of this audit report with the BTSSC Service Assurance and Service Desk Manager and the Retained HR teams to identify any further actions which can be taken to improve data integrity.	
Responsible Officer	**Deadline**
Intelligent Client Function	May 2018

4. Variations to Pay – Transaction Testing

<table>
<tr><th>Priority</th><th>Issue</th><th>Risk</th><th>Recommendation</th></tr>
<tr>
<td>High</td>
<td>
Audit requested a number of reports from BT showing variations to pay for the three council payrolls. From the payroll based reports, the following variations to pay data was extracted across the three council payrolls for the period January to August 2017;

Honoraria Payments
Variable Payments (travel expenses, professional fees, work permit expenses etc.)
Overtime Payments

Testing Methodology: A sample of 15 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 though the Service Now portal for the payment instruction to be processed.
Key Findings: the following findings were noted from transactional testing for each Council:
<table>
<tr><th>Variation to pay for WCC</th><th>Sample size for WCC</th><th>Evidence retained for WCC</th></tr>
<tr><td>Honoraria payment (a)</td><td>15</td><td>13</td></tr>
<tr><td>Variable payment (b)</td><td>15</td><td>0</td></tr>
</table>
(a) Payments range from £850 to £8,368. For one payment the supporting form showed authorisation for £4,000 but actual payment made was for £4,442.
(b) Payments range from £94 to £326
<table>
<tr><th>Variation to pay for H&F</th><th>Sample size for H&F</th><th>Supporting Evidence Retained for H&F</th></tr>
<tr><td>Honoraria payment (a)</td><td>15</td><td>13</td></tr>
<tr><td>Variable payment (b)</td><td>15</td><td>1</td></tr>
</table>
a) Payments range from £500 to 5,000.
b) Payments range from. £126 to £1,491.
</td>
<td>There is a risk that where supporting evidence and authorisation relating to variable payments (ie honoraria payments) are not retained on Agresso, the accuracy and completeness of HR and associated payroll transactions cannot be substantiated.</td>
<td>
4.1 The Intelligent Client Function should ensure that the Block 3 Delivery Plan actions and change requests which impact on data integrity are satisfactorily completed and take such other actions as are possible so that:
a) The data which is migrated to the new solution is as accurate and complete as possible; and
b) The fullest possible audit trail of supporting documentation for payroll variations to pay records is maintained and available.
c) The Framework Intelligent Client Function should work with the Retained HR teams to encourage line managers to improve the processing of variable payments by employees and line managers.
</td>
</tr>
</table>

Variation to pay for RBKC	Sample size for RBKC	Supporting Evidence Retained for RBKC
Honoraria payment (a)	15	13
Variable payment (b)	15	1

a) Payments range from £833 to £5,760. The Director of Human Resources must approve recommendations for payments above £2,500, however for two such payments (£3,630 and £3,600) no evidence of approval could be seen on Agresso.
b) Payments range from £45 to £396.

Audit were unable to test any overtime claims due to the lack of access to the workflow log showing managers approving the amount claimed.

Compliance with the processing of honorarium payments has improved since the last audit where the results were WCC 10/20, H&F 2/20 and RBKC 6/20. Processing of variable payments remains an issue and Audit are unable to provide assurances that these are being authorised and processed correctly, accurately and on a timely basis on Agresso.

It should however be noted that the maintenance of the full audit trail on Agresso for certain types of variable payments such as expense is the responsibility of the employee and manager since they are responsible for uploading any receipts and supporting documentation on the relevant Agresso record and not BT.

Management Response

The Framework ICF continues to work with BT as part of the Block 3 Delivery Plan to complete the uploading of the backlog of historic letters to employees. The target date for the completion of this action is 30th April 2018. In addition, we will review the findings of this audit report with the BTSSC Service Assurance and Service Desk Manager and the Retained HR teams to identify any further actions which can be taken to improve data integrity.

Responsible Officer	Deadline
Intelligent Client Function	June 2018

5. Standing Data – Transaction Testing

Priority	Issue	Risk	Recommendation
Medium	Audit were provided with a number of reports by BT showing standing data information of employees on the three Council payrolls such as name, address, bank details, National Insurance number. These reports were used 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 2017 and comprised approximately 9,300 entries. **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. **Key Findings**: the following was noted from the analytical review of standing data: • Two H&F employees had their date of birth recorded as 01.01.1901 which appears to be a default date; • One WCC employee had a date of birth recorded as 28.04.2016; and • Two WCC employees (one was a recent leaver) did not have a home address showing against their personal record on Agresso	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.	5.1 The Intelligent Client Function should liaise with BT to identify any steps that can be taken to improve the quality and integrity of standing data.
	Audit also noted the following payroll and related HR issues: • Annual leave balance report extracted from Agresso as at December 2017 identified 43 permanent employees on full time contracts (17 WCC, 17 H&F and 9 RBKC) with a nil annual leave allocation on Agresso for 2017/18. Audit were informed by the ICF that these all related to balances where the manager, and not BT, had to update the employees leave records for the correct balance to appear. There is also 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 are unable to see how much leave they have taken on Agresso;		

	• Issues over the input (by line managers) and reporting of sickness levels. This is a known issue that is the subject of a separate audit review and mainly relates to line managers not fulfilling their responsibilities in reporting sickness levels on Agresso. • For WCC and RBKC, the payroll reconciliations which are the responsibility of BT, were not being undertaken on a timely basis and there were issues with the data contained within these reports. Where reconciliations are not carried on a timely basis there are implications for the year end accounting process and the integrity of the financial reporting process although Audit established that each of the corporate finance sections were addressing this issue and taking appropriate action to mitigate against this risk. Audit also established this issue is being addressed under the Block 3 Delivery Plan. It is acknowledged that some of the anomalies and issues are as a direct result of the line manager failing to fulfil their duties in updating employee records on Agresso.		

Management Response
The Framework Intelligent Client Function will review the findings of this audit report with the BTSSC Service Assurance and Service Desk Manager and the Retained HR teams to identify any further actions which can be taken to improve data integrity. However, the Framework Intelligent Client function does not share the view that based on the findings of this audit the accuracy and completeness of standing data on the payroll cannot be fully relied or that this warrants a medium priority recommendation.

Responsible Officer	**Deadline**
Intelligent Client Function	June 2018

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	• 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	• 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	• 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	• 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	• 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 Data	• Review a sample of adjustments to individual payee's standing data such as bank details; date of birth, addresses to ensure amendment was subject to due process and evidence is retained. • Verify the integrity of standing data held on the payroll
07	Management Information	• 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	TBC
Draft Report Issued	27.02.2018
Responses Received	07.03.2018
Final Report Issued	29.03.2018

Audit Team
Principal Auditor: Alpesh Patel
Internal Auditor: Sohal Rawal
Sponsor
Director for Human Resources – Debbie Morris (RBKC) Director of People Services – Lee Witham (WCC) Director of Human Resources – Mark Grimley (H&F) Head of Framework ICF – Jeremy Beresford (WCC)
Report Distribution List
Programme Assurance Manager (MSP) – George Lepine Bi Borough Managed Services and 3rd Party Providers – Paul Lawrence
Head of Framework ICF – Jeremy Beresford (WCC)
Copy Recipients of Report
Director for Human Resources – Debbie Morris (RBKC)
Director of People Services – Lee Witham (WCC)
Director of Human Resources – Mark Grimley (H&F)

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 Internal Audit Report

Procurement Compliance – Corporate Property Services Framework

March 2018

Contents

1 Introduction

As part of the internal audit plan for 2017/18, agreed by the Audit Pensions and Standards Committee, we have undertaken an internal audit of Procurement Compliance in respect of the Corporate Property Services Framework Tender at the London Borough of Hammersmith & Fulham.

The London Borough of Hammersmith and Fulham established and procured a Framework consisting of eight lots in October 2013 from which to commission corporate property work. The current framework expired in October 2017, however an extension to 1 January 2018 was agreed to allow its re-procurement to take place. The main users of the framework are officers from Corporate Property Services, Housing, and Planning procuring property services and advice.

A review of the current framework has been undertaken to help inform revisions to the next property services framework lots to be procured. The Council is seeking to procure six lots for the provision of a range of property advice that may be required in respect of LBHF assets. The agreed lots to the new framework are:

1. Homebuy, variation of leases for loft conversion, basements, and other associated transactions (maximum 2 providers);
2. Housing valuation appraisals, regeneration valuation advice, reinstatement cost appraisal, development advice and operational portfolio advice (maximum 4 providers);
3. Asset Valuations, HRA Stock valuations, Rating (maximum 2 providers);
4. Professional Consultancy: CPO: property advice (general): property advice for the Planning Department (maximum 6 providers);
5. Advertising Hoardings (maximum 2 providers); and
6. Telecomms and ancillary advice (maximum 2 providers).

Building and Property Management Senior Management Team (chaired by the Director) is acting as the Project Board. The Head of Asset Strategy & Portfolio Management is the Senior Responsible Officer for the procurement work.

2 Executive Summary

2.1 Assurance Opinion

	Nil	Limited	Satisfactory	Substantial
Audit Opinion		L		

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
Strategic Assessment and Business Justification (Strategic Outline Business Case);			*	0	0
Project Governance;			1	1	0
Contract Strategy; and			0	0	0
Delivery/Procurement Strategy (Outline Business Case & Options Appraisal and Authorisation to Proceed to Procurement).			0	0	0
Total			1	1	0

*An issue relating to this scope area has been raised in scope area 02: Project Governance.

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 at the time of the audit were suitably designed, consistently applied and effective in their application. A number of documents were not provided during the audit and we are unable to provide assurance in these areas.

The key findings and an assessment of controls are summarised below.

Design of and compliance with controls to address the key risks identified

- The re-procurement of the Property Services Framework was linked to the strategic aim of being 'the BEST council' and requires the Council to provide 'the best asset management services'. The requirement is needed as a result of the current framework for similar services expiring in October 2017 albeit having been extended to January 2018 to allow for finalisation of the re-procurement.
- The re-procurement approach was decided in the Cabinet Decision report dated 22 June 2017. The decision to continue with a framework approach was driven by an observed value for money and high quality services provided under the current Property Services Framework.
- We asked for but were not provided with a Predictive Equality Impact Assessment. In addition, the Cabinet Decision report did not include a statement on equality implications to consider.
- The Project Governance structure consists of a project board to oversee delivery of the framework re-procurement; a Service Review Team to review the procurement strategy and realisation of value for money and a project team to lead the procurement and act on the project board's decisions.
- Building and Property Management Senior Management Team (chaired by the Director) is acting as the Project Board. The Head of Asset Strategy & Portfolio Management is the Senior Responsible Officer for the procurement work.
- A Project Initiation Document (PID) was included as part of the business delivery plan in the Cabinet Decision report dated 22 June 2017.
- We asked for but were not provided with Project Status Reports and any project risk logs/registers. As a result, we were unable to confirm that the procurement process was on track to be completed by January 2018. There is a risk of inefficient or ineffective project management that may impact on the success of the procurement.
- A Project Plan is used to plan and monitor the progress of the re-procurement. It was noted that one activity, 'Write specs for each lot including KPI's' was only 20% completed, but should have been finished at the time of our audit fieldwork. No subsequent action plan or lessons learnt were produced as a result of this delay to the procurement.
- When considering the Contract Strategy, it was decided to reduce the number of lots by two from eight to six. The initial lots were as follows:

    1. Landlord Services – Property Management of the Commercial Property Portfolio;

    2. General Valuations; Right to Buy Valuations; transactions for the Housing Department ; Services where the Council is the Tenant; Acquisitions; and Non-Residential Sales;

    3. Asset Valuations; HRA Stock Valuations; Rating Services;

4. Statutory Valuations; Strategic Consultancy and Property Advice; Valuation and Property Advice to the Planning Department;

5. Sales by Auction;

6. Dilapidations;

7. Advertising Hoardings; and

8. Estate Agency Services – Sales of Residential Property other than by Auction.

- The agreed re-tendered lots were decided as follows, with lot 6 being removed entirely:
    1. Commercial disposals, general capital and rental valuations
    2. Homebuy, variation of leases for loft conversion, basements, Reinstatement Cost Appraisal, and other associated transactions
    3. Housing valuation appraisals, regeneration valuation advice, development advice and housing portfolio advice
    4. Professional Consultancy: CPO: property advice (general): property advice for the Planning Department.
    5. Advertising Hoardings
    6. Telecoms and ancillary advice
- The amendments to the Lots were discussed and decided in the Cabinet decision report dated 22 June 2017 as follows: paragraph 4.7.1 'LOT 1 was awarded to one provider in 2013, but works were not commissioned until 2015. The nature of the works on the previous LOT 1, management of the commercial portfolio, require lengthy mobilisation periods. In this case, it was one year. Thus, the nature of the work is different to that of the other LOTs as it is only practical to have one company carry out the works. A solution to the long mobilisation period and different nature of the works will be to remove this set of work from the framework and run procurements for these works separately. Additionally, LBHF will be working with Ernst Young and GVA Grimley on further income generation so a one year continuation of delivery of service by GVA or this work is required.' And paragraph 4.7.2 states that 'The change in administration in 2014 resulted in a change to the mix of asset management work has altered due to the change in focus from the new administration. The LOT for dilapidations work, for sales by auction and the residential estate agency LOTs are no longer required to be bought on a regular basis as the Council seeks to re-utilise its assets for affordable housing wherever possible'. Lot 6 was decided to be removed due to a lack of use of the lot by the Council.

4 Acknowledgements

We would like to thank the following members of staff for their time and assistance during the audit:

- Nigel Brown – Head of Asset Strategy and Portfolio Management

Appendix 1: Management Action Plan

1. Project Governance – Retention and accessibility of project documentation

Priority	Issue	Risk	Recommendation
High	Having all documents readily available allows for efficient and effective project management. Documentation was requested on four separate occasions, however no response was received. We asked for but were not provided with the following documentation : • An updated Cabinet Decision report outlining the completion of Legal and Financial and Resources Implications assessments; • Project status reports; • Risk logs/registers relating to the project; and • An Equality Impact Assessment.	Where project documentation is not readily available, there is a risk of inefficient or ineffective project management that may impact on the success of the procurement.	A shared file directory should be used for all procurement documentation and be accessible to all officers involved in a procurement project's management. The documents that could not be provided should be located and made accessible.

Management Response
No resposne received.

Responsible Officer	Deadline
Head of Asset Strategy and Portfolio Management	01/07/2018

2. Project Governance – Action Plan

Priority	Issue	Risk	Recommendation
Medium	The project plan included one activity, 'Write specs for each lot including KPI's' (Row 23) which was noted as 20% completed, but should have been finished at the time of our audit fieldwork. Discussion with the Head of Asset Strategy and Portfolio Management identified that the slow progress for confirming the service specifications is due to lack of resources. There was no evidence that this extension/overrun has been agreed or of actions having been implemented to bring the project back into time.	There is a risk that the procurement initiates without all necessary areas of the action plan being completed. This may result in an ineffective procurement taking place.	Where areas of the project over-run, the Council should implement measures and form an action plan to ensure the task is completed as soon as possible and the project brought back into time. A lessons learnt log should be produced and all lessons recorded to it along with cause, effect and correcting actions where initiated. The lessons learnt should be taken to an immediate post-completion lessons learnt report. The lessons learnt report should be filed with the PMO (or equivalent). The lessons learnt should be disseminated as necessary by the PMO.

Management Response
No resposne received.

Responsible Officer	Deadline
Head of Asset Strategy and Portfolio Management	01/07/2018

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, and Inherent Risks

This audit was a full risk based review of the arrangements for Procurement Compliance – Corporate Property Services Framework and included the following areas:

Ref	Audit Area - Description	Comments on Coverage / Area Objectives
01	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.
02	Project Governance	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 the additional input. Project outputs/outcomes/benefits meet the organisation's needs. 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. A lessons learnt review of the procurement is undertaken and the results are disseminated within the Council.
03	Contract Strategy	An optimum balance is achieved between contestability and delivering the service the contracting authority needs.
04	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.

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; and
- The audit review does not provide absolute assurance that material error, loss or fraud does not exist.

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.

Inherent Risks

The risks listed below are potential inherent risks which are common for any system/organisation of this type:

- Failure to focus on delivery of the Council's and Service's objectives, resulting in expected benefits and value for money not being realised;
- Fraud or irregularity are perpetrated, resulting in increased contract costs and loss of best value for money, as well as reputational damage to the Council;
- 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; and

Appendix 4: Timetable and Distribution List

Stage	Date
End of Fieldwork	06/11/2017
Head of Asset Strategy and Portfolio Management	01/07/2018
Responses Received	N/A
Final Report Issued	06/03/2018

Audit Team
Client Engagement Manager: James Graham
Auditor: Matthew Blackman
Auditees
Nigel Brown – Head of Asset Strategy and Portfolio Management Kate Evangeli – Service Transformation Lead
Client Sponsor
Maureen McDonald-Khan – Director for Building and Property Management

Report Distribution List
Nigel Brown – Head of Asset Strategy and Portfolio Management
Copy Recipients of Report
Maureen McDonald-Khan – Director for Building and Property Management

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 Committee and senior management of the London Borough of Hammersmith and Fulham. 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.

Agenda Item 10

London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 17 JULY 2018	
HEAD OF INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2017/18	
Report of the Director of Audit, Fraud, Risk and Insurance	
Open Report	
Classification: For Information **Key Decision: No**	
Wards Affected: None	
Accountable Director: David Hughes, Director of Audit, Fraud, Risk and Insurance	
Report Author: David Hughes, Director of Audit, Fraud, Risk and Insurance	**Contact Details:** Tel: 0207 361 2389 E-mail: David.HughesAudit@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1. The Head of Internal Annual Assurance report summarises the work of Internal Audit during the 2017/18 year and provides an opinion on the overall system of internal control across the council.

2. RECOMMENDATIONS

2.1. To note the contents of the annual summary report.

3. REASONS FOR DECISION

3.1 To inform the Committee of the Director of Audit, Fraud, Risk and Insurance's overall opinion on the Council's system of internal control for 2017/18 and the sources of assurance which support that opinion.

4. PROPOSAL AND ISSUES

4.1. The report lists all the work undertaken by Internal Audit in the 2017/18 year and summarises the results of that work. It then provides the opinion of the Head of Internal Audit on the council's overall system of internal control.

4.2. The opinion of the Head of Internal Audit is stated as follows:

‘From the Internal Audit work undertaken in 2017/18, it is our opinion that we can provide reasonable assurance that the system of internal control that has been in place at the London Borough of Hammersmith & Fulham for the year ended 31 March 2018 accords with proper practice, except for any details of significant internal control issues as documented in the detailed report at section 8.’

4.3. Section 8 of the appended report provides details of the main limited assurance audit reports issued during the 2017/18 year.

5. OPTIONS AND ANALYSIS OF OPTIONS

5.1. The Director of Audit, Fraud, Risk and Insurance is required to provide an annual report and opinion on the Council’s system of internal control under the Public Sector Internal Audit Standards. To enable this, an annual Internal Audit Plan covering the Council’s key risks is devised in consultation with the Strategic Leadership.

6. CONSULTATION

6.1. The report has been subject to consultation with the Strategic Leadership team.

7. EQUALITY IMPLICATIONS

7.1. There are no equality implications arising from this report.

8. LEGAL IMPLICATIONS

8.1. Internal Audit is a statutory requirement as set out in the Accounts and Audit Regulations 2015.

9. FINANCIAL IMPLICATIONS

9.1 The Internal Audit Plan is delivered within the service budget. Actions required as a result of audit work, and any associated costs, are the responsibility of the service managers and directors responsible for the areas which are reviewed.

10. IMPLICATIONS FOR BUSINESS

10.1. There are no implications for business arising from this report.

11. COMMERCIAL IMPLICATIONS

11.1 There are no commercial implications arising from this report.

12. IT IMPLICATIONS

12.1. There are no ICT implications arising from this report.

13. RISK MANAGEMENT

11.1 The Internal Audit Plan is developed and delivered to cover the key risks faced by the Council, to provide assurance on the key controls in operation and the effective management of key risks. The Plan is developed to enable the Director of Audit, Fraud, Risk and Insurance to provide an annual report and opinion on the Council's system of internal controls.

14. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Full audit reports referred to in this report	David Hughes 0207 361 2389	Corporate Services, Internal Audit Town Hall King Street Hammersmith W6 9JU

LIST OF APPENDICES:

Appendix 1 –2017/18 Head of Internal Audit Annual Assurance Report

Appendix 1

London Borough of Hammersmith and Fulham

2017/18 Head of Internal Audit Annual Assurance Report

AUDIT PENSIONS AND STANDARDS COMMITTEE

July 2018

Contents

1. Executive Summary

1.1. From the Internal Audit work undertaken in 2017/18, it is our opinion that we can provide reasonable assurance that the system of internal control that has been in place at the London Borough of Hammersmith & Fulham (LBHF) for the year ended 31 March 2018 accords with proper practice, except for any details of significant internal control issues as documented in the detailed report at section 8.

2. Introduction

2.1. The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. This opinion statement is provided for the use of the LBHF and is used to support its Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

3. Scope of Responsibility

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

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

4. The Purpose of the System of Internal Control

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

5. The Internal Control Environment

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

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

6. 2017/18 Year Opinion

6.1. From the Internal Audit work undertaken in 2017/18, it is our opinion that we can provide reasonable assurance that the system of internal control that has been in place at the London Borough of Hammersmith & Fulham for the year ended 31 March 2018 accords with proper practice, except for any details of significant internal control issues as documented in the detailed report at section 8.

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

a) The programme of internal audit work undertaken by Mazars LLP between 1 April 2017 and 31 March 2018;
b) Internal Audit work undertaken by the Royal Borough of Kensington and Chelsea and Westminster City Council as part of the shared services;
c) The outcome of audit work for which no assurance level was previously provided. A summary of work undertaken and key findings can be found in Annex C; and
d) Follow up of audits undertaken previously. A summary of the outcome of these follow up visits can be found in Annex D.
e) Other sources of assurance available as set out in section 7.2 below.

Internal Control

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

- Codes of practice and Financial Regulations;
- Standing Orders, Standing Financial Instructions and Schemes of Delegation;
- Comprehensive budgeting systems;
- Regular reviews of periodic and annual financial reports which indicate financial performance against the forecast;
- Setting targets to measure financial and other performance;
- Clearly defined capital expenditure guidelines; and
- A formal programme and Project Management discipline.

Managed Services and Transfer to a new Finance System

6.4. The London Borough of Hammersmith and Fulham currently has a contract with BT for the provision of HR, Payroll and Finance services using the Agresso IT platform. As a result of various issues with the contract's performance, the London Borough of Hammersmith & Fulham need an alternative solution in place prior to the expiry of the current arrangement in May 2019 to ensure a smooth transition to the new provider and solution and to mitigate the risk of the managed service provision being wound down by BT.

6.5. Of the various options assessed, a public-to-public partnership model with Hampshire County Council ('HCC') was selected as the preferred option against guiding principles informed by lessons learned from the BT arrangement. The HR, Payroll and Finance Transformation Programme is designed to manage a safe exit from the current BT arrangements and successful transition to the HCC Partnership model.

6.6. Mazars LLP have been engaged to provide work with the Programme team and identified stakeholders to understand, validate and challenge their view of Programme performance. This approach is designed to ensure key risks have been identified, evaluated and plans / measures put in place to manage them. 'Deep dive' reviews will be undertaken in 2018/19 for specific risk areas as the programme develops.

6.7. To provide the Council with assurance over key financial and HR systems, a number of internal audits have also been undertaken during 2017/18 including:

- Accounts Payable (Satisfactory Assurance);
- Payroll (Limited Assurance);
- Pension Administration – contract management & performance monitoring (in progress); and
- Accounts Receivable Follow up (2 recommendations implemented, 2 partly implemented).

6.8. Further audits in respect of managed services and the transfer to the new model will be undertaken in the 2018/19 financial year.

Governance

6.9. In my opinion the corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This opinion is based on the work of Internal Audit as described in Annex A.

Risk Management

6.10. One risk management audit has been completed as part of the 2017/18 audit plan. Namely an audit of risk management of the Libraries Service.

6.11. A Satisfactory assurance opinion was provided for the Libraries Risk Management audit. Recommendations were raised that related to:

- Reviewing the risk register on a regular basis; and
- Correcting inconsistencies in risk scoring and distinguishing between existing and planned actions to manage risks.

6.12. Following the introduction of monthly SLT Assurance meetings instigated by the Chief Executive, the means by which the corporate risk register is compiled, reviewed and reported to SLT and the Audit Pensions and Standards Committee has been reviewed and updated.

Qualifications to the opinion

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

7. Basis of Assurance

7.1. We have conducted our audits both in accordance with the mandatory standards and good practice contained within the Public Sector Internal Audit Standards and additionally from our own internal quality assurance systems.

7.2. Our opinion is primarily based on the work carried out by Internal Audit based upon the internal audit plan. We have considered the work of other internal and external assurance providers including the following:

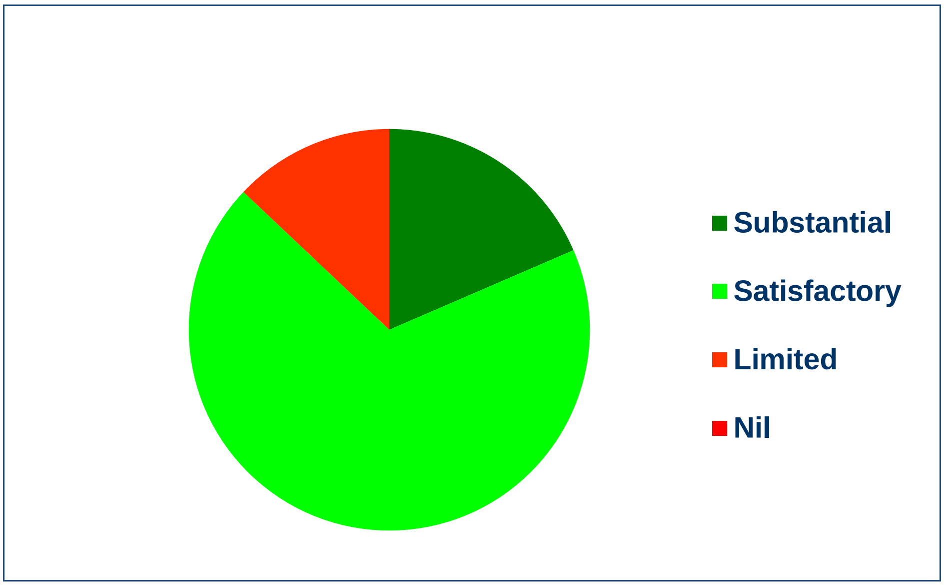
- Environment Services - a PSN inspection of information management to enable the council to access the DWP/DVLA networks;
- Corporate Finance - External Audit approval of accounts work and an HMRC PAYE / NICS / NMW audit of the planned replacement to Agresso;
- Adult Social Care - CQC Inspections of Community Independence Reablement Service (Good), and Residential Care Home Block Placements (2 Good, 6 Require Improvement);
- Children's Services - OFSTED reviews of schools, Children's Social Services and the Haven. There was also a multi-agency inspection of child protection arrangements.

7.3. The internal audit work that was completed for the 2017/18 financial year is listed in Annexes A, C and D. Annex A lists all the audits where assurance opinions are provided. The departmental designations shown relate to the structure which was in place in 2017/18.

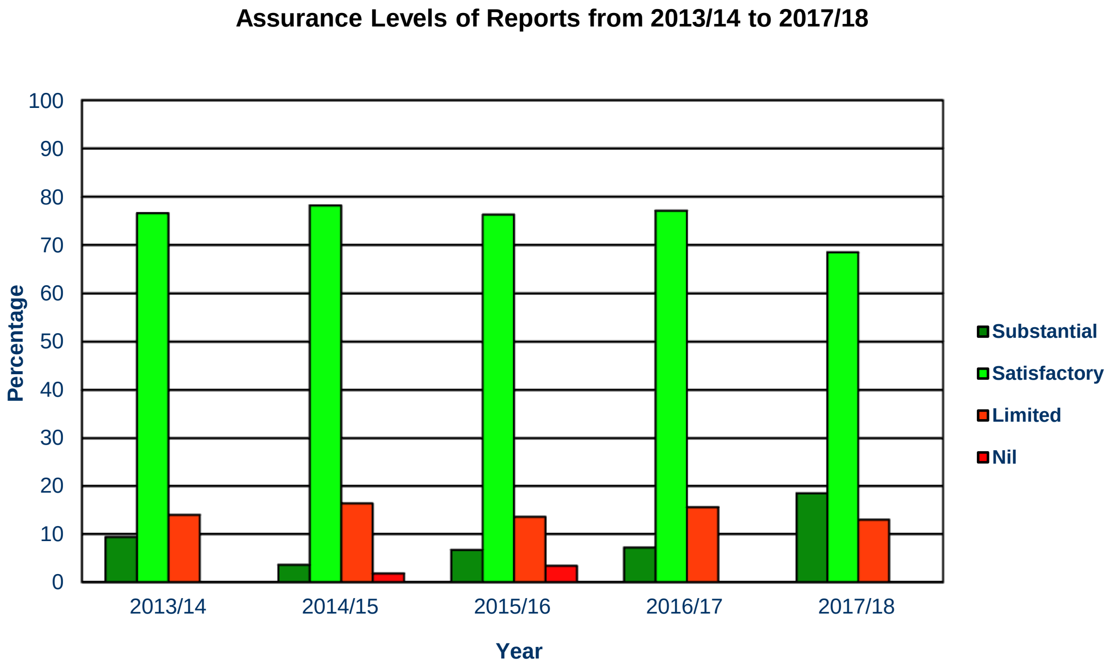
7.4. The pie chart below shows the levels of audit assurance achieved for the 2017/18 year for all internal audits undertaken on behalf of London Borough of Hammersmith & Fulham, so that it covers all audits that support delivery of LBHF services.

7.5. 87% of the systems audited achieved an assurance level of Satisfactory or higher, of which 10 (20%) received Substantial Assurance. 13% received a Limited Assurance and no Nil Assurance reports were issued in 2017/18.

Assurance Levels for the year to 31 March 2018



7.6. To help put the results into context, the bar chart below shows the levels of assurance provided for all systems audited since the 2013/14 financial year. The distribution of assurance opinions shows a relatively stable position over the last three years with an increase in Substantial Assurance reports and Limited Assurance Reports. The table at Annex A also shows that in all cases the direction of travel where the audit has been undertaken previously is either the same or an improved audit assurance.



Acceptance and implementation of Internal Audit recommendations

7.7. Almost all of the recommendations made during the year were accepted by management. The exception being one Medium Priority recommendation arising from the 2016/17 Bridge Maintenance audit, a Satisfactory Assurance audit, where it was recommended that the service should review information collated from inspections and any other sources of information to devise a collated programme of reactive and proactive maintenance. We were advised that planned maintenance would be based on asset condition so works would only be completed where required and these are picked up by either regular general or principal inspections.

7.8. Whilst 12 reports remain at the draft report stage, we have been provided with assurance by management as part of the debrief meeting process that the recommendations made will be implemented.

7.9. The table below shows the number of audit recommendations raised each year that have been reported by management 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
2015/16	254	254
2016/17	219	216
2017/18	50	44

7.10. In total, 25 recommendations arising from Nil and Limited Assurance reports have been followed up by internal audit, of which 17 were either fully implemented or no longer relevant, representing 68% of all those tested. If partially implemented recommendations are added this totals 88% of all those tested. This is in line with 2017/18 and provides reasonable confidence that recommendations reported as implemented have been effectively actioned. The results of our full follow up visits can be seen in Annex D. Further follow up work is being undertaken on 2017/18 audit recommendations in 2018/19.

7.11. In 2016/17, Internal Audit introduced an additional light touch regime of follow ups for all High and Medium priority recommendations not covered by the above follow up regime once confirmed as implemented. 109 2016/17 recommendations have been followed up since 31 March 2017 with 87 (96%) being confirmed as implemented and four (4%) no longer applicable. Follow up of the remaining 2016/17 recommendations and those raised in 2017/18 is in progress

7.12. All recommendations found not to be fully implemented during a follow up review are marked as not implemented and will then continue to be tracked for implementation, after which a further follow up undertaken.

8. Significant Control Weaknesses

8.1. Internal Audit is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise. During the financial year 2017/18, the following significant issues were identified:

- Weaknesses were found within the Contractor Resilience audit. The controls and procedures in place with regards to resilience were found to be satisfactory; however, a significant degree of non-compliance with these procedures was identified. Procurement and managing supplier resilience in the Council is decentralised to a large extent and greater assurance should be obtained that departments are complying with the Council's requirements.
- Weaknesses were found in the Budget Management process for Legal Services. It should be noted that a number of control improvements have been made to the process from late 2017, which are intended to improve the ability to prepare regular and accurate forecasts. These include producing reports showing time recording errors, redesigning property work processes to ensure fees are charge, and producing weekly chargeable hours reports to assist managers monitor recoding compliance in their teams. If processes are fully embedded, we would expect them to significantly improve the budget management process. The service also became a sovereign service under new leadership in April 2018.
- The Procurement of the Property Services Framework received a Limited assurance opinion. A number of documents were not provided during the audit and therefore we were unable to provide assurance in these areas. A number of weaknesses were found in the management of Housing Planned and Capital Works. Meetings were not always documented, a number of reviews and approvals required through the life of the projects were not recorded and a number of records relating to projects could not be located at the time of the audit. In addition, completion certificates were signed off for one of the projects reviewed despite works still remaining outstanding.

8.2. In all cases all the Priority 1 and Priority 2 recommendations were accepted by management and target dates for their implementation were agreed. These recommendations will be tracked until departments confirm their implementation after which a follow up audit will be undertaken. At this time none of these reports have had all recommendations reported as implemented.

9. Annual Governance Statement

9.1. The Council's Annual Governance Statement states:

"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."

"Matters reported below in the 2016-17 Annual Governance Statement, with the exception of those related to the BT Managed Services Programme, and Contract Management have been addressed during 2017-18 and are considered resolved."

9.2. One significant governance issue is identified in the 2017/18 Annual Governance Statement as follows:

Health and Safety, compliance with statutory inspections

An issue arose during the period following greater scrutiny of compliance with health and safety regulations. This found that the statutory inspections of corporate property maintained by Amey, the facilities management provider, was unacceptably low. This was reported by the Council's Corporate health and safety team to the Audit, Pensions and Standards Committee in September and December 2017. A recovery plan was agreed which sees the Council's Corporate Property team directly overseeing the management of statutory inspections of 31 of its buildings on an interim basis. Contractual discussions between the Council, the facilities management provider and the Link (contract management providers undertaken by Royal Borough of Kensington & Chelsea for that council and Westminster City Council) are ongoing. Additional assurance is provided through an independently commissioned piece of work using an external consultant to review the remaining portfolio across all areas of health and safety compliance.

Over the last 12 months, the Regeneration, Planning and Housing Directorate has fundamentally reviewed how it delivers health and safety compliance for HRA properties. Contracts are in place to deliver all statutory inspections, which report performance regularly to a departmental Senior Management Team. In 2017, a number of detailed assessments on specific activities were undertaken, for example an Asbestos Health Check. This audited how statutory duties and inspections are being discharged. This produced an action plan for areas that will be further developed in 2018/19.

The Regeneration, Planning and Housing Directorate has introduced a new compliance management system called Geometra which holds all compliance data in one central place. This has reporting functionality enabling access to real-time data to provide an overview of performance. The Directorate has strengthened its approach to duty holders, under the health and safety regulations, which in turn has promoted a pro-active contractor management regime with clear accountability for compliance standards and targets.

10. ICT

10.1. Internal Audit undertook nine ICT or ICT related audits in 2017/18. Five audits received a Satisfactory Assurance opinion and four audits are in progress.

10.2. We found the areas audited in 2017/18 to be generally well controlled, including the transfer from HFBP to the new IT Service, assigning access rights to application users.

11. Finance

11.1. Of the 11 finance related audits in the 2017/18 financial year, three received Substantial assurance, three received Satisfactory assurance, two received Limited assurance and one was an extended follow up and therefore no assurance opinion was provided. This represents a slight deterioration when compared with 2016/17 where only one Limited Assurance report was issued. Two audits remain in progress.

11.2. No significant error or fraud against the Council was detected as a result of our audit work.

12. Procurement and Contract Management

12.1. Of the nine procurement and contract management related audits undertaken in 2017/18, one received Substantial Assurance, three received Satisfactory Assurance and three received Limited Assurance. Two were still in progress at the time of writing.

12.2. This shows a decline when compared with 2016/17, where out of 23 applicable audits, five Limited assurance opinions were provided. Common issues identified in these audits mainly related to information not being available to support the procurement or contract management process. The arrangements for procurement have changed from April 2018 with the introduction of a centralised service in Public Service Reform for most council procurement activity This information has been shared with that service.

13. Schools

13.1. Overall, the results from the 2017/18 year are improved compared to the previous year with eight schools receiving a Satisfactory Assurance opinion and three schools receiving a Substantial Assurance opinion. This compares to eleven schools receiving Satisfactory Assurance opinion, two schools receiving a Substantial Assurance opinion and two schools receiving a Limited assurance opinion in 2016/17. Also, three high priority recommendations were raised as a result of the 2017/18 schools audits in comparison to five raised in 2016/17.

13.2. The main issues identified from across all the audits undertaken (as identified in the table at Annex A) were:

- Adequacy of income records and the audit trail between income collected and cash banked;
- Retaining evidence of Right to Work and DBS checks for new starters;
- Undertaking and retaining tax status checks of self-employed individuals; and
- Not obtaining and retaining evidence of value for money for high value purchases & contracts, via quotes and an appropriate tender process.

14. Key Issues for 2018/19

14.1. There are a range of key issues that are likely to be of significance for the 2018/19 year and beyond that Internal Audit need to be aware of. These include:

- In February 2017, the Department for Communities and Local Government announced the second year of its settlement offer, continuing the planned reductions. This is coupled with other factors such as the impact of Brexit on local authorities, the likely increases in demand for services, and the performance levels and financial stability of organisations the Council works with.

- As austerity continues to be felt, the opportunities presented by shared services, outsourcing, joint ventures and other alternative delivery models are increasingly being considered. With enabling legislation now in place and a push to make savings and increase income, there is a greater appetite for these alternative delivery models.
- The creation and implementation of sovereign services as part of the Moving on Programme has largely been completed without significant cost; however, the challenge continues to sustain this change successfully without impacting negatively on finances or service delivery.
- The HR, Payroll and Finance Transformation Programme is aiming to manage a safe exit from the current BT arrangements and successful transition to the Hampshire County Council Partnership model.
- With austerity, local government has been forced to significantly cut its workforce through a combination of staff cuts, joint working and outsourcing. As councils have been re-organised and delivery models have changed, staff are required to change their skill sets, deliver more with less and manage higher workloads. In particular, manager workloads are a lot higher within flatter management structures.
- The Grenfell Tower disaster occurred on 14 June 2017 in RBKC, when the 24-storey block of public housing flats caught fire causing 71 deaths and leaving hundreds homeless. While the Grenfell Tower Inquiry held its first hearing on 14 September 2017, it will be many years before the conclusion of the investigations and Public Inquiry. The Grenfell disaster is a landmark event, which challenges conceptions relating to fire safety as well as to a range of wider issues, including Building Control, insurance, emergency planning and whether regulations or statute should always determine minimum acceptable standards. LBHF was conducting a review of fire safety before the Grenfell Tower tragedy, though this expanded following the fire. The council responded by launching the £20m Fire Safety Plus programme, which is exploring adding sprinklers in tower blocks and has provided residents with free fire safety checks, new fire doors and replacement appliances. A residents' advisory group has also been formed to work on improvement plans.
- With increasing volumes of data being collected, generated and handled, local authorities face new challenges in protecting this information and deriving value from it. The General Data Protection Regulations (GDPR) came into force in the UK on 25 May 2018 and, while a number of the GDPR's main concepts and principles are much the same as those in the current Data Protection Act 1998, there are amendments including new requirements that the Council meet and greater penalties for breach of regulation (not just data breaches).
- Government has rated 'cyber attacks' as one of the top four risks to UK national security. The National Cyber Security Centre, which brings together MI5 and GCHQ, was launched in October 2016 and has already in its first year responded to 590 significant attacks, ranging from those on the NHS to small businesses and other organisations.

15. Internal Audit Performance

Audit Plan

15.1. The Operational Plan for the 2018/19 year draws on corporate and departmental risk registers and other issues brought to the attention of Internal Audit, as well as the use of an audit universe that identifies all organisational activities that can be considered for audit coverage.

We agreed and discussed the audit plan with Directors and Heads of Service. We also consulted various other sources and coordinated the plan with those of the Royal Borough of Kensington and Chelsea and Westminster City Council.

15.2. Our operational planning is designed to provide an even flow of work throughout the year, and to allow us to monitor progress. As a result, this information can be used as a key benchmark against which progress on individual assignments can be measured.

15.3. The level of Internal Audit resources is considered adequate for the 2018/19 year. Also, the Internal Audit service continued to maintain its independence from the day to day operations of the organisation, the chief mechanisms for this were the use of external contractors to deliver the core audit service plus the use of the audit services from RBKC and WCC to deliver parts of the audit programme.

Internal Audit Assurance Levels

15.4. Annex A sets out the level of assurance achieved on each system audit and the change in assurance opinion, where the audit has been undertaken since 2014/15. No areas audited this year have shown deterioration in control since the last time they were audited. However, one remained at Limited Assurance: Contractor Resilience.

15.5. Of the eight audits that received a Limited Assurance opinion (five final and three draft), five related to Corporate Services, one to Adult Social Care, one to Environment Services, and one to Regeneration, Planning & Housing Services. In all cases, audit recommendations were agreed with management at the time of the audit along with an action plan to address the identified weaknesses. Follow up audits will be undertaken in each case to review the adequacy and effectiveness of the corrective action taken.

15.6. In total, 25 recommendations arising from Nil and Limited Assurance reports have been followed up by internal audit, of which 17 were either fully implemented or no longer relevant, representing 68% of all those tested. If partially implemented recommendations are added this totals 88% of all those tested. This is in line with 2017/18 and provides reasonable confidence that recommendations reported as implemented have been effectively actioned. The results of our full follow up visits can be seen in Annex D.

15.7. In 2016/17, Internal Audit introduced an additional light touch regime of follow ups for all High and Medium priority recommendations not covered by the above follow up regime once confirmed as implemented. 109 2016/17 recommendations have been followed up since 31 March 2017 with 87 (96%) being confirmed as implemented and four (4%) no longer applicable. Follow up of the remaining 2016/17 recommendations and those raised in 2017/18 is in progress.

Internal Audit Performance

15.8. Annex B sets out pre-agreed performance criteria for the Internal Audit service. The table shows the actual performance achieved against targets. Overall performance of Internal Audit for the majority of indicators is broadly in line with 2016/17, with all targets being achieved or narrowly missed. Delivery of the plan has been impacted by a period of change in the Council, resulting in audits being delayed or deferred.

15.9. Focus will be given to maintaining or improving these performance standards in 2018/19.

Compliance with Public Sector Internal Audit Standards

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

a) Quality reviews carried out by both the Hammersmith and Fulham Internal Audit section and Mazars LLP; and
b) An internal self-assessment review in March 2018 against the new enhanced PSIA Standards, an exercise that is undertaken annually.

Working with External Audit

15.11. The Council's external auditors do not intend to place reliance on the work of internal audit at this stage; however, they have requested copies of a number of audit reports issued in 2016/17 and 2017/18. We have been in liaison with External Audit and will continue to offer information and support where required.

Internal Audit Provision Going Forward

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

- As regeneration and transformation projects and changes to service delivery continue to be undertaken, along with a zero based budgeting approach, there is likely to be continued requirement for Internal Audit involvement in providing assurance on key programmes and projects and new initiatives at an early stage to provide both assurance and support but with the minimum of disruption.
- Moving from shared services arrangements for adult and children's social care and public health, along with the recent introduction of a new senior management structure, including the creation of the Public Services Reform directorate, will assist the Council in delivering its objectives and further enhancing its assurance arrangements. Internal audit will work alongside management to ensure appropriate arrangements and controls are put in place.
- Shared internal audit working with Westminster and RBKC has led to increased coordination of the planning process across the three boroughs. This approach has increased the level of assurance received by each Council as well as better coordinating audit work across the three boroughs. The internal audit teams will continue to liaise and coordinate their work relating to the remaining shared services, while recognising and tailoring our work to maximise the value and assurance from our work for the sovereign services created.

ANNEX A - Assurance Levels 01/04/2017 – 31/03/2018

The table below provides a summary of the assurances assigned to each of our audits and the direction of travel where the audit has been undertaken previously. Where the direction of travel column is blank, no similar audit has previously been conducted since 2014/15.

		Audit Opinion				
Department	**Audit**	**Nil**	**Limited**	**Satisfactory**	**Substantial**	**Issued**
Final reports issued						
Adult Social care	Supporting People: Housing related support contracts			↔		23/02/2018
Children's Services	Randolph Beresford - Nursery School			↔		27/10/2017
Children's Services	Addison - Primary School			↔		30/10/2017
Children's Services	Flora Gardens - Primary School				→	25/09/2017
Children's Services	Melcombe - Primary School			→		27/09/2017
Children's Services	Normand Croft - Community School			↔		03/10/2017
Children's Services	St John’s C of E Walham Green Primary School			↔		01/11/2017
Children's Services	The Good Shepherd RC - Primary School			→		24/07/2017
Children's Services	Wormholt Park - Primary School				→	06/12/2017
Children's Services	Jack Tizard School			→		25/09/2017
Children's Services	St Peter’s C of E - Primary School			↔		14/03/2018
Children's Services	Holy Cross RC - Primary School				↔	21/05/2018
Children's Services	Leaving Care					04/06/2018
Corporate/Finance	Procurement: Contractor resilience		↔			15/12/2017
Corporate/Finance	Pensions Investments					07/03/2018
Corporate / Finance	Legal Services Budget Management					15/03/2018
Corporate / Finance	Accounts Payable (including manual payments)					15/03/2018
Corporate / Finance	Council Tax				→	07/03/2018
Corporate / Finance	NNDR				↔	07/03/2018
Corporate / Finance	Payroll					28/03/2018
Corporate / Finance	Occupational Health					27/03/2018
Corporate / Finance	Trading company					21/05/2018

		Audit Opinion				
Department	**Audit**	**Nil**	**Limited**	**Satisfactory**	**Substantial**	**Issued**
Corporate / Finance	Housing and Council Tax Benefits				→	27/06/2018
Environment Services	Leisure centres					26/07/2017
Regeneration, Planning & Housing Services	Housing Stock Options					19/07/2017
Regeneration, Planning & Housing Services	Estate Parking					13/06/2018
IT	IT Service Governance					14/02/2018
IT	ICT Service Transformation Programme					08/02/2018
IT	Managed Services - Data & Information security					19/10/2017
IT	Cashless Parking Application - RingGo					20/12/2017
IT	Disaster Recovery and Business Continuity					13/06/2018
Environment Services	Parking Enforcement					03/08/2017
Environment Services	Residents Parking Permits			↔		25/07/2017
Environment Services	Car Pound			↔		19/01/2018
Environment Services	Utilities					27/02/2018
Environment Services	Procurement: Property Services Framework					06/03/2018
Libraries	Departmental Risk Management					26/05/2017
Public Health	Commissioning Planning and delivery: Preventions					21/05/2018
Public Services Reform	LBHF Joint Ventures Ltd					21/05/2018
Regeneration, Planning & Housing Services	Gas Safety - Transfer from Gassys to iWorld					16/04/2018
Regeneration, Planning & Housing Services	Council Homes Utilities Management					29/05/2018
Regeneration, Planning & Housing Services	MITIE walkthrough: Planned and capital works					13/11/2017
Draft reports issued						
Adult Social care	Direct payments			→		01/06/2018
Adult Social care	Reablement					18/05/2018

		Audit Opinion				
Department	**Audit**	**Nil**	**Limited**	**Satisfactory**	**Substantial**	**Issued**
Children's Services	Fostering and Adoption					24/05/2018
Children's Services	Supplier Resilience					24/05/2018
Corporate/Finance	Daytime Contact Centre					14/05/2018
Corporate/Finance	Out of hours contact centre					14/05/2018
Environment Services	Parking suspensions					09/03/2018
IT	Frameworki upgrade Adults					02/07/2018
IT	IT - Frameworki upgrade Children's					02/07/2018
IT	Procurement and Contract Management					02/07/2018
Libraries	New Libraries Operating Model					22/06/2018
Regeneration, Planning & Housing Services	Govt Policy: Universal Credit & the Council's use of preferred partner status					29/06/2018
In Progress						
Corporate / Finance	Corporate Governance – Role of HIA and S151 Officer	Fieldwork in progress				
Corporate / Finance	Pension Administration – contract management & performance monitoring	Fieldwork in progress				
Corporate / Finance	Consultancy services (IR35)	Fieldwork in progress				
Corporate / Finance	Transparency Data	Fieldwork in progress				
Adult Social care	Safeguarding adults	Fieldwork in progress				
Environment Services	Procurement: Highways contract	Fieldwork in progress				
IT	GDPR Readiness	Fieldwork in progress				
IT	Network Security Compliance	Fieldwork in progress				
	Total	0	7	37	10	

Total Reports (including those not yet issued)	62

Assurance Levels

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

Substantial Assurance	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and few material errors or weaknesses were found.
Satisfactory Assurance	While there is a basically sound system, there are weaknesses and/or omissions which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited Assurance	Weaknesses and / or omissions in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
No Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

Direction of travel

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

ANNEX B - Internal Audit Performance – 2017/18

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

Performance Indicators		Annual Target	Performance	Variance
1	% of deliverables completed (2017/18)	95%	94%	-1%
2	% of planned audit days delivered (2017/18)	95%	96%	+1%
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	100%	+5%
4	% of Draft reports issued within 10 working days of exit meeting	95%	91%	-4%
5	% of Final reports issued within 5 working days of the management responses	95%	96%	+1%

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

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

Department	Audit	Issued
Regeneration, Planning & Housing Services	Planning Performance GDCR	18/10/2017
Corporate / Finance	Gas safety	07/03/2018
Corporate / Finance	Accounts Receivable Extended Follow Up	27/02/2018
Corporate/Finance	Staff Absence Management	19/12/2017
Environment Services	Parks Sports Facilities Income	04/05/2018

These reports include audit recommendations that were prioritised, tracked and followed up as for other audit reports

ANNEX D - Follow up Audits

Follow up visits were undertaken in 2017/18 on the following audits that received a 'Limited' or 'Nil' assurance opinion in their audit visit. The number of recommendations found to be implemented was as follows:

Department	Audit	Recommendations	Implemented	Partly Implemented	Not implemented	No longer applicable
Regeneration Planning and Housing Services	Garages	12	9	2	1	0
Regeneration Planning and Housing Services	Service Charges	3	3	0	0	0
Environment Services	Premises Licensing	5	5	0	0	0
Corporate Services	Trading Accounts	5	0	3	2	0
	Total	25	17	5	3	0
	%		68	20	12	0