

Audit, Pensions and Standards Committee

Agenda

Tuesday 18 September 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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www.lbhf.gov.uk/committees

Members of the public are welcome to attend and the building has disabled access.

Date Issued: 10 September 2018

Audit, Pensions and Standards Committee Agenda

<u>Item</u>		<u>Pages</u>
1.	MINUTES OF THE PREVIOUS MEETING To approve the minutes of the previous meeting and to note the outstanding actions.	4 - 17
2.	APOLOGIES FOR ABSENCE	
3.	DECLARATIONS OF INTEREST If a Councillor has a disclosable pecuniary interest in a particular item, whether or not it is entered in the Authority's register of interests, or any other significant interest which they consider should be declared in the public interest, they should declare the existence and, unless it is a sensitive interest as defined in the Member Code of Conduct, the nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent. At meetings where members of the public are allowed to be in attendance and speak, any Councillor with a disclosable pecuniary interest or other significant interest may also make representations, give evidence or answer questions about the matter. The Councillor must then withdraw immediately from the meeting before the matter is discussed and any vote taken. Where Members of the public are not allowed to be in attendance and speak, then the Councillor with a disclosable pecuniary interest should withdraw from the meeting whilst the matter is under consideration. Councillors who have declared other significant interests should also withdraw from the meeting if they consider their continued participation in the matter would not be reasonable in the circumstances and may give rise to a perception of a conflict of interest. Councillors are not obliged to withdraw from the meeting where a dispensation to that effect has been obtained from the Audit, Pensions and Standards Committee.	
4.	INVESTING IN ASSET BACKED SECURITIES This report asks the Committee to consider an investment in Asset Backed Securities (ABS) and approve the required amendments to the 2018/19 Treasury Management Strategy to enable this investment. <i>NOTE: Supplementary item published 11/09/2018</i>	18 - 27
5.	CORPORATE HEALTH AND SAFETY COMPLIANCE OVERSIGHT REPORT - DECEMBER 2017 TO JULY 2018 This report provides an overview of the performance of the organisation to comply with its health and safety duties.	28 - 40

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|------------|---|---------|
| 6. | INTERNAL AUDIT QUARTERLY UPDATE REPORT | 41 - 47 |
| | This report summarises internal audit activity during the period 1 April to 30 June 2018 as well as reporting on the performance of the Internal Audit service. | |
| 7. | FINAL AUDIT REPORT - LBHF VENTURES LIMITED 2017-18 | 48 - 68 |
| | This report presents the findings of an audit of LBHF Ventures Limited, a trading company that allows the Council to trade commercially. | |
| 8. | INTERNAL AUDIT CHARTER | 69 - 81 |
| | This report presents an update on the Council's Internal Audit Charter, a requirement of the Public Sector Internal Audit Standards. | |
| 9. | RISK MANAGEMENT HIGHLIGHT REPORT | 82 - 93 |
| | This report provides an update on risk management within the Authority, and presents the Corporate Risk Register for consideration. | |
| 10. | DATES OF FUTURE MEETINGS | |
| | The next meeting will be held on 12 December 2018. More information can be found on our website: www.lbhf.gov.uk/committees | |

Agenda Item 1

London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee Minutes



Tuesday 17 July 2018

PRESENT

Committee members: Councillors Iain Cassidy (Chair), Rebecca Harvey, Asif Siddique, Alex Karmel and Matt Thorley

Officers: Kim Dero (Chief Executive), Hitesh Jolapara (Strategic Director of Finance & Governance), Chris Harris (Chief Accountant), Emily Hill (Assistant Director for Corporate Finance), Phil Triggs, David Hughes (Director of Audit, Risk, Fraud and Insurance), Mike Sloniowski (Risk Manager), Rhian Davies (Assistant Director of Legal Services and Governance), Simon Davis (Assistant Director for Contracts and Procurement), Lisa Redfern (Director for Social Care), Prakash Daryanani (Assistant Director for Finance, Social Care), Nigel Brown (Head of Asset Strategy & Portfolio Management), Mark Grimley (Director of Corporate Services), Steve Miley (Director of Children's Services), Tony Burton (Assistant Director of Finance, Children's Services), Kath Corbett (Assistant Director of Finance, Growth and Place), Nick Austin (Director of Residents' Services), David McNulty (Assistant Director, Operations), and David Abbott (Scrutiny Manager)

External: Jennifer Townsend (KPMG)

1. APPOINTMENT OF A VICE CHAIR AND MEMBERSHIP OF THE PENSION SUB-COMMITTEE

RESOLVED

1. That Councillor Matt Thorley was appointed Vice Chair for the 2018-19 Municipal Year.
2. That the following membership of the Pension Sub-Committee for the 2018-19 Municipal Year was agreed:
 - Councillor Iain Cassidy
 - Councillor Jonathan Caleb-Landy
 - Councillor Rebecca Harvey
 - Councillor Asif Siddique
 - Councillor Matt Thorley

2. MINUTES OF THE PREVIOUS MEETING

RESOLVED

The minutes of the meeting held on 14 March 2018 were agreed and signed by the Chair.

3. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Jonathan Caleb-Landy.

Councillor Matt Thorley noted that he would be leaving early to attend another engagement.

4. DECLARATIONS OF INTEREST

Councillor Alex Karmel declared a general non-pecuniary interest with respect to pension matters as a deferred member of the Local Government Pension Scheme.

5. ANNUAL STATEMENT OF ACCOUNTS 2017-18

Hitesh Jolapara (Strategic Director of Finance & Governance) presented the report on the Council's Statement of Accounts, including the Pension Fund Accounts, and Annual Governance Statement for 2017/18 and the external auditor's (KPMG) draft opinion on the accounts. It was noted that the External Audit Report and the Council's Management Representations Letter were contained in a supplementary agenda and an addendum was tabled which set out minor adjustments to the accounts and had been agreed with the auditor.

Jennifer Townsend (KPMG, the Council's external auditor) informed the Committee that, subject to a small number of queries and procedures being satisfactorily resolved, they intended to issue an unqualified audit opinion on the Authority's financial statements and the Pension Fund's financial statements. She then took the Committee through the report noting the following points:

- Four prior-year recommendations had been identified that required further action by management. One new low-priority recommendation had been made as a result of the 2017/18 work. The recommendations (in Appendix 1 of the report) related to the completion of schools' year-end bank reconciliations.
- Under key audit risks there were no significant issues raised. She highlighted the managed services contract as an area of significant improvement. In the past it had been a risk area but local controls had mitigated this.
- There was one Pension Fund risk around hard to value investments.
- The Council had achieved the highest assurance possible around Value for Money work with no significant concerns.

Councillor Matt Thorley asked how the Council arrived at valuations for items on the Council's asset register and how the auditor verified them. Emily Hill (Assistant Director for Corporate Finance) said the Council used an independent valuer (Wilks

Head & Eve's) and had an in-house valuer who reviewed their work. Jennifer Townsend said the auditor looked at the information provided to the valuer then 'sense checked' the valuations against that data. They also had their own surveyors who provided analysis. The auditor also assessed the valuers as experts – did they have the requisite experience and credentials etc. The Council valued material assets every year and had a five-year rolling valuation programme to value assets not captured by this process. The auditor also looked at any additions and disposals.

Councillor Alex Karmel questioned why, when property prices had fallen over the past year, had the total valuation of land and buildings risen from £1.746bn in 2017 to £1.77bn in 2018. Emily Hill noted that the figures included additions of £54m and depreciation of £36m.

Councillor Matt Thorley asked what type of assets the 'hard to value' Pension Fund investments referred to earlier were – and how much of the fund was made up of them. Jennifer Townsend said she would have to take advice on exactly what type of assets they were but the Pension Fund's investments were categorised into levels 1, 2, and 3 (3 being the harder to price category). Seven percent of the total were categorised as level 3.

Councillor Alex Karmel asked if the controls imposed in the wake of the *Hazell v Hammersmith and Fulham LBC [1992]* credit swaps case applied to this area. Officers said they would look at this outside of the meeting.

The Chair, Councillor Iain Cassidy asked again if officers could give examples of the types of investments that made up the seven percent 'hard to value' assets. Phil Triggs (Director of Treasury and Pensions) said they related to the private equity portfolio. The investments were part of a new higher risk strategy – which meant the returns would not be certain until all of the distributions were received in 15 to 20 years' time.

The Chair asked why there was such a large differential between capital expenditure (page 28 - 29 of the pack). Emily Hill explained that as they were capital figures they could vary hugely based on one large capital scheme. Large variations were expected. Hitesh Jolapara added that a full breakdown of these figures could be provided to provide reassurance to the Committee if requested.

Councillor Alex Karmel asked for an indication of the total size of the Council's current debt – and what the average interest rate on the debt was. Chris Harris said the General Fund PWLB debt stood at approximately £40m and the average cost of the debt was 4.89 percent (much of the debt was taken on a number of years ago when interest rates were higher). Officers said they could provide a briefing note on this area if requested.

RESOLVED

NOTE: The Committee noted the tabled errata (attached as Appendix 1 to the minutes) and the appendices in the supplementary agenda.

1. The Committee noted 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.
2. The Committee approved the 2017/18 Annual Governance Statement which is included in the Statement of Accounts (Appendix 1 of the report).
3. The Committee approved the 2017/18 management representation letter (Appendix 3 of the report).
4. The Committee approved the Statement of Accounts for 2017/18, including the Pension Fund Accounts (Appendix 1 of the report).
5. The Committee approved the Pension Fund Annual Report 2017/18 (Appendix 4 of the report).

NOTE: Councillor Matt Thorley left the meeting at 7:48pm

6. TREASURY OUTTURN REPORT 2017-18

Phil Triggs (Director of Treasury and Pensions) presented the Council's annual Treasury Management Outturn Report for 2017/18 in accordance with the Council's treasury management practices. He highlighted the table at 4.2 of the report showing interest paid and received and the table at 4.4 showing a breakdown of types of investments.

The Chair asked what the PFI payments in section 4.12 related to. Officers said they related to St. Vincent's House, an Extra Care scheme entered into a number of years ago.

RESOLVED

The Committee noted the report.

7. CORPORATE ANTI-FRAUD SERVICE END OF YEAR REPORT 2017-18

Andy Hyatt (Head of Fraud) presented the report that provided an account of fraud related activity undertaken by the Corporate Anti-Fraud Service (CAFS) from 1 April 2017 to 31 March 2018. He noted that, since April 2017, CAFS had 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 had a value of over £1.2million.

The Chair asked how the Council decided which cases to highlight and make public. In his role as Ward Councillor he had dealt with the case of a resident who their parking permit fraud publicised and it had made it difficult for her to get a job. Andy Hyatt said officers did take a considered approach to these matters. The more serious cases tended to be highlighted as a deterrent. The Council would only publish names where a case went to court.

Councillor Alex Karmel noted that the figures in the report suggested very low levels of social housing fraud. However, analysis by HJK Investigations, housing fraud

specialists, suggested a fifth of council tenancies had 'indications of fraud'. Andy Hyatt responded that the figures quoted did not result in any recoveries. To prove a case and recover a property was a very long process. The Council had used data matching to identify risks and inform housing tenancy audits. The key issue was that sub-tenants were often complicit in the fraud making it very hard to build cases.

The Chair asked what the expected rate of tenancy fraud was in the borough. David Hughes said the Audit Commission estimated between 3 and 5 percent social housing fraud across London. The Chair asked if there were any Local Authorities who were particularly effective at tackling tenancy fraud. David Hughes said there was a direct correlation between number of investigators and the number of properties recovered. H&F had 4.5 qualified investigators, one trainee investigator, and one financial expert.

RESOLVED

The Committee noted the fraud work undertaken during the year 1 April 2017 to 31 March 2018.

8. RISK MANAGEMENT UPDATE REPORT

Michael Sloniowski (Risk Manager) introduced the report that provided an update on risk management within the Council, and presented the Corporate Risk Register for consideration. He noted that the Council took risk very seriously and it was a top priority for the Council's Senior Leadership Team. The Committee had previously made recommendations to track risks and compare them over time – and compare ourselves with similar London boroughs. The Committee had also asked officers to look at business continuity, disaster management, and supply chain risks in more detail. These elements were discussed in the report.

Councillor Alex Karmel asked for clarification of the Committee's remit – was it responsible specifically for corporate risk or risk more generally. Officers said the Committee had oversight of both, although traditionally it was the corporate risk register that came before members. In future officers would look at bringing community risks to the Committee as well.

The Chair asked why Risk 11 focussed solely on the West Kensington Estate and not housing estates in general (page 299). He also asked for more detail on Paragraph 4.4.15 and the figure of just 25 percent compliance. Simon Davies explained that the figure of 25 percent compliance was a combined figure – but it was partly a data quality issue. Work had often been completed but wasn't recorded. The expectation was that compliance would be in the high 80s. A work plan was being produced to close that gap further.

Michael Sloniowski replied that officers were looking closely at contractual arrangements with the facilities management contractor to improve compliance on around estates. Simon Davies added that the Council was currently in negotiations with the contractor due to inadequate performance. As part of the work to support negotiations, officers had carried out an extensive compliance audit across all assets

– looking at fire risk, asbestos, water etc. Officers expected to have a full picture of the Council’s position by the end of July.

The Chair asked, of the various compliance risks, which was the most urgent. Simon Davis said water was a key concern due to the possibility of Legionella outbreaks. Officers have been going through the checks and had put management action plans in place.

David McNulty (Assistant Director, Operations – Growth & Place) addressed the Committee and informed members that in Housing, fire risk assessment compliance was 100 percent. The fire risk assessments for blocks of six stories and above had been published on the Council’s website. The Council remains compliant with regards to Gas and Asbestos however as noted in the report there are some issues with the principal contractor which are being raised through contract mechanisms.

Councillor Rebecca Harvey asked for more detail on Risks 22 and 23 that related to the numbers of looked after children and high needs budget pressures. Steve Miley said these risks had emerged over the past few years and all councils were seeing increases. On the high needs block (the money the Council spent on children with additional needs) officers were looking at ways to reduce expenditure where possible but not impact on schools. There were options around using the school estate that were being developed with colleagues from the regeneration team.

Councillor Asif Siddique asked if there was a comparison of risks over the years. Michael Sloniowski said the Council had only started to monitor trends 24 months ago – but going forward officers would look at longer-term trends.

Councillor Asif Siddique asked if risk management was all handled internally or by an independent service. Michael Sloniowski said currently it was internal as that was more cost-effective method of delivery but the Council was thinking about resilience and considering a new software system for the Business Continuity requirements of the Council. The decision, due to be taken soon, would be communicated to the Committee. Kim Dero (Chief Executive) added that the organisation’s approach to risk and audit had changed in the past year. The Senior Leadership Team had a monthly risk assurance meeting now, reporting has been improved, and accountability is much higher.

RESOLVED

1. That the Committee noted the contents of this report;
2. That the Committee reviewed and considered the contents of the Corporate Risk Register.

9. INTERNAL AUDIT QUARTERLY UPDATE REPORT

David Hughes (Director of Audit, Risk, Fraud and Insurance) introduced the report that summarised internal audit activity between 1 January and 31 March 2018 and reported on the performance of the Internal Audit service and progress against 2016/17 external audit recommendations and 2016/17 Annual Governance Statement agreed actions.

Outstanding Audit Recommendations – Public Services Reform

Lisa Redfern (Acting Director of Public Services Reform) discussed the outstanding audit recommendations – noting that she had only very recently picked up the portfolio. Many recommendations were part implemented and action plans were in place. Management met every week to report on progress. She said they would update the Committee once the recommendations were completed.

ACTION: Lisa Redfern

The Chair noted that the number of implemented audit recommendations was significantly down on last year. David Hughes clarified that there was a lag in the cycle and he expected those numbers to increase throughout year. He also noted that the audit team were looking to put in smarter controls not more controls for their own sake.

RESOLVED

That the Committee noted the contents of the report.

10. FINAL AUDIT REPORT - LEGAL SERVICES BUDGET MANAGEMENT 2017-18

Hitesh Jolapara informed the Committee that he had asked for an audit because of a reported overspend that wasn't expected due to client charges not happening consistently. He noted that since Rhian Davies (Assistant Director of Legal Services and Governance) had taken over the service in April 2018, management had strengthened financial controls and charges were consistently monitored.

Rhian Davies took the Committee through each of the recommendations, discussing what action had been put in place to resolve each issue:

- **Recommendation 1** – This year management had several meetings with Finance to set an achievable budget. They also looked at the trading account to recover costs and ensure the service was achieving its income target.
- **Recommendation 2** – Since April management had been having regular meetings with Finance, sharing reports and income numbers. There was also a management meeting every week to ensure both individuals and the entire department was hitting its targets.
- **Recommendation 3** – Section 113 charges didn't apply now that H&F was operating as a sovereign borough.
- **Recommendation 4** – Chargeable hours were monitored on a weekly basis in management meetings.
- **Recommendation 5** – Solicitors were now recording non-chargeable time which will assist.
- **Recommendation 6** – The spreadsheets for recharges had now been simplified.

Councillor Alex Karmel asked for an update on the merger with LGSS Law. Kim Dero replied that the merger was a tri-borough initiative and Legal Services were now sovereign. Hitesh Jolapara noted that it had been publicly reported that the merger was on hold.

Councillor Rebecca Harvey asked how the service made money. Rhian Davies explained that all their work was chargeable – either internally amongst H&F departments or, wherever possible, externally for other local authorities.

11. FINAL AUDIT REPORT - PAYROLL SHARED SERVICES

David Hughes introduced the report and noted that officers were still finding issues around data quality and completeness of records. Mark Grimley (Director of Corporate Services) noted that the new Hampshire solution that would be replacing BT Agresso would address the issues highlighted in the report.

Mark Grimley explained that there continued to be numerous issues with BT Agresso but it had moved to a 'good enough', stabilised service while the Council secured a new provider. Officers had closed some of the issues raised such as the historic payroll overpayments in Appendix 1. This and other issues would be resolved as part of the commercial settlement with BT.

Councillor Alex Karmel asked if BT were liable to pay fines for poor performance under the current contract. Mark Grimley explained that the system's 'go-live' was never accepted so the contract KPIs never kicked in. The Council was coming out of the contract early and there would be a commercial settlement with BT. There would be penalties if BT failed to deliver their part of the transition to the new service.

The Chair asked if officers were confident about the transition of data to the new service. Mark Grimley said the Council had put in place a very detailed exit plan. Supply of data and quality of data was fundamental to that plan. All relevant risks were in the risk register. Officers had just completed the first parallel run and were working through the issues it raised with the providers. The new system would be in place by the Autumn, no later than November.

Councillor Rebecca Harvey asked if officers were confident in the quality of the new system. Mark Grimley said it was a tried-and-tested solution currently serving over 65,000 service workers (including Oxfordshire County Council, Fire Services and the Police). He had previously undertaken five similar payroll implementations in different organisations. 200 people across the organisation were getting ready to test it. The only new area for Hampshire was leaseholders but additional systems had been put in place to deal with this.

12. FINAL AUDIT REPORT - PROPERTY SERVICES FRAMEWORK PROCUREMENT 2017-18

David McNulty presented the final audit report and noted the governance issues and KPIs highlighted by the report. He reported that, in both areas, officers were making progress. A risk log was in place and there was regular reporting to the Assistant Director responsible. A report was scheduled for Cabinet in October on the Framework that would resolve all of the issues raised.

13. HEAD OF INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2017-18

David Hughes (Director of Audit, Fraud, Risk and Insurance) presented the report that summarised the work of Internal Audit during the 2017/18 year and provided an opinion on the overall system of internal control across the Council. He noted that there were positive assurance levels across the organisation the only issues stemming from BT Managed Services.

RESOLVED

The Committee noted the contents of the annual summary report.

Meeting started: 7.00 pm
Meeting ended: 9.25 pm

Chair

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Statement of Accounts - Addendum and Errata

1. ADDENDUM AND ERRATA

1.1. The following presentational adjustments have been made to the 2017/18 Statement of Accounts as previously despatched:

1.2. Restatement of Pensions Liabilities

1.2.1 The Council's net pension liability as at 31 March 2018 has been updated. The core financial statements presented in Appendix 1 (overleaf) replace those previously despatched to Committee. Changes have been detailed in the comment boxes in the appendix.

1.2.2 These adjustments have also been reflected in the relevant supplementary notes to the accounts.

1.3. Note 31 – Related Parties

1.3.1 Amend "*the value of £2.505m*" to "*the value of £2.574m.*"

1.4 Casting and Rounding

1.4.1 A number of minor casting and rounding corrections have been made.

1.5 The changes presented here are technical in nature and have had no impact on the Council's management out-turn position, General Fund or Usable Reserves.

1.6 A small number of areas remain subject to the completion of audit procedures. It is proposed that authority to make any residual changes to the accounts, should they arise, be delegated to the Strategic Director of Finance and Governance in consultation with the Chair of the Audit, Pensions and Standards Committee.

Appendix 1

Movement in Reserves

Committee version = 43,381

18,652

(110,160)

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	189,047	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	43,151	-	-	18,629	-	-	-	-	-	61,780	(125,975)	(64,195)
Adjustments between accounting basis & funding basis under regulations 3a	(57,459)	-	-	(24,786)	-	3,185	(232)	5,517	-	(73,775)	73,775	-
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)	(52,200)	(64,195)
Balance at 31 March 2018	(19,004)	(94,994)	(11,329)	(9,946)	(41,664)	(38,318)	(638)	(33,177)	(878)	(249,948)	(922,860)	(1,172,808)

(57,689)

(24,809)

74,028

Appendix 1

Comprehensive Income and Expenditure

Committee Version = 68,530

135,568

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

Notes	Year Ended 31 March 2018			Year Ended 31 March 2017 Restated*		
	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)	68,507	(86,468)	(17,961)	68,233	(81,499)	(13,266)
Local authority housing (HRA) - Dwelling Revaluation	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	135,338	(125,285)	10,053	165,177	(151,395)	13,782
Cost of Services	703,921	(500,290)	203,631	695,954	(497,886)	198,068
Other Operating Expenditure	6,243	(7,327)	(1,084)	42,535	(983)	41,552
Financing and investment income and expenditure	30,251	(1,060)	29,191	30,740	(2,389)	28,351
Taxation and non-specific grant income and expenditure	18,059	(188,017)	(169,958)	2,961	(182,880)	(179,919)
(Surplus) or Deficit on Provision of Services			61,780			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			(68,942)			184,284
Other Comprehensive Income and Expenditure			(125,975)			169,047
Total Comprehensive Income and Expenditure			(64,195)			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.

(53,127)

(48,127)

Appendix 1

Committee Version = (672,774)

(906,792)

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	(656,706)	(700,568)
Grants and Contributions Receipts in Advance	30	(26,710)	(16,277)
Long Term Liabilities		(896,801)	(934,799)
NET ASSETS		1,172,808	1,108,613
Usable Reserves	3b	(249,948)	(237,953)
Unusable Reserves	3c	(922,860)	(870,660)
TOTAL RESERVES		(1,172,808)	(1,108,613)


Audit, Pensions and Standards Committee – Action Tracker

REF	ACTION	OFFICER	STATUS
21 June 2017, 20 September 2017, 6 December 2017, March 2018 – All actions complete (other than the below)			
March 2018			
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
July 2018			
1.	Outstanding Audit Recommendations – Public Services Reform – Lisa Redfern (Director for Social Care and Public Services Reform) to update the Committee once all recommendations were completed.	Lisa Redfern	Pending

For more information on these actions please read the minutes of the meetings – available here:

<http://democracy.lbhf.gov.uk/ieListMeetings.aspx?Committeeld=338>

Agenda Item 4

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>18 September 2018</p>	
INVESTING IN ASSET BACKED SECURITIES	
Report of the Cabinet Member for Finance – Councillor Max Schmid	
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: 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 recommend that the Council consider and approve the investment in Asset Backed Securities (ABS) and approve the required amendments to the 2018/19 Treasury Management Strategy to enable this investment.
- 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.

2. RECOMMENDATIONS

- 2.1. That members consider and agree the proposal for investment in Asset Backed Securities (ABS).

- 2.2. Agree the proposal to update the 2018/19 treasury management strategy to allow the Council invest in ABS.

3. INTRODUCTION AND BACKGROUND

- 3.1. This report covers a detailed process for investing in Asset Backed Securities (ABS) report covers:
- the treasury position as at 31 July 2018;
 - the case for investing in Asset Backed Securities; and
 - the proposed amendments required to the 2018/19 treasury management strategy.

4. RATIONALE AND ECONOMIC UPDATE

- 4.1. The Bank of England Bank rate was reduced from 0.5% to 0.25% in August 2016 and remained at this level until November 2017 when it was increased to 0.50%. The base rate was increased from 0.50% to 0.75% on 2 August 2018.
- 4.2. Yield forecasts are expected to increase as a result of the rate rise from its current yield position of 0.55% until the end of 2018 and thereafter a gradual increase. The importance of external economic factors is a key driver in external parties setting rates and also the availability of instruments in which to invest and borrow.
- 4.3. The Council's average return on investments at 31 July 2018 was 0.58%. Investments in asset backed securities (ABS) is expected to assist in increasing the yield.
- 4.4. The Council's current portfolio is invested in fixed deposits (local authorities, banks), call accounts, constant and variable net asset value money market funds and covered bonds. Against this background and with the added uncertainty on the markets created by the UK's exit from the European Union, officers have continued to explore alternative investments that offer security and strong returns within the constraints of the treasury management strategy and protect council invested cash.
- 4.5. The table below shows the interest rate forecasts provided by Link Asset Services as at 31 July 2018.

Interest Rate Forecast at 6 August 2018

	Now	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Bank Rate	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%
5 yr. PWLB Rate	1.81%	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%
10 yr. PWLB Rate	2.22%	2.40%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%	2.90%
25 yr. PWLB Rate	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%
50yr. PWLB Rate	3.39%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%

5. CURRENT TREASURY POSITION

5.1. Capital programme slippage will impact the use of cash. The table below shows the cash position as at 31 July 2018 and the current yield.

Principal 31 March 2018 £000	Average Rate March 2018 %		Principal 31 July 2018 £000	Average Rate July 2018 %
339,237	0.53%	Investments	322,472	0.55
321,737		Specified	304,972	
17,500		Non-Specified	17,500	
		Borrowing		
217,405	4.86	Public Works Loan Board	217,405	4.86

6. CURRENT CAPITAL PROGRAMME FORECAST JUNE 2018

6.1. The amount of cash available to invest long term is partly affected by the capital programme's forecast expenditure and use of internal borrowing to fund the capital programme.

6.2. The table below shows the forecast capital expenditure and internal borrowing.

	2017/18 Actual £000	2018/19 Forecast £000	2019/20 Forecast £000	2020/21 Forecast £00	2021/22 Forecast £000
Total Capital Expenditure	73,552	78,359	100,504	70,557	59,214
Total Financing and Main Stream Funding	67,002	68,408	56,122	62,486	42,180
Internal Borrowing	6,550	9,951	44,382	8,071	17,034
Total Capital Financing	73,552	78,359	100,504	70,557	59,214

7. ASSET BACKED SECURITIES

7.1. Asset Backed Securities (ABS) are bonds/tradeable instruments, consisting of a pool of loans, mortgages, credit card obligations or other receivables such as leasing proceeds and in some cases a pooled fund with a mixture of these assets.

7.2. The interest and principal payments on the loans provide the cash flow needed to pay interest to the holder and to redeem the security when it matures.

7.3. Banks generally create ABS by taking loans they have written and structuring the loan payments to pass through directly to bondholders. The instrument allows the lending institution, such as a bank, to remove the assets from its balance sheet (provided that the terms of the issue satisfy supervisory requirements on non-recourse to the originator). Having the securities in the

form of ABS provides a platform in which the group of loans can be grouped into a form that can be traded.

- 7.4. Not all ABS bonds have the same credit ratings. Lower rated (or 'junior') bonds are first to absorb any losses (and generate higher yields as compensation), while higher rated bonds assume losses only when the more junior bondholders' portions have been exhausted.
- 7.5. Credit risks are therefore based on the creditworthiness of the underlying mortgage or credit card borrowers (for example).
- 7.6. Similar to the public bond markets, where investments range from high quality government bonds to high yield credit, ABS has similar spectrum. Not all ABS portfolios have a credit rating. At the higher rated end of the spectrum lies AAA-rated UK residential mortgage backed securities (RMBS) with robust structural safeguards to maximise the likelihood of repayments.
- 7.7. In the UK, banks have the ability to pursue borrowing if the value of the house is less than the value of the mortgage (negative equity). Investors therefore have recourse to the underlying borrower, unlike in the US where home owners can walk away, leaving the lender with only the underlying property to reclaim their investment.
- 7.8. ABS may therefore be able to offer some attractive source of value in liquid credit markets today. The most senior bonds quality can offer the highest credit ratings, security against tangible assets (such as property) and robust structural safeguards to maximize the likelihood of repayment.
- 7.9. There are various types depending on the underlying asset. Commercial Mortgage Backed Securities (CMBS), backed by mortgages for the purchase of commercial property, Consumer Asset Backed Security (Consumer ABS), backed by personal financial assets such as car loans, credit cards, student loans and other consumer loans. Corporate Asset Backed Security (Corporate ABS), backed by the cashflows from receivables such as leases on aircraft or other corporate equipment, small and medium enterprise (SME) loans, trade receivables.
- 7.10. Collateralised Debt Obligation (CDO), backed by a mixture of loans/receivables and/or asset backed securities. These also include Collateralised Loan Obligations (CLO), backed by loans, often to medium-sized corporates. In the UK, the government also owns assets that could be securitised. These are residential mortgages, consumer loans and corporate loans.
- 7.11. The Council is proposing to invest via a pooled fund to ensure diversification.

8. SECURITY CREDIT RATING AND RETURN

- 8.1. Asset Backed Securities (ABS) are usually secured against assets. In many cases, the bond is unrated. Coupon generally yield between 1.5% to 6% gross of fees, thereby providing investors with a higher rate of return which exceeds the return of a ten-year corporate bond currently around 1.44%. (FT 5 May 2018).
- 8.2. Depending on the ABS issue, the Council may match the maturities against the time periods when the Council's cash will be required to fund the capital program. ABS are normally issued as floating-rate notes (FRNs) paying LIBOR plus a margin as their coupon.
- 8.3. To attract investors, at least one credit rating is normally required. The rating of each ABS structure is based on the likelihood of payment. Each ABS capital structure (a 'tranche') is backed by the same pool of assets but generally AAA (the lowest risk) gets paid first. It is anticipated that the Council may invest in AAA-rated structures. The only other authorities in England and Wales currently actively investing or looking to invest are Greater London Authority (GLA), London Borough of Newham and Westminster City Council.
- 8.4. When issuing a rating for the ABS, rating agencies will consider the credit standing of the underlying loans or examining the credit strength of those interest is due from and liquidity of the structure in addition to other factors. This will also include possibility of future losses. The credit standing is usually monitored until redemption.

9. PROS AND CONS OF RESIDENTIAL MORTGAGED ASSET BACKED SECURITIES POOLED FUNDS

- 9.1. The benefits of investing in ABS:
 - Securitisation – the resulting securities, the bonds are backed by the homes
 - The investor can adjust risk exposure and return profile by selecting the appropriate type of bond
 - The investor can define which sectors in the economy to invest in for example residential mortgage payments, credit cards pools, car loan pools depending on the risk appetite of the investor.
 - Individual bonds in the pool are usually floating rate notes by nature.
 - Cash flows can be predicted with a relative degree of confidence
 - Less likely when compared to corporate bonds to be downgraded by events like mergers, acquisitions or recapitalisation of the issuing bank.
 - Where the ABS is structured with a floating interest rate, such as a fixed margin over LIBOR, it is less likely to be exposed to interest rate changes.
- 9.2. Issues to consider – should some home owners in the pool default and foreclosures fail to cover the short fall, each bond holder will share the loss equally. However, the issuing bank stress tests the bonds before issue to ensure that there are mitigations in place. Where investment is by way of asset-backed securities pooled investment vehicle then losses are limited to the share in the overall pool.

- 9.3. Some investments include prepayment risk. Issuers would generally factor a percentage in the yield to reward investors for this risk. Currently, investors enjoy a premium of 60 to 65 basis points over Base Rate (net of management fees).

10. REGULATION AND CONTRACTS

- 10.1. The council, in choosing the appropriate ABS security, will seek advice as to the appropriateness of the risk, reward and accounting. Investments are generally not a capital expenditure and the investment is generally amortised in the accounts i.e. not mark to market.
- 10.2. Duration of contracts associated with the running of the asset generally exceed the bond life. Due to the complexity of these financial instrument contracts, the review of ABS contracts will be evaluated using external legal advisers.

11. IMPACT OF IFRS 9 FINANCIAL INSTRUMENTS ON INVESTING IN ASSET BACK SECURITY INVESTMENTS

- 11.1. IFRS 9 Financial Instruments is the new accounting standards for investments, borrowing, receivables and payables, which will apply to local authorities from the 2018/19 financial year onwards.
- 11.2. 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.
- 11.3. 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.
- 11.4. Gains and losses from changes in fair values of this investment will be reflected in surpluses and deficits in the Provision of Services line in Council's accounts The Authority will continue to ensure compliance in the accounts.

12. INVESTMENT SELECTION PROCESS AND TIMELINE

- 12.1. To select which ABS should be procured, the Council will seek external guidance in the analysis of the investment and modelling of the effect of macro-economic scenarios such as changes in economic growth, unemployment rates, property prices and interest rates and other inherent risks.
- 12.2. The external adviser will also provide credit assessment of the underlying borrowers, as well as transparency of the ABS underlying risk and ensure that the ABS structure is in such a way as to ensure that the Council's investments

are protected in the event of bankruptcy of the originator and the underlying assets are not included in the liquidating assets.

- 12.3. The investment process and timeline comprises of the following:
- Review capital program
 - Determine new capital program funding yet to be received
 - Determine core cash available to invest for period longer than one year
 - Explore what ABS investment options are there in the market and possible yield
 - Request quotes for ABS advice work
 - Procure consultant to advice on which ABS and provide analysis on detailed loan-by-loan scenario analysis and due diligence
 - Determine a need for procurement or not
 - Outline procurement process
 - Source Asset Backed Security manager or investment
 - Prepare report for lead Member for Finance
 - Report to Full Council to amend TMS
 - Due diligence process with external lawyers
 - Procure ABS instrument

13. LINKS TO THE COUNCIL'S TREASURY MANAGEMENT STRATEGY (TMS)

- 13.1. This investment proposal falls under non-specified investment category. The current treasury management strategy permits investing for more than 365 days using longer term maturity investments to improve yields. The Council has upper limit for principal sums invested for more than 364 days of £120m. However, the security of capital remains uppermost.
- 13.2. The 2018/19 treasury management strategy also permits investments in collateralised deposits but not explicitly but not explicitly Asset Backed Securities. There is therefore a need to amend the Treasury Management Strategy at the earliest opportunity.
- 13.3. All eligible counterparties and new types of investments will be discussed prior to their use by the lead member, the Strategic Finance Director, and the security of the investment will be assessed. Although the current treasury management strategy does permit investments in green energy bonds for a duration of up to ten years, not all Asset Backed Securities will fall under this category of investment.
- 13.4. Appendix A to this report shows the proposed amendment to the TMS in track changes.

14. AMENDMENTS REQUIRED TO THE 2018/19 TREASURY MANAGEMENT STRATEGY

- 14.1. The current Treasury Management Strategy does not explicitly allow for the investment in Asset Backed Securities. It is therefore proposed that Members approve the recommendation to invest in this asset class and recommend that the amended strategy be presented to Full Council for approval in order to include this investment class in the Council's list of approved asset classes.
- 14.2. Members are also asked to approve that investment in ABS is limited to a maximum of £50m. That each tranche of investment will require additional due diligence and sign off by the lead Member for Finance and the Strategic Financial Director.

15. EQUALITY IMPLICATIONS

- 15.1. There are no equality implications to this decision.
- 15.2. *Implications verified by: Peter Smith, Head of Policy & Strategy, tel. 0208 753 2206.*

16. LEGAL IMPLICATIONS

- 16.1. Statutory requirements are discussed within the report. All such requirements have been complied with.
- 16.2. *Legal Implications completed by Angus Everett, Chief Solicitor, 020 8753 2724*

17. FINANCIAL IMPLICATIONS

- 17.1. The Council currently budgets to earn £1.79m per annum of investment income from treasury management activities. Investments that generate an additional return will enable greater income to be earned, provided monies are invested wisely in counterparties or financial instruments commensurate with the Council's low risk appetite, providing security of capital and adequate liquidity.
- 17.2. *Financial Implications provided by Andrew Lord, tel. 020 8753 2531 – Head of Strategic Planning and Monitoring.*

18. RISK MANAGEMENT

- 18.1. 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.

Investment in Asset Backed Securities will increase Council's return on investments while taking into consideration security of capital.

18.2. *Implications verified/completed by: Michael Sloniowski, Risk Manager - 020 8753 2587.*

19. IMPLICATIONS FOR BUSINESS

19.1. There are no implications for business arising from this report.

19.2. *Implications verified/completed by: Albena Karameros, Economic Development Team, 07739 316 597*

20. PROCUREMENT IMPLICATIONS

20.1. An approved recommendation via the proposed pooled vehicle route will not result in a procurement process. However procurement via a segregated mandate will result in a market procurement for an external ABS manager.

20.2. *Implications verified/completed by Phil Triggs, Director of Treasury and Pensions, telephone 020 7641 4136*

21. IT IMPLICATIONS

21.1. There are no IT implications contained within this report.

21.2. *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 2018/19 period 3	Andrew Lord – Ext: 2531	Finance

LIST OF APPENDICES:

Appendix A – Proposed Changes to 2018/19 Treasury Management Strategy non-Specified Investments

APPENDIX A

Proposed Change to 2018/19 Treasury Management Strategy: Non-Specified Investments

Investments	Minimum Credit Rating Required	Maximum Individual Counterparty Investment Limit	Maximum tenor	Changes from the 2017/18 TMSS
	S&P/Moody's/Fitch	£m		
UK Bank (Deposit/Certificates of Deposit/Short Dated Bonds)	LT: AA-/Aa3/AA- (UK Government Ownership greater than 25%)	£70m	5 years	No change
UK Bank (Deposit/Certificates of Deposit/Short Dated Bonds)	LT: A-/A3/A	£50m	3 years	No change
Non-UK Bank (Deposit/Certificates of Deposit/Short Dated Bonds)	LT: AA-/Aa2/AA-	£50m	3 years	No change
	ST: F2/P-2/A-3			
	LT: A/A2/A ST: F2/P-2/A-3	£30m	1 years	No change
Green Energy Bonds	Internal and External due diligence	Less than 25% of the total project investment or maximum of £20m per bond. £50m in aggregate	10 years	Increase from 5 to 10 years
Rated UK Building Societies	LT: A-/A3/A ST: F2/P-2/A-3	£30m	3 years	Increased from £20m to £30m per Building Society Extension of duration from 1 to 3 years
Asset Backed Securities (ABS)	AAA	£50m	10 years	New

Agenda Item 5

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>18 September 2018</p>	
<p>CORPORATE HEALTH AND SAFETY COMPLIANCE OVERSIGHT: DECEMBER 2017 TO JULY 2018</p>	
<p>Report of the Acting Director for Resident's Services</p>	
<p>Open Report</p>	
<p>Classification: For review and comment Key Decision: No</p>	
<p>Consultation: Strategic Leadership Team</p>	
<p>Wards Affected: None</p>	
<p>Accountable Director: Karen Sullivan, Acting Director for Resident's Services</p>	
<p>Report Author: Richard Buckley, Head of Environmental Health (Residential)</p>	<p>Contact Details: Tel: 020 753 3971 Richard.buckley@lbhf.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1. This report provides an overview of the performance of the organisation to comply with its health and safety duties in law for the period December 2017 to July 2018.

2. PROPOSAL AND ISSUES

- 2.1. As an employer and a landlord, the council must take steps to identify foreseeable risks and put in place measures to reduce those risks to as low as practicable.
- 2.2. The council's corporate health and safety policy and accompanying procedures set out the overarching organisational arrangements to fulfil our duties, clearly outlining the responsibilities of Members, management and staff.
- 2.3. Corporate health and safety compiles a risk register of key, known organisational hazards, which it develops in discussion with departments and reports to corporate risk management. The risk register informs the corporate health and safety business plan and audit programme.

3. ENFORCEMENT AUTHORITIES INSPECTIONS

- 3.1. The Health and Safety Executive (HSE) took no enforcement during this period against the Council.
- 3.2. The London Fire Brigade took no enforcement action this period against the Council.

4. GOVERNANCE

- 4.1. Corporate health and safety policies are routinely reviewed and updated to reflect changes in regulations, management, and operational matters. The fire safety management system document has been updated to reflect Hammersmith & Fulham enhanced approach to fire safety.
- 4.2. Directors signed the Annual Governance Statement for 2017/2018 confirming that the health and safety arrangements are suitable and satisfactory in their services. The statement sets out the key areas which enables focus on core measures and controls.
- 4.3. Corporate Safety continues to work through its extensive audit programme, additional resource is being recruited to keep delivery on track by end of financial year. The team has appointed an interim manager of fire safety and building compliance and an interim manager of people health, safety, and well-being to drive forward the health and safety strategic aims.

5. CORPORATE SAFETY AUDITS AND INSPECTIONS

Audits

- 5.1. Corporate health and safety undertake audits across the council's portfolio based on an assessment of higher risks. This is set out in the annual audit programme.
- 5.2. Key audits results for this period are:

Highways bridges and structures management

Contractor management of the Council Highways contractor. Assurance level was limited, key issues, lack of evidence to demonstrate effective safety management system and implementation. Meetings with the contractor's management and council's highway colleagues have taken place. The contractor is fully engaged and key issues now resolved.

Highways repairs and maintenance

Contractor management of the Council Highways contractor for the repair and maintenance of roads. Assurance level was limited, key issues limited management of safety compliance systems. The contractor is fully engaged and key issues now resolved.

Gas Safety

Management oversight of gas safety in council housing stock by Housing. Assurance level satisfactory.

Grounds maintenance

Contractor management of the Councils ground maintenance contractor. Assurance level satisfactory. Overall good safety management system in place that is documented, implemented and effective.

Adult Social Care

People handling by staff from the re-enablement service. Assurance level satisfactory. Overall good systems in place.

3BM school's property maintenance

Council's client management arrangements of the service provided by 3BM (mutual) in schools overseeing compliance areas such as asbestos management, fire safety and water hygiene. Assurance level limited. Key issues absence of health and safety procedures and policies, documentation not in date, and effective monitoring of safety systems. The contractor is fully engaged and key issues now resolved.

Libraries premises management

The purpose of the audit was to evaluate the adequacy of the current arrangements in place for managing the premises of four libraries in the London Borough of Hammersmith and Fulham (LBHF). These included Askew Rd, Fulham, Hammersmith and Shepherds Bush libraries. This was to ensure that the maintenance, upkeep, repairs and statutory safety checks were in place to ensure legislative compliance and mitigate any potential liability. Amey and Link continue to fail to provide copies of statutory documents, despite continuous requests at all levels. Recommendations from previous inspection remain uncomplete. This is now part of the external audit review being managed by Corporate Property.

Supported housing

Adult Social Care commission supported housing; this is accommodation where the Council places vulnerable people. In most cases we are not the landlord of these properties; large service provider mostly owns them, for example Centre Point and Housing Associations. There are 15 main providers. As part of our duty of care, we have undertaken a sample of inspections to validate fire risk assessments from the providers. To date we have inspected 38 sites in the borough (see appendix A). No significant issues have been identified to date. Service providers are being informed of these findings.

Corporate buildings

An audit of corporate property in May gave limited assurance around compliance oversight and management arrangements. Measures have now been put in place including the appointment of assistant director of corporate property.

Linford Christie stadium. The building condition and safety are still of significant concern, these issues could lead to injury to site users, which include school children, and enforcement action by the HSE, even if there is

not an incident. It is of serious concern that the arrangements for managing vital compliance work are absent. The new interim assistant director for corporate property has inspected the site and filed a report setting out recommendations, these have been approved and commissioned.

5.3. The following key audits will be undertaken in the next six months:

- Processes for ensuring homes for foster care have suitable smoke alarms, carbon monoxide monitors and gas safety records
- Audits of children’s homes
- Review of lift safety management across all areas of the council
- Further audits of supported housing in Adult Social Care
- Lone working organisation wide
- Fire evacuation organisation wide

Inspections

5.4. In addition, Corporate health and safety carried out several inspections and investigations at corporate sites

Site	Purpose of visit
Linford Christie Stadium	Investigative visits following high microbiological readings in the water system. Site facilities isolated and temporary arrangements put in place.
Mortuary	Review of management systems for the storage of bodies. Additional units installed and existing have undergone a deep clean and installation of updated alarm system...
North Hammersmith Area Housing Office	Assistance with scoping suitable evacuation chair for service users.
363 North End Road Housing Office	Inspection of site due to concerns over fire evacuation following refurbishment
Cobbs Hall (Youth Offending)	Fire safety: Fire Emergency Plan revised and in place and additional training for staff undertaken
Bagley’s Lane (Depot)	Fire safety: Fire Emergency Plan revised and in place.
Macbeth (Adult Learning)	Fire safety: Fire Emergency Plan revised and in place.
17 Rivercourt (Adult Respite)	Fire safety: Fire Emergency Plan revised and in place.
The Haven (Child Respite)	Fire safety: Fire Emergency Plan revised and in place.
Askew Road Library	Targeted health & safety awareness training for site supervisors provided
Hammersmith Library	
Fulham Library	
Shepherds Bush Library	

6. FACILITIES MANAGEMENT

- 6.1. Facilities management of corporate buildings continues to be provided by Amey through a TFM Project Agreement. Client management of the contract was by the LINK. Following a review, notice was served on the LINK by Hammersmith & Fulham Council (H&F) to terminate the S113 agreement with client management functions transferring to the in-house Commercial Management service under the Public Service Reform directorate in late 2017.
- 6.2. As part of this re-organisation, responsibility for compliance assurance also transferred to Commercial Management who appointed a TFM Project Manager and Compliance Manager to fulfil these functions.
- 6.3. As part of this re-organisation, Corporate Property Services transferred to the Finance and Governance directorate who have appointed (started August 18) an Assistant Director for Facilities Management.
- 6.4. Throughout 2017, various compliance assurance projects identified concerns as to the low levels of compliance in Hammersmith & Fulham corporate properties. Considering these reported low levels of compliance and low confidence in the ability of Amey to rectify the issues in a satisfactory and timely manner, H&F Commercial Management and Corporate Property Services have commenced several programmes to rectify areas of non-compliance and review how FM functions, including H&S property compliance matters should be managed going forward.
- 6.5. Oversight of these programmes is through a Property Compliance Board, now being chaired by the recently appointed (August 2018) Assistant Director for Facilities Management. Membership of this board includes representatives from Commercial Management, Corporate property Services and Corporate Health & Safety. Key programmes include:
 - Development of a new asset register to identify all assets and subsequently compliance requirements
 - Compliance audit programme to determine current levels of compliance with subsequent remedial works being undertaken by Cloudfm
 - Step-in by Corporate Property Services/Corporate H&S to review, amend and implement revised fire evacuation plans for higher risk H&S corporate properties
- 6.6. As of mid-August 2018, the TFM Project Manager reported an overall compliance level across the corporate property portfolio of 47% with the audit programme identifying weaknesses in the Amey processes.
- 6.7. Work also continues over future models for providing FM functions in H&F corporate properties. This will be linked to the proposed decant of Hammersmith Town Hall and Extension respectively.
- 6.8. Corporate H&S continues to work closely with colleagues in Commercial Management and Corporate Property Services providing competent advice and operational support whilst future resource requirements are considered as part of the remodelling of FM functions.

- 6.9. Corporate H&S has undertaken key work in relation to fire evacuation procedures for higher risk properties including improvements to fire assembly location for the hub buildings and procedures to assist vulnerable service users from the buildings.
- 6.10. Corporate H&S also continues to provide assurance through the completion of various audit programmes and reports to several boards on compliance regularly. This includes the Strategic Leadership Team, Corporate Health and Safety Committee and Risk Assurance Board.
- 6.11. Updates will be provided to APS Committee as needed.

7. HOUSING

- 7.1. Corporate health and safety continue to meet fortnightly with Housing to have operational oversight of compliance, monitoring performance of safety systems for areas: fire, asbestos, legionella, electrics, lifts, gas, and construction management.
- 7.2. An audit in May of the gas safety management arrangements for compliance oversight gave satisfactory assurance. An audit of lift management is underway, other areas of compliance including fire are scheduled.
- 7.3. Up to date fire risk assessments (FRAs) are in place for all Council owned housing properties. Housing's internal Quality Assurance of FRAs is complete:
 - Hi Rise (71) - Target 100% / achieved
 - 5 Floors (or below) purpose built (400): Target 10% / achieved
 - Sheltered (23): - Target 100% / achieved
 - General Housing (1400): - Target 10% / achieved
- 7.4. Hartopp & Lannoy Points, 14 storeys, continues to be protected by 24/7 fire wardens. Communal Alarms are now in place. Interlinked (heat) alarms are installed into the entrance lobby of 102 of the 112 flats (56 per block).
- 7.5. Charecroft and Edward Woods Estate, continues to be protected by 24/7 fire wardens.
- 7.6. A new water hygiene contract and contract for the inspection and testing of lightning conductors commenced April 2018.
- 7.7. A report outlining the recently reviewed Growth and Place Directorate (G&P) policies for Asbestos, Fire and Gas Safety and Management is being presented to the Council's Business Delivery Team and Strategic Leadership Team prior to submission to Cabinet for adoption.
- 7.8. Implementation of these policies will ensure that the Council fulfils its duties in providing and maintaining a safe and healthy environment for our residents, staff, contractors and visitors and delivers against the Excellent Housing Services for all themes.
- 7.9. The report will underpin the fact that Members and the Senior Management Team recognise the importance of these key safety issues, the need for legal compliance and the need for this to be an ongoing process addressing public concerns, legislative changes, recommendations of relevant enquiries and

lessons learned from future incidents. The Strategic Core Compliance Group will monitor compliance and performance of Policies.

8. SCHOOLS

- 8.1. Within Hammersmith & Fulham there are 4 community nurseries, 11 community primary schools, 4 community special needs schools and 1 community sixth form college.
- 8.2. Under the local management of schools' regime, day-to-day responsibility for managing health and safety rests with the headteacher and governing body but Hammersmith & Fulham is the employer and consequently retains accountability under health and safety legislation.
- 8.3. In addition, there are various voluntary aided, academy and free schools where Hammersmith & Fulham Council provide services to a varying degree via formal Service Level Agreements.
- 8.4. During the spring and summer terms of 2018, Corporate H&S continued to undertake audits on community schools. A summary of the findings of these can be found at Appendix B.
- 8.5. Analysis against previous audit programmes indicates that community schools are performing better in H&S compliance matters relating to property safety and pupil safeguarding than the 'softer' areas such as stress management and musculoskeletal disorders.
- 8.6. Following the establishment of a sovereign Children's Services directorate, going forward Corporate H&S will liaise with colleagues in that department to establish a programme of work for H&S schools during the 2018/2019 school year to identify ways to improve compliance in the areas identified as requiring improvement.
- 8.7. There will also be a focus on ensuring Corporate H&S are involved in any future major capital programmes in schools to ensure best H&S practice is adhered to during the construction project.

9. TRAINING

- 9.1. Fire evacuation officer training continues to be rolled out. Every department is required to ensure 1 in 8 staff are trained as fire evacuation officers. Training is now provided in-house with onsite familiarisation.
- 9.2. Training provision for managers, premise controllers and risk assessment is under development for roll out in second half of the year.

10. ACCIDENTS AND INCIDENTS

- 10.1. Accidents and incidents are logged by staff on the council's on-line system. The system is linked to Agresso so when a member of staff makes a report the manager will receive an automated message requiring that the incident is investigated and measures put in place to prevent recurrence.
- 10.2. Corporate health and safety review all the reported incidents and escalate where managers have not completed.

- 10.3. Under regulations (RIDDORS), more serious and significant accidents and incidents are reportable to the HSE. During April 2017 to October 2017 there were no RIDDORS reportable incidents.
- 10.4. A breakdown of all reported incidents and accidents on the council's on-line system is outlined in appendix C. There was a fall approx. 15% fall in the overall number of reported accidents and incidents compared with the previous six months reporting period. Notwithstanding the above, violent and intimidation incidents remain the highest number of reported incidents. The highest number incident reports were received by staff working in libraries. It has been noted that improved reporting has contributed to the rise in the number of reports coupled with an increase in unacceptable behaviour from some clientele. There was an increase in the number of reported incidents relating to intimidation. These reports were made by staff working in front line and public facing services. This may be due to better and more frequent reporting by all staff working within front line services.
- 10.5. Corporate Health and Safety continue to work with libraries to explore solutions such as increased conflict training and early identification of the signs.

11. CONCLUSION

- 11.1. Oversight of health and safety compliance is satisfactory, with suitable governance arrangements in place. The audit programme is on track to be delivered by the end of the year with additional resources being recruited to assist.
- 11.2. There are still key areas of risks around the council's corporate buildings owing to contractor failings. Arrangements are in place to monitor including external auditors and the recent appointment of an interim assistant director of corporate property.

12. CONSULTATION

- 12.1. Strategic leadership team have reviewed and agreed the content

13. EQUALITY IMPLICATIONS

- 13.1. N/A

14. LEGAL IMPLICATIONS

- 14.1. The legal implications and the Council's statutory obligations are set out in the report.
- 14.2. Implications completed by: Janette Mullins, Senior Solicitor (Litigation): 020 8753 2744

15. FINANCIAL IMPLICATIONS

- 15.1. There are no financial implications to be considered.
- 15.2. *Implications verified/completed by: Lucy Varenne, Finance Manager, telephone 0207 341 5777.*

16. RISK MANAGEMENT

- 16.1. This report is linked to the Corporate Risk Number 8, Managing Statutory Duties, including Health and Safety. Councils now regularly face challenges in terms of their ability to control and manage what goes on in buildings which they own and which are used by staff or clients for which they have legal responsibility.
- 16.2. In addition to this Councils are faced with a wide range of Health and Safety responsibilities that fall on building occupiers. We are faced with the situation where day to day responsibility and the majority of available resources are delegated to contractors but with the ultimate accountability remaining at corporate level within the Council. The discovery of non-compliance could result in the Council being faced with damage to its reputation, financial loss or individual officers faced with legal proceedings and in the worst case, lives of building users could be lost. Under the Management of Health and Safety Regulations 1999 employers have a duty to ensure that the necessary arrangements are in place to monitor and review any preventative and protective measures that have been implemented. To that extent this report contributes to that duty in that it provides an overview to Members of the health and safety management system employed.
- 16.3. *Implications verified/completed by: Michael Sloniowski, Principal Consultant (Risk Management), 020 8753 2587.*

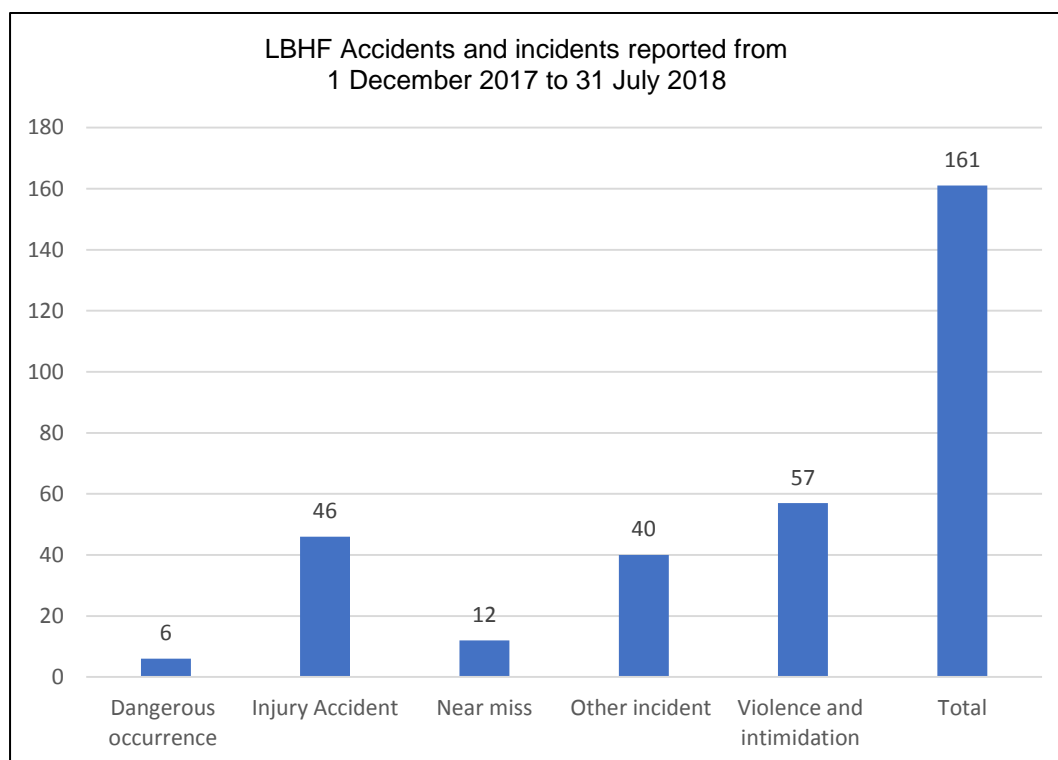
Appendix A – Third Party property fire safety inspection checks by corporate safety December 2017 to July 2018

Third Party	Site
Centrepoint	Masbro Road, W14
Centrepoint/NHH	Weltje Road, W14
Hestia	Sulgrave Road, W6
Metropolitan	Longridge Road, SW5
Metropolitan	Brackenberry Road, W6
SHP	Barons Court Road, Shepherds Bush Road
Hestia	Bishops Court, SW6
Centrepoint Care Leavers/NHHT	W14
Centrepoint	Down Place,
Cyrenians Housing	W6
Cyrenians (Nott Hill Housing prop)	Weltge Road
Hestia	Edgar Wright Court, SW6
NHHT	Elm Grove W6
Hestia	Moor Park Road, SW6
Hestia	Housing and Support, SW6
St Christophers Fellowship	Fielding Road
St Mungo's (single homeless centre)	
Centrepoint	Hammersmith Road
Cyrenians Housing	Shepherds Bush Road
Cyrenians Housing	Goldhawke Road
Hestia	Coverdale Road
Metropolitan/Yarrow	Goldhawke Road
Centerpoint	
St Mungos	Hope Gardens, Lime Grove
Hestia	Conningham Road
Centrepoint	Shepherds Bush Road
Look Ahead Housing	Irving Road
Look Ahead Housing	Lakeside Road
Centrepoint	Hetley Road
Centrepoint	Percy Road
NHHG	Elgin Close
Hanover Housing	Townmead Road
Hanover Housing	Mary Seacole House


Appendix B – School Inspections Academic year 2017 to 2018

School	Type	Fire Risk Assessment	Asbestos Management Plan	Legionella Risk Assessment
Bayonne	Nursery	Yes	Yes	Yes
James Lee	Nursery	Yes	Yes	Yes
Vanessa	Nursery	Yes	Yes	Yes
Randolph Beresford	Nursery	Yes	Yes	Yes
Addison	Primary	Yes	Yes	Yes
Brackenbury	Primary	Yes	Yes	Yes
Flora Gardens	Primary	Yes	Yes	Yes
Kenmont	Primary	Yes	Yes	Yes
Melcombe	Primary	Yes	Yes	Yes
Miles Coverdale	Primary	Yes	Yes	Yes
Normand Croft	Primary	Yes	Yes	Yes
Old Oak	Primary	Yes	Yes	Yes
Sir John Lillie	Primary	Yes	Yes	Yes
Wendell Park	Primary	Yes	Yes	Yes
Wormholt Park	Primary	Yes	Yes	Yes
William Morris	6 th Form	Yes	Yes	Yes
Cambridge	Special	Yes	Yes	Yes
Jack Tizard	Special	Yes	N/A	Yes
Queensmill	Special	Yes	N/A	Yes
Woodlane	Special	Yes	N/A	Yes

Appendix C – Accident and Incident Data



Reporting period	Type of accident or incident					Total
	Dangerous occurrence	Injury Accident	Near miss	Other incident	Violence and intimidation	
1 December 2017 to 31 July 2018	6	46	12	40	57	161

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>18 September 2018</p>	
<p>INTERNAL AUDIT UPDATE REPORT FOR THE PERIOD 1 April – 30 June 2018</p>	
<p>Report of the Director of Audit, Fraud, Risk and Insurance</p>	
<p>Open Report</p>	
<p>Classification: For Information Key Decision: No</p>	
<p>Wards Affected: None</p>	
<p>Accountable Director: David Hughes, Director of Audit, Fraud, Risk and Insurance</p>	
<p>Report Author: David Hughes, Director of Audit, Fraud, Risk and Insurance</p>	<p>Contact Details: Tel: 0207 361 2389 E-mail: David.HughesAudit@lbhf.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 April to 30 June 2018 as well as reporting on the performance of the Internal Audit service.

2. RECOMMENDATIONS

- 2.1. To note the contents of this report.

3. REASONS FOR DECISION

- 3.1. Not applicable. No decision required.

4. PROPOSAL AND ISSUES

- 4.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 April to 30 June 2018, and is for the Committee to note.

Internal Audit Coverage

- 4.2. 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.
- 4.3. A total of 12 audit reports were finalised in the first quarter of 2018/19 from 1 April to 30 June 2018, including 3 Substantial Assurance, 8 Satisfactory Assurance and 1 Limited Assurance report.
- 4.4. The audit of LBHF Ventures Ltd received a Limited Assurance Opinion with 2 high priority, 5 medium priority and 2 low priority recommendation being raised. Work is progressing on the implementation of recommendations made and revised actions agreed with the Strategic Director for Social Care and Public Services Reform.
- 4.5. A summary of the limited assurance report is set out in Appendix B.
- 4.6. Departments are given 10 working days for management agreement to be given to each report and for the responsible Director to sign it off so that it can then be finalised. There is one outstanding draft report at the time of writing (Gas Safety).
- 4.7. One full follow up of Limited Assurance reports were undertaken in the period. A follow up of the 2015/16 Trading Accounts was undertaken and, of the 2 high and 2 medium priority recommendations raised, none were fully implemented. The results of the follow up can be seen in appendix A.

Outstanding audit recommendations

- 4.8. The Internal Audit service works with key departmental contacts to monitor the implementation of agreed recommendations.
- 4.9. There are now no recommendations where the target date for the implementation of the recommendation has passed and they have not been fully implemented. This compares to 8 outstanding as reported at the end of the previous quarter.

Implemented recommendations

- 4.10. 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	211	211
2017/18	57	57

Internal Audit Service

- 4.11. 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 quarter 1 of the 2018/19 financial year are below.

Performance Indicators 2018/19

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%	%100	+5%	2 out of 2 draft reports issued within 10 working days
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%	N/A	N/A	No final reports issued in quarter 1
3	% of plan complete based on deliverables (draft reports and Mgt letters)	24%	7%	-17%	3 deliverables issued out of a total plan of 45.
4	% of audit briefs issued 10 days before start of audit (Accounting for Exceptions)	95%	100%	+5%	6 out of 6 brief issued at least 10 days before start of audit.
5	% of audit follow ups completed	100%	100%	0%	1 follow up completed

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 April to 30 June 2018
Appendix B	Summary of Limited Assurance Reports
Appendix C	Outstanding Internal Audit Recommendations

APPENDIX A

Audit reports Issued 1 April to 30 June 2018

We have finalised a total of 12 audit reports for the period of 1 April to 30 June 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	2017/18	Transfer from Gassys to iWorld	David McNulty	Satisfactory
2	2017/18	LBHF Ventures Ltd	Rachael Wright Turner	Limited
3	2017/18	IT Asset Management	Veronica Barella	Satisfactory
4	2017/18	Estate Parking	Jane Martin	Satisfactory
5	2017/18	ICT Disaster Recovery and Business Continuity	Veronica Barella	Satisfactory
6	2017/18	Housing Benefit	Nick Austin	Substantial
7	2017/18	Holy Cross RC Primary School	Steve Miley	Substantial
8	2017/18	Council Homes Utilities Management	David McNulty	Substantial
9	2017/18	Special Educational Needs	Steve Miley	Satisfactory
10	2017/18	Children's Services, Leaving Care,	Steve Miley	Satisfactory
11	2017/18	Mosaic Children's Services	Steve Miley	Satisfactory
12	2017/18	Mosaic Adult Services	Lisa Redfern	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
10	2016/17	Trading Accounts	5	0	3	3

Summary of Limited and Nil Assurance Reports

APPENDIX B

Ref	Audit and Scope	Details	Assurance/Risk
1	<p>LBHF Ventures Ltd</p> <p>The objectives of this review were to assess and evaluate the controls in the following areas:</p> <ul style="list-style-type: none"> • Governance Arrangements; • Staffing and Resourcing; • Assessment of Commercial Activities; and • Performance Monitoring and Management Information. 	<p>In common with other councils in the UK, Hammersmith and Fulham charge for a range of services across most departments. Current legislation allows the council to make charges either in line with statutory fees or on a cost recovery basis. In order to trade commercially, other than with another public body, the Council must do so through a trading company. Establishing a local authority trading company assists the Council in delivering its corporate aims and priorities through the generation of profitable income.</p> <p>On 4 July 2016, Cabinet approved the creation of the trading company, LBHF Ventures Limited, which is wholly owned by the Council. At present, the company is still in its early stages of development.</p> <p>Two high, five medium and two low priority recommendations were raise. The high and medium priority recommendations were as follows:</p> <ol style="list-style-type: none"> 1) The business plan for the company post June 2018 should be developed and approved by the Board, taking into account progress made against the current business plan. Progress against the business plan should be monitored and reported to the board. 2) The composition of the Cabinet Commercial Revenue Committee should be reviewed to confirm that the membership arrangements satisfy the Council's need for independent scrutiny. 3) The remit of the Cabinet Commercial Revenue Committee needs to be developed and agreed as required, with at least quarterly meetings scheduled (based on the expected volume and timing of decision to be made) and appropriate reports being requested from the company. The Committee terms of reference should include a clearer definition of "financial impact" with regards to delegation of approval of business cases. 4) A defined process for recharging should be documented between the company and the Council. This should involve a requirement for clear records of all time and resource input by the Council, both for those officers/Members directly involved in the running of the company and support services (e.g. Legal, Finance, HR), so that an accurate calculation can be made. 5) Prior to beginning any commercial activities, a business case should be prepared and put forward to the Commercial Revenue Committee for approval where required. The business case should include the feasibility of carrying out the work and how it meets the company's aims, objectives, and risk appetite. 6) The annual accounts should be submitted to the next Board meeting for approval. 7) The company should develop formal risk management arrangements, including maintenance of a risk register that is subject to periodic review and reporting to the board. <p><u>Management response:</u></p> <p><i>In order to understand progress on the recommendations made by audit, two pieces of context need to be mentioned – a wider commercial activities review which has just concluded, and changes in the operation of LBHF Ventures.</i></p> <p><i>A review of commercial income activities was begun in July 2018. The report has now been finalised and will be presented to SLT on September 12th. As part of this review, it became apparent that we need to begin and develop a traded infrastructure program to establish a clearly structured portfolio approach to commercial income activities. This will include cross-departmental working groups, procedures and clear reporting and governance. A council-wide commercialisation strategy is also being proposed.</i></p> <p><i>As set out in the audit, in order to trade commercially other than with another public body, the Council must do so through a trading company. At present, LBHF Ventures is not generating any income. A number of the recommendations cannot be completed until this ceases to be the case – the Commercial Committee has not been able to review business cases prior to beginning any commercial activities, because there haven't been any opportunities to do so. The commitment to this recommendation however continues if and when this position changes. Similarly, the Committee is unlikely to meet, and thus discuss its terms of reference and membership, while LBHF Ventures is not generating any income.</i></p>	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.

There are no outstanding Internal Audit recommendations to report for this period.

***London Borough of Hammersmith &
Fulham***

Final Internal Audit Report

LBHF Ventures Limited

May 2018

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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 LBHF Ventures Limited at the London Borough of Hammersmith & Fulham.

In common with other councils in the UK, Hammersmith and Fulham charge for a range of services across most departments. Current legislation allows the council to make charges either in line with statutory fees or on a cost recovery basis. The only exception to this is when dealing with other public bodies where there is no restriction on making a profit where the provision is for administrative, professional or technical services.


In order to trade commercially, other than with another public body, the Council must do so through a trading company. Establishing a local authority trading company assists the Council in delivering its corporate aims and priorities through the generation of profitable income.

On 4 July 2016, Cabinet approved the creation of the trading company, LBHF Ventures Limited, which is wholly owned by the Council. At present, the company is still in its early stages of development.

The Local Government (Best Value Authorities) (Power to trade) (England) Order 2009 requires that before exercising the power to trade through a trading company, the Council is required to approve a business case in support of each venture when the power is exercised. The Council must approve the business case before trading through the Company starts. Currently, the Council are in the process of assessing data to identify services that could be profitable and which could be progressed through the company to deliver the required financial returns.

2 Executive Summary

2.1 Assurance Opinion

	Nil	Limited	Satisfactory	Substantial
Audit Opinion				

2.2 Recommendations Summary

The following table highlights the number and categories of recommendations made. The Action Plan at Appendix 1 details the specific recommendations made, as well as the agreed management actions to implement them.

Area of Scope	Adequacy	Effectiveness	Recommendations Raised		
			High	Medium	Low
Governance Arrangements			1	2	0
Staffing and Resourcing			0	1	1
Assessment of Commercial Activities			1	0	0
Performance Monitoring and Management Information			0	1	1
Total			2	5	2

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 company is still in relatively early stages of development; however, as the company grows, the recommendations raised will become increasingly important to ensure the company is governed effectively.

The key findings and an assessment of controls are summarised below.

Design of and compliance with controls to address the key risks identified

- LBHF Ventures Limited (hereinafter referred to as 'the company') was incorporated on 9 June 2016 to trade commercially, other than with another public body, to deliver profitable income generation activities.
- The company has a Board in place which consists of a Managing Director and three Directors of the company (three Council Directors and one Councillor). The Board are required to meet at least once a year in accordance with the Business Plan and then as required. The last Board meeting was held in November 2017.
- The Constitution of Hammersmith and Fulham Council (the shareholder) has established a Cabinet Commercial Revenue Committee and a Terms of Reference is in place. One of the functions of the Committee is to carry out the shareholder functions for all companies in which the Council has an interest. This acts as a mechanism by which shareholders can challenge the decisions of the company. Council officers have asked that quarterly meetings of the Committee be scheduled and that reports from Council owned, or part-owned companies will be brought forward to the Committee. At these meetings, the relevant Shareholder functions and responsibilities will be explained and the Committee will be asked to make any relevant decisions or to take action as it sees fit. However, it was established that meetings for this committee have yet to take place due to ongoing discussions over the evolving remit of the committee.
- Membership of the Cabinet Commercial Revenue Committee consists of the company board members, in addition to the LBHF Chief Executive and one councillor (both of whom are former members of the company board). This could be perceived by the public as a lack of independence with former and current board members scrutinising the activities of the company.
- The company has a June 2016 to June 2018 Business Plan in place which provides a summary of the company, governance and operational structure, its products, services, and deliverables. However, it was identified that the Business Plan had not been formally approved by the Board and / or Commercial Revenue Committee.
- At the time of the audit the operation of the company was managed by the Managing Director (Commercial Director of the Council) supported by the Head of Commercial Operations. The Head of Commercial Operations has been appointed as the Company Secretary. The Commercial Director has recently left the Council and commercial functions are understood to be transferring to the Public Services Reform department.
- In the September 2016 Board meeting minutes, the Board agreed that the Managing Director may employ up to three sales staff to sell LBHF business intelligence services, subject to funding being available.
- There are currently two staff members on the company's payroll. A programme management resource was secured during the year to manage the business intelligence development programme. The Company has also provided H&F's Housing Department with a temporary member of staff. He is employed on the payroll of the company and full

costs, plus a small management fee, are charged back to the HRA. However, there was no business case for engaging this member of staff via LBHF Ventures.

- Although the above staffing appointments have been documented within Board meeting minutes, a staffing structure document would provide clearer oversight of the company's staffing structure and activities.
- Although recharges have been made to the company based on the internal support costs charged to the Commercial Services team, a defined process is not currently documented for Council staff or support costs to be recorded and re-charged to the company. A Cross charge schedule is maintained to track monthly hours spent by the two Directors (Commercial Director and Strategic Finance Director of the Council) and the company secretary (Head of Commercial Operations). However, the spreadsheet does not include any time spent by the other Director (Lead Director of Environmental Services), the Councillor or any other Council inputs to the Company.
- We were informed that business activities have been limited during the first year of the company's existence and the main income generating activities undertaken by the company relate to highways consultancy. However, staff input details for the consultancy work were not provided.
- The intention is that the Commercial Revenue Committee will approve business cases for delivery through the Company determining if they are viable taking into account a wide range of factors including: financial return, capability, risk and whether they should be progressed through a limited company. The Company will offer services set out in individual business cases (once approved by the Commercial Revenue Committee).
- The Commercial Revenue Committee terms of reference (as per the Council's Constitution) states that, "Should a decision be required in the period between Committee meetings, the Commercial Director and the Strategic Finance Director have delegated authority to authorise new income opportunities and income generating business cases with a financial impact of up to £100,000". The term "financial impact" is not defined any further.
- We were not provided with a business case or any evidence of the review and approval of the highways consultancy work by the Commercial Revenue Committee (there were two meetings scheduled but both were cancelled). In addition, we were not provided with the scoping and decision making process undertaken by the company (such as risk assessment and capability assessment). We were provided with some costing information relating to the transport planning consultancy; however, it was not clear how this information was used to determine the rates charged for the work delivered as the invoice amount did not link to the values in the costing document.
- A detailed review (Commercial Management Initiative - CMI) was undertaken to identify opportunities for financial benefits arising from improved commercial management across H&F and £13m of savings were identified to be available to H&F by the end of 2022/23. The LBHF trading company will be used to deliver the commercial opportunities identified, subject to approval of individual business cases by the Commercial Revenue Committee.
- The analysis has been completed for the CMI and the level of savings expected are clearly documented. However, measures and timescales relating to the other deliverables such as event and markets development (as defined in the LBHF Ventures Business Plan for example) should also be defined.
- Examination of the company's November 2017 Board meeting pack confirmed that the Managing Director provides updates on the performance and activities of the company through a Managing Director's report. This includes reviewing previous, current and future business activities. The Company's draft accounts and financial report were also presented for discussion but not approved as a transaction list was requested. We confirmed that a transaction listing has not been circulated and the accounts were approved by the Commercial Director in February 2018, but not yet by the Board as a whole. The unsigned

annual accounts submitted to Companies House state that they have been approved by the Board. It is noted that there have been no further board meetings since November 2017 and no further meetings had been scheduled as at the date of this report.

- At present, the company's risk management is undertaken as part of the Commercial Service's risk management arrangements. As the Joint Venture develops we would expect the company to have its own risk management arrangements, such as maintaining a risk register that is subject to periodic review.

4 Acknowledgements

We would like to thank the following members of staff for their time and assistance during the audit:

- Michael Hainge – Former Commercial Director (LBHF) and former Managing Director (LBHF Ventures Limited)
- Jem Kale – Head of Commercial Operations

Appendix 1: Management Action Plan

1. Governance Arrangements – Company Business Plan Approval

Priority	Issue	Risk	Recommendation
Medium	The company has a June 2016 to June 2018 Business Plan in place, which provides a summary of the company, governance and operational structure, its products, services, and deliverables. However, the Business Plan had not been formally approved by the Board and / or Commercial Revenue Committee.	Where the company Business Plan is not evidenced as reviewed and approved, there is a risk that the company’s strategic aims are not clearly defined, agreed and understood.	The business plan for the company post June 2018 should be developed and approved by the Board, taking into account progress made against the current business plan. Progress against the business plan should be monitored and reported to the board.
Management Response			
Noted a Business Plan is required. However, as LBHF Ventures is not currently generating any income the first and most important step is to review its performance and overall purpose. Once this due diligence work is completed, depending on the outcome, a Business Plan will be completed, as appropriate.			
Responsible Officer			Deadline
Simon Davis, Assistant Director for Contracts and Procurement, Sarah Bright – Assistant Director, Public Services Reform, Jem Kale - Head of Commercial Operations			30/11/2018

2. Governance Arrangements– Committee and Board Composition

Priority	Issue	Risk	Recommendation
Medium	Membership of the Cabinet Commercial Revenue Committee consists of the company Board members, the LBHF Chief Executive and one Councillor (both of whom are former members of the company board). This could be perceived by the public as a lack of independence if former and current board members scrutinise the activities of the company.	Where the Cabinet Commercial Revenue Committee is perceived to not be independent from the Board, there is a risk that the committee may be seen to provide inadequate scrutiny of the company's activities which may lead to actions not taken in the Council's best interests.	The composition of the Cabinet Commercial Revenue Committee should be reviewed to confirm that the membership arrangements satisfy the Council's need for independent scrutiny.
Management Response			
This has been completed and discussed again at the Chief Executive's Strategic Leadership Team monthly Assurance meeting on 5th September 2018. A meeting of the Committee was scheduled for September 3rd 2018, however this was cancelled owing to insufficient business to discuss. As set out in the response to recommendation 3, we need to firm up what goes to the committee to give it reason to meet. Then, at the first meeting of the Committee, attendance, including core and co-opted members will be discussed.			
Responsible Officer			Deadline
Simon Davis, Assistant Director for Contracts and Procurement, Sarah Bright – Assistant Director, Public Services Reform, Jem Kale - Head of Commercial Operations			31/12/2018

3. Governance Arrangements – Cabinet Commercial Revenue Committee meetings

Priority	Issue	Risk	Recommendation
High	<p>One of the functions of the Commercial Revenue Committee is to carry out the shareholder functions for all companies in which the Council has an interest. Council officers have asked that quarterly meetings of the Committee be scheduled and that reports from Council owned, or part-owned companies will be brought forward to the Committee.</p> <p>However, it was established that meetings for this committee have yet to take place due to ongoing discussions over the evolving remit of the committee.</p> <p>The Commercial Revenue Committee, under its terms of reference as set out in the Council’s Constitution has “...authority to authorise new income opportunities and income generating business cases with a financial impact of up to £100,000”. The term “financial impact” is not defined any further.</p>	<p>Where Cabinet Commercial Revenue Committee meetings do not take place as required, there is a risk that the company’s activities are not scrutinised by shareholders which may lead to actions not taken in the Council’s best interests.</p>	<p>The remit of the Cabinet Commercial Revenue Committee needs to be developed and agreed as required, with at least quarterly meetings scheduled (based on the expected volume and timing of decision to be made) and appropriate reports being requested from the company.</p> <p>The Committee terms of reference should include a clearer definition of “financial impact” with regards to delegation of approval of business cases.</p>
Management Response			
<p>Please also refer to the response to recommendation 2. Meetings have been scheduled quarterly, as suggested, with one scheduled for 3rd September 2018 and then 17th December 2018. As noted by audit in the recommendation, the idea of quarterly meetings was based on the expected volume and timing of decisions to be made. The current lack of income generation means that the Committee has not been convening. The aforementioned SLT paper proposes the creation of more structure which will be linked to MTFS proposals. Once the Committee is given reason to meet, a discussion about the Terms of Reference will be scheduled for the first meeting.</p>			
Responsible Officer			Deadline
Simon Davis, Assistant Director for Contracts and Procurement, Sarah Bright – Assistant Director, Public Services Reform, Jem Kale - Head of Commercial Operations			31/12/2018

4. Staffing and Resourcing – Staffing Structure

Priority	Issue	Risk	Recommendation
Low	Although company staffing appointments have been documented within Board meeting minutes, a staffing structure document would provide clearer oversight of the company's organisational structure, activities and reporting arrangements.	Where a clear staffing structure is not in place, there is a risk that the company does not have adequate oversight over staffing arrangements for the company.	The company's staffing structure should be documented detailing staff working for the company, their role and reporting arrangements.
Management Response			
Agreed.			
Responsible Officer			Deadline
Simon Davis, Assistant Director for Contracts and Procurement, Sarah Bright – Assistant Director, Public Services Reform, Jem Kale - Head of Commercial Operations			30/11/2018

5. Staffing and Resourcing – Recharging procedures

Priority	Issue	Risk	Recommendation
Medium	<p>A defined process is not currently documented for Council staff and resource costs to be re-charged. A Cross charge schedule is maintained to track monthly hours spent by two Directors and the company secretary and the company is charged support costs from the commercial directorate on a pro rata basis. However, the spreadsheet does not include any time spent by the other Director (Lead Director of Environmental Services) or the Councillor.</p> <p>We were informed that business activities have been limited during the first year of the company's existence. The main income generating activities relate to highways consultancy. However, staff recharge details for the consultancy engagement were not provided.</p>	<p>Where a defined process for recharging is not in place, this may result in the Council subsidising the activities of the business, and providing an inaccurate assessment of company resources and financial performance.</p>	<p>A defined process for recharging should be documented between the company and the Council. This should involve a requirement for clear records of all time and resource input by the Council, both for those officers/Members directly involved in the running of the company and support services (e.g. Legal, Finance, HR), so that an accurate calculation can be made.</p>
Management Response			
<p>The SLT paper proposes to urgently put such a structure in place - extending the scope of the commercial programme to include fees and charges such that the commercial team, in partnership with Corporate finance, deliver an annual corporate fees and charges pricing programme. This should be integrated with the annual MTFS programme and include diagnostics to baseline current fees, charges and assets across departments and benchmark performance with other local authorities and or competitors where the sale of a products and services are made. Appropriate records will be retained, in conjunction with internal support services, so that all costs are accurately captured, enabling appropriate monitoring of the financial performance.</p>			
Responsible Officer			Deadline
Simon Davis, Assistant Director for Contracts and Procurement, Sarah Bright – Assistant Director, Public Services Reform, Jem Kale - Head of Commercial Operations			30/11/2018

6. Assessment of Commercial Activities– Business Case Approval

Priority	Issue	Risk	Recommendation
High	<p>The Commercial Revenue Committee is required to approve business cases for delivery through the Company.</p> <p>We were not provided with any evidence of the review and approval of the housing secondment or highways consultancy work by the Commercial Revenue Committee (there were two meetings scheduled but both were cancelled). In addition, we were not provided with the scoping and decision making process undertaken by the company (such as risk assessment and capability assessments).</p> <p>We were provided with some costing information relating to the transport planning consultancy; however, it was not clear how this information was used to determine the rates charged for the work delivered.</p>	<p>Where business cases to support commercial activities are not completed and approved by the Commercial Revenue Committee, there is a risk that inappropriate ventures are entered into resulting in commercial activities that are unprofitable or not in line with the Council's aims, values and risk appetite.</p>	<p>Prior to beginning any commercial activities, a business case should be prepared and put forward to the Commercial Revenue Committee for approval where required.</p> <p>The business case should include the feasibility of carrying out the work and how it meets the company's aims, objectives, and risk appetite.</p>
Management Response			
<p>We are committed to this recommendation. As noted above, there is a current lack of commercial activities, but prior to beginning and new activities, a business case will be prepared. The review of commercial activities identified four enterprises which do not currently have but need business cases – Shepherd's Bush Market, CCTV, Independent Fostering Agency and Digital Advertising. The updated terms of reference will make clear when a business case is required to go to the Committee.</p>			
Responsible Officer			Deadline
Simon Davis, Assistant Director for Contracts and Procurement, Sarah Bright – Assistant Director, Public Services Reform, Jem Kale - Head of Commercial Operations			31/12/2018

7. Performance Management and Monitoring– Business Plan Deliverables

Priority	Issue	Risk	Recommendation
Low	<p>Deliverables within the business plan have been documented. However, timescales and measures for completion have not been documented for all deliverables. The deliverables are as follows:</p> <ul style="list-style-type: none"> • During 2017-18 financial year, the Council will identify net profit-making units/services via Commercial Operation Board meetings. • Business Intelligence Sales: LBHF Ventures Limited will facilitate £1m sales by hiring up to three sales persons. • Transport Consultancy: LBHF Venture Limited aims to deliver £55k gross income by working with the council transport partners. • Event and Markets Development: LBHF Ventures Limited actively facilitates a new Shepherd Bush Green Market and two new events in Wormwoods Scrubs. • Provide commercial contract management consultancy. 	<p>Where timescales and measures for achieving deliverables are not defined, there is a risk that deliverables are not delivered in a timely manner or to the required standard.</p>	<p>Measures and timescales relating to the agreed deliverables defined in the Business Plan should be defined and progress should be monitored against the planned milestones.</p>
Management Response			
As per response to recommendation 1.			
Responsible Officer			Deadline
Simon Davis, Assistant Director for Contracts and Procurement, Sarah Bright – Assistant Director, Public Services Reform, Jem Kale - Head of Commercial Operations			30/11/2018

8. Performance Management and Monitoring– Approval of Annual Accounts.




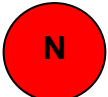
Priority	Issue	Risk	Recommendation
Medium	<p>The company annual accounts were approved by the Commercial Director in February 2018 but have yet to be approved by the full Board.</p> <p>The unsigned annual accounts submitted to Companies House state that they have been approved by the Board. There have been no further board meetings since November 2017 and no further meetings had been scheduled as at the date of this report.</p>	Where the annual accounts are not approved by the full board there is a risk that there is not a consensus on the completeness and accuracy of the accounts/	The annual accounts should be submitted to the next Board meeting for approval.
Management Response			
There is currently no activity, however when this changes, the accounts will be discussed at the Board.			
Responsible Officer			Deadline
Simon Davis, Assistant Director for Contracts and Procurement, Sarah Bright – Assistant Director, Public Services Reform, Jem Kale - Head of Commercial Operations			Ongoing

9. Performance Management and Monitoring– Risk Management

Priority	Issue	Risk	Recommendation
Medium	At present, the company's risk management is undertaken as part of the Commercial Service's risk management arrangements. As the Joint Venture develops we would expect the company to have its own risk management arrangements.	Where the company does not have formal risk management arrangements, risks to the achievement of the objectives of the company may not be identified, assessed and managed effectively.	The company should develop formal risk management arrangements, including maintenance of a risk register that is subject to periodic review and reporting to the board.
Management Response			
Any risks to be provided to Audit by 14.09.2018. although as the current activity very low, the risks are very low.			
Responsible Officer			Deadline
Jem Kale - Head of Commercial Operations			14/09/2018

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 LBHF Ventures Limited and included the following areas:

Ref	Audit Area - Description	Comments on Coverage / Area Objectives
01	Governance Arrangements	<p>There is a clear strategic vision for the Company which is aligned with the Council's aims, objectives, values and risk appetite.</p> <p>Effective governance arrangements are in place to oversee the activities of the trading company.</p> <p>Governance arrangements provide reassurance over the propriety of the business, and that the agreed strategic direction is being followed.</p> <p>An agreed decision making structure is in place detailing how the Company will take forward its activities in order to pursue its objectives. Arrangements ensure that the Company does not bypass relevant Council policies and rules e.g. financial delegations and procurement.</p> <p>There is a Board in place which has appropriate membership and organisational oversight.</p> <p>Roles and responsibilities of key officers are defined and documented.</p>
02	Staffing and Resourcing	<p>Staffing and resourcing arrangements for the trading company are clearly defined, documented and agreed. Any applicable Council staff or resource costs are re-charged completely, accurately and promptly, with clear records held to support time charged / resources input.</p>
03	Assessment of Commercial Activities	<p>A process is in place to identify and assess ventures appropriate for the company. This involves gathering supporting data to prepare a business case meeting agreed criteria that are aligned with the company's aims, objectives and risk appetite.</p> <p>The Council's capacity to undertake proposed ventures are included as part of the assessment process, with staff having the required skill set and commercial knowledge to ensure compliance with Council and legislative requirements.</p>
04	Performance Monitoring and Management Information	<p>There are mechanisms for the Council to receive accurate updates on financial and operational performance.</p> <p>Key activities of the Company and their risks are identified, quantified and reported to the Council in a timely manner to input into decision making.</p> <p>Expected benefits (and/or agreed outcomes) from the trading company have been defined by the Council. Measures and timescales to monitor delivery of benefits have been agreed and are monitored against.</p>

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:

- The Council achieves poor value for money in the procurement of its utilities;
- The Council makes incorrect payments for its energy usage; and
- The Council does not maximise efficiency and minimise waste

Appendix 4: Timetable and Distribution List


Stage	Date
End of Fieldwork	01/02/2018
Draft Report Issued	29/03/2018
Responses Received	21/05/2018
Final Report Issued	21/05/2018

Audit Team
Client Engagement Manager: James Graham
Auditor: Blessing Gurure
Auditees
Jem Kale - Head of Commercial Operations
Client Sponsor
Rachel Wright Turner – Director for Public Services Reform

Report Distribution List
Rachel Wright Turner – Director for Public Services Reform
Jem Kale - Head of Commercial Operations

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.

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>18 September 2018</p>	
INTERNAL AUDIT CHARTER	
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 David.HughesAudit@lbhf.gov.uk

1. EXECUTIVE SUMMARY

- 1.1. In accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS), the Council has an Internal Audit Charter which is maintained by the Director of Audit, Fraud, Risk & Insurance. The Charter is reviewed annually and has recently been updated to reflect changes following the appointment of a new Director of Audit, Fraud, Risk and Insurance during 2017.

2. RECOMMENDATIONS

- 2.1. To review and note the contents of this report.

3. REASONS FOR DECISION

- 3.1. Not applicable. No decision required.

4. PROPOSAL AND ISSUES

- 4.1. The Public Sector Internal Audit Standards (PSIAS) came into effect from 1 April 2013. To demonstrate compliance with these standards, an Internal Audit Charter is reported to the Audit Pensions and Standards Committee.

The Charter is subject to annual review and revision with minor changes approved by the Director of Audit, Fraud, Risk and Insurance.

4.2. the objectives of the PSIAS are to:

- Define the nature of internal auditing in the UK public sector;
- Set basic principles for providing internal audit services that add value to the organisation, leading to improved organisational processes and operations;
- Establish the basis for the evaluation of internal audit performance and to promote continuous improvement.

4.3. The Standard incorporates a code of ethics governing the integrity and conduct of the internal auditors and the requirement for objectivity, confidentiality, and competency, including regard to the seven principles of public life.

4.4. There are also detailed performance standards on the actual conduct of internal audit work including audit planning, performance of individual audits, progress monitoring and the communication of results.

4.5. Included within the Standard is a requirement for regular review and assessment of Internal Audit's conformance with the Standard. This is undertaken as part of the Annual Report of the Director of Audit, Fraud, Risk and Insurance which is reported to the Audit, Pensions and Standards Committee. The Annual Report for 2017/18 (reported in July 2018) confirmed that Internal Audit has comprehensive quality control and assurance processes in place and that the service complies with the Public Sector Internal Audit Standards, taking account of quality reviews undertaken during the year and an internal self-assessment conducted in March 2018.

4.6. Appendix A sets out the updated Internal Audit Charter and Appendix B contains the Internal Audit Strategy which sets out how the Council's Internal Audit service will be developed and delivered in accordance with the Internal Audit Charter.

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. The Internal Audit Charter has been developed to demonstrate compliance with the standards.

6. CONSULTATION

6.1. Not applicable.

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 Service and 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 Service in meeting the requirements of the Public Sector Internal Audit Standards develops and delivers an annual plan 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.

BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Public Sector Internal Audit Standards	David Hughes 0207 361 2389	Corporate Services, Internal Audit Town Hall, King Street Hammersmith W6 9JU

LIST OF APPENDICES:

Appendix A – Internal Audit Charter
Appendix B – Internal Audit Strategy

London Borough of Hammersmith and Fulham
Internal Audit Charter
September 2018



1. The Internal Audit Charter

- 1.1 This Charter establishes the purpose, authority and responsibilities for the internal audit service for the London Borough of Hammersmith and Fulham, in accordance with the UK Public Sector Internal Audit Standards. The Internal Audit Strategy (Appendix B) sets out how the Council's internal audit service will be developed and delivered in accordance with the Internal Audit Charter.
- 1.2 The Charter will be reviewed annually and presented to the Council's Senior Managers and to the Audit, Pensions and Standards Committee to note.

2. Definition

- 2.1 Internal Audit is defined by the Public Sector Internal Audit Standards (PSIAS) as:
“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”
- 2.2 For the purposes of the PSIAS and this Audit charter:
 - The Director of Audit, Fraud, Risk and Insurance is designated as the “Chief Audit Executive”;
 - The Audit, Pensions and Standards Committee are designated as the “Board”;
 - The Council's Strategic Leadership Team is designated as “Senior Management”.

3. Purpose

- 3.1 Internal audit provides independent and objective assurance to the London Borough of Hammersmith and Fulham through its Members, the Strategic Leadership Team (in its role as the SLT Assurance Board) and in particular the Strategic Director of Finance and Governance, to help discharge responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.
- 3.2 In addition, the Accounts and Audit Regulations (2015) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council's governance, risk management and internal control systems.

4. Authority & Access to Records

- 4.1 In undertaking their duties and responsibilities, Internal Audit (which includes in house staff and contractors) and the Corporate Anti-Fraud Service shall be entitled

to have full access to all of the Council's data, records, cash, stores, property, assets, personnel and information whether manual or computerised, it considers necessary to fulfil its responsibilities. Audit and investigation staff may enter Council property and have unrestricted access to all locations and officers where necessary, on demand, and without prior notice. Council staff are expected to provide every possible assistance to facilitate the progress of audits and investigations.

4.2 Access rights apply equally to third parties and organisations, as permitted through the associated contract and partnering arrangements. Right of access to other bodies funded by the Council should be set out in the associated conditions of funding.

4.3 All records, documentation and information accessed in the course of undertaking audit reviews and investigations shall be used solely for that purpose. All audit and investigation staff are responsible for maintaining the confidentiality of information received in the course of their work.

5. The Audit, Pensions and Standards Committee

5.1 The Director of Audit, Fraud, Risk and Insurance is required to provide the Council and the Strategic Director of Finance and Governance with an annual opinion, reported through the Audit, Pensions and Standards Committee, on the adequacy and the effectiveness of the internal control system for the whole Council. To achieve this, the internal audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources;
- To provide assurance that the Council's operations are being undertaken in accordance with relevant internal and external regulations, legislation, internal policies and procedures;
- To provide assurance that significant risks to the Council's objectives are being identified and managed;
- To provide independent assurance over the corporate governance arrangements in place across the Council;
- To provide advice and support to management to enable an effective control environment to be maintained;
- To promote an anti-fraud, anti-bribery and anti-corruption culture with the Council to aid the prevention and detection of fraud;
- To evaluate specific operations or issues at the request of the Audit, Pensions and Standards Committee, as appropriate;
- To undertake investigations where there is suspected fraud, bribery or corruption; and
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.

- 5.2 There are inherent limitations in any system of internal control and thus error or irregularities may occur and may not be detected by internal audit's work. When undertaking audit reviews, internal audit will provide management with comments and report on failures or weaknesses in internal control systems together with recommendations for remedial action. It remains a management responsibility to maintain an effective system of internal control and to have adequate systems in place to prevent and detect fraud.
- 5.3 Where appropriate, Internal Audit may undertake consulting work for the benefit of the Council. Internal Audit may also provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of any associated contract.

6. Reporting

- 6.1 The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report directly to the top of the organisation and those charged with governance. This will be achieved through the following framework:
- The Internal Audit Strategy and Charter and any amendments to them will be reported to the Audit, Pensions and Standards Committee;
 - The Annual Internal Audit Plan will be compiled by the Director of Audit, taking account of the Council's risk framework and following discussions with senior managers. The audit plan will be subject to review by the Council's Strategic Leadership Team (in its role as the SLT Assurance Board) and will then be reported to the Audit, Pensions and Standards Committee for noting and comment;
 - The Internal Audit budget is reported to Leadership Team and Full Council for approval, as part of the overall Council budget;
 - The adequacy, or otherwise of the level of internal audit resources, as determined by the Director of Audit, Fraud, Risk and Insurance and the independence of internal audit will be reported to the Audit, Pensions and Standards Committee. The approach to providing resources is set out in the Internal Audit Strategy;
 - Internal audit outcomes and progress with the Internal Audit Plan will be reported regularly to the Council's Section 151 Officer and to the Council's Senior Managers.
 - Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work will be reported regularly to the Audit, Pensions and Standards Committee;
 - Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit, Pensions and Standards Committee;
 - Any instances of non-conformance with the Public Sector Internal Audit Standards will be reported to the Audit, Pensions and Standards Committee and will be included in the annual report of the Director of Audit, Fraud, Risk and Insurance. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

7. Independence

7.1 The Director of Audit, Fraud, Risk and Insurance will have free and unfettered access to the following:

- The Chief Executive;
- The Chair of the Audit, Pensions and Standards Committee;
- The Monitoring Officer;
- All Members of the Strategic Leadership Team.

7.2 The independence of the Director of Audit, Fraud, Risk and Insurance is further safeguarded by ensuring that any appraisal of personal performance is not unduly influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of the Audit, Pensions and Standards Committee have the opportunity to contribute to, and/or review the appraisal of the Director of Audit, Fraud, Risk and Insurance.

7.3 All Council and contractor staff in the Shared Services Internal Audit Service and Corporate Anti-Fraud Service are required to make an annual declaration of any potential conflicts to ensure that auditors' objectivity is not impaired and that any requirements of the Council.

7.4 Internal Audit may provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity (over 5% of planned annual audit days) not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit, Pensions and Standards Committee. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

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

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

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

8. Counter Fraud, Corruption & Irregularity

- 8.1 Managing the risk of fraud and corruption is the responsibility of management. Internal audit procedures alone cannot guarantee that fraud or corruption will be prevented or detected. Auditors will, however be alert in their work to risks and exposures that could allow fraud, corruption or other irregularity.
- 8.2 The Council has a shared Corporate Anti-Fraud Service as part of the Shared Internal Audit Service and the Service has a protocol for close working relations with Internal Audit. The policies and procedures of the Corporate Anti-Fraud Service are detailed in the Council's Anti-Fraud and Corruption Strategy.

9. Due Professional Care

- 9.1 The Internal Audit Function is bound by the following standards:
- Institute of Internal Auditors' (IIA) International Code of Ethics
 - Seven Principles of Public Life (Nolan Principles);
 - UK Public Sector Internal Audit Standards;
 - All Council Policies and Procedures;
 - All relevant legislation.
- 9.2 All staff and contractors are required to sign an annual statement confirming their compliance with the IIA code of Ethics.
- 9.3 Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.
- 9.4 A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. Both the Director of Audit, Fraud, Risk and Insurance and the Senior Audit Manager are required to hold a professional qualification (CCAB or CMIAA) and be suitably experienced.

Internal Audit Charter and Strategy Reviewed and Agreed:

Date	Reviewed by	Position	Authorised by	Position
September 2018	Moira Mackie	Senior Audit Manager	David Hughes	Director of Audit, Fraud, Risk and

				Insurance
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INTERNAL AUDIT STRATEGY

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

The Strategy will be reviewed annually and presented to the Audit, Pensions and Standards Committee for information.

Internal Audit Objectives

Internal Audit will provide independent and objective assurance to the organisation, its Members, the Strategic Leadership Team (SLT) and in particular to the Strategic Director of Finance and Governance in support of discharging their responsibilities under S151 of the Local Government Act 1972 relating to the proper administration of the Council's financial affairs.

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

Internal Audit Remit

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

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

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

Service Delivery

The service will be delivered by a mixture of in-house staff and the Council's internal audit partners under the direction of the Director of Audit, Fraud, Risk and Insurance.

The Internal Audit Service is a shared service, comprising the London Borough of Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea and Westminster City Council, to deliver audit reviews across the Councils for sovereign as well as shared services.

Internal Audit Planning

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

- Discussions with the Council's Strategic Leadership Team (in its role as the SLT Assurance Board) and senior managers;
- Discussions with the shared services directors;
- The shared services and sovereign risk registers;
- Outputs from other assurance providers (including Hampshire County Council Internal Audit regarding the Finance, HR and Payroll solution);
- Requirements as agreed with External Audit.

Management views and suggestions are taken into account when producing the audit plan and the Director of Audit, Fraud, Risk and Insurance will ensure feedback from or attendance at directorate Management Team meetings as part of the annual planning process.

The Internal Audit Plan will include the following elements:

- **Risk Based Systems Audit:** Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through a risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they are operating correctly. The selection of work in this category is driven by Service Areas' risk processes and will increasingly include work in areas where the Council services are delivered in partnership with other organisations;
- **Key Financial Systems:** Audits of the Council's key financial systems including any additional work where External Audit require annual assurance as part of their external audit work programme;
- **Probity & Compliance Audits (schools and other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice is reviewed.
- **ICT Related Audits:** The review of ICT governance, infrastructure and associated systems, software and hardware;
- **Procurement:** Audits of the procedures and processes for procuring goods, services and works including the letting and monitoring of contracts;
- **Fraud and Ad Hoc Work:** The Corporate Anti-Fraud Service, with the Internal Audit function, will continue to investigate any fraud and irregularity arising during the year. Internal Audit may undertake additional work due to changes or issues arising in-year.

Follow Up


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

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

Reporting

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work. Summary reports are also provided to the Audit, Pensions and Standards Committee on a regular basis. This includes the annual report of the Director of Audit, Fraud, Risk and Insurance which contributes to the assurances underpinning the Annual Governance Statement of the Council.

Agenda Item 9

<p>London Borough of Hammersmith & Fulham</p> <p>AUDIT PENSIONS AND STANDARDS COMMITTEE</p> <p>18 September 2018</p>	
<p>RISK MANAGEMENT HIGHLIGHT REPORT</p>	
<p>Report of the Director for Audit, Risk, Fraud and Insurance – David Hughes</p>	
<p>Open Report</p>	
<p>Classification: For review and comment</p>	
<p>Key Decision: No</p>	
<p>Consultation: <i>All service departments were consulted as part of the quarterly review.</i></p>	
<p>Wards Affected: None</p>	
<p>Accountable Director: David Hughes, Director for Audit, Risk, Fraud and Insurance</p>	
<p>Report Author: Michael Sloniowski, Risk Manager</p>	<p>Contact Details: Tel: 020 8753 2587 Michael.sloniowski@lbhf.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1. The purpose of this report is to provide members of the Audit, Pensions and Standards Committee with an update on risk management within the Authority, and 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 Chief Executive and Strategic Leadership Team 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 review by the Council's Strategic Leadership Team in August. The Corporate Risks are listed in Appendix A. There are currently 25 live corporate risks including 3 new risks.
- 4.5. Risks are represented in the Risk Heat Maps on the following page: Chart 1 illustrates the end of year position for 2017/2018; Chart 2 illustrates the Quarter 1 position for 2018/2019.

Chart 1: Quarter 4 - Period: at June 2018

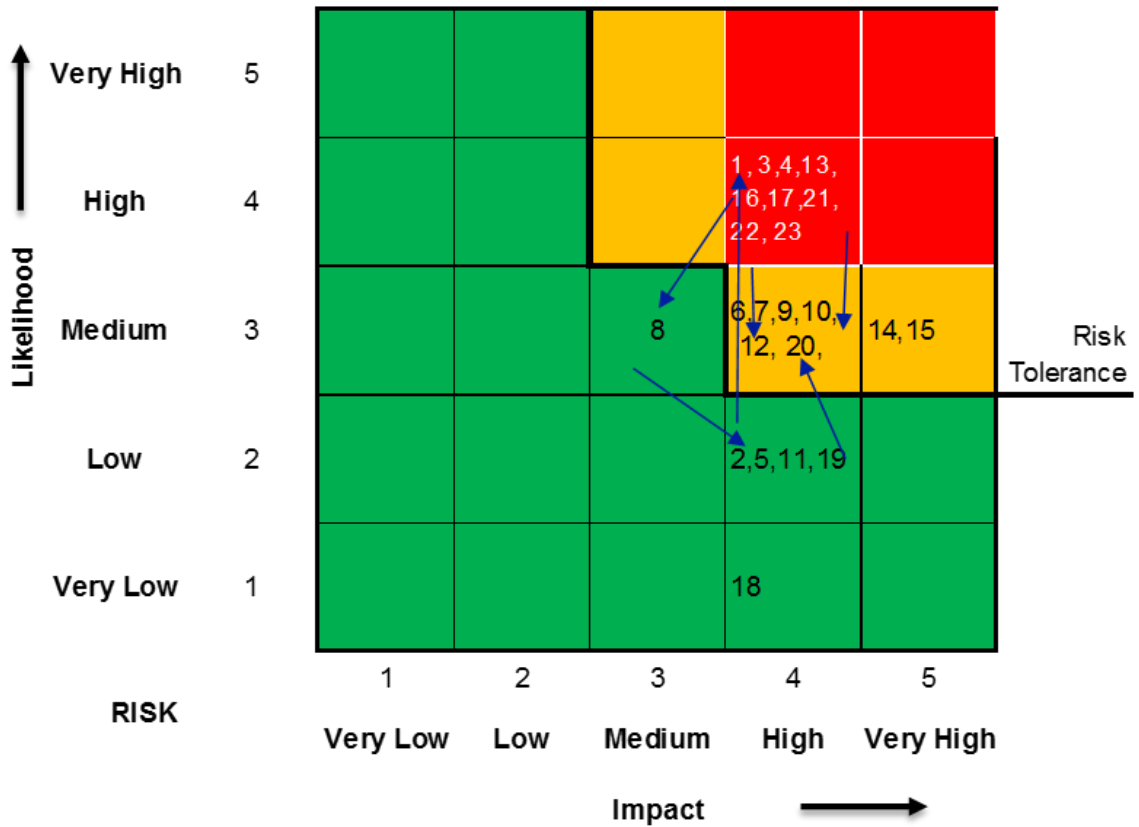
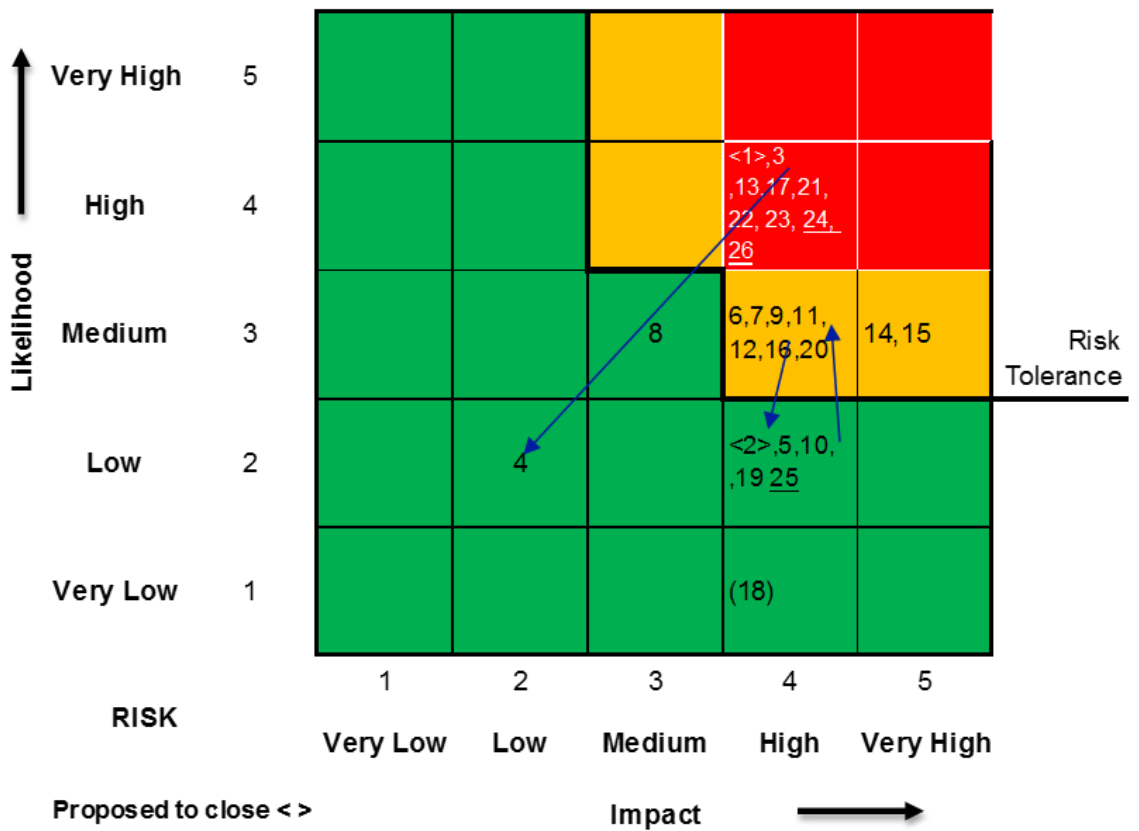


Chart 2: Quarter 1 - Period: at August 2018



- 4.6. 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 provided below:

Closed Risks

- 4.7. It is proposed that Risks 1 and 2 are closed, both relate to prior year activity. Risk 18 is now closed following review of the Risk report provided to the Committee in July.

Reduced Risks

- 4.8. Risk 4 - **Public Health funding reduction** limiting investment in other departments and priorities is no longer deemed a significant risk. In 2018/19 the total public health grant to local authorities is £3.215bn. The grant is ring fenced for use on public health functions exclusively for all ages. The Council will still need to comply with the grant conditions and will need to submit quarterly data returns of spend on public health (total mandated and non-mandated services) as part of the existing Quarterly Revenue Outturn report. The authority must maintain a robust system of internal financial controls and inform the Department of Health promptly of any significant financial control issues raised by its internal auditors in relation to the use of the public health grant.
- 4.9. Risk 10 - **Increase in complexity of working with Health partners** is decreasing (risk improved) as the Public Health duties are becoming well-established within the Council.

Increased Risk

- 4.10. Risk 11 – **Decision making and maintaining reputation and service standards:** corporate reporting of key performance indicators and a range of corporate health measures (including finance, risk, organisation/people) has been developed to enable the Strategic Leadership team oversight.
- 4.11. The internal audit review of LBHF Ventures reported elsewhere on this agenda has identified areas for improvement in governance and decision making processes. As a result of this and the ongoing requirement to review governance arrangements and processes to compile the Annual Governance Statement, governance and decision-making processes are being reviewed to ensure they are appropriate and effective to support good officer and member decision-making.

Risk narrative

- 4.12. Risk 3 – **Commercial Contract Management and Procurement:** progress against the actions arising from the internal audit reviews of Procurement Governance and Contractor Resilience were reported to the Committee in July. Further progress has since been made to implement the Commercial Management Initiative Programme. Corporate Procurement are updating all contract information on the central Electronic Procurement, CapitalESourcing system and undertaking spend analysis for our contracts. This has included entering the inclusion of any contracts not so that we have a complete and dedicated list of information. Management information around contracts is being developed to: target potential areas for intervention, including reprocurement and additional contract management support; ensure that regular monitoring and oversight on key contracts is in place and appropriate assurances are being provided on performance

and contractor resilience; and, enable the development of future strategies for delivering services from the market.

- 4.13. Risk 5 - **Business resilience risks**, systems, processes, resources, IT and accommodation moves. recognises potential threats to the council and individual services, and analyses what impact they may have on day-to-day operations. It also provides a way to mitigate these threats, putting a framework in place which means key functions of the council can continue, even if the worst happens. In the past quarter presentations was given to Department Management Teams to ensure that all Service Continuity Plans (SCPs) are completed by end of August 2018, a quality review of plans will follow. Briefing sessions were specifically arranged for Public Services Reform Officers to raise awareness of Business Continuity Management and Supply Chain Resilience facilitated by the Council's Business Continuity Manager.
- 4.14. Officers are due to conduct a quality review of plans, identifying improvements where required and a sample of Priority 1 Services with a Recovery Time Objective of 24 hours will be selected to conduct desktop simulation exercises to verify the adequacy and effectiveness of the plans in place.
- 4.15. Risk 6 – **Information management and digital continuity including Cyber Security:** with funding from the Cabinet Office, the Local Government Association (LGA) is carrying out a stocktake of all 353 principal English councils' existing cyber security arrangements, to understand what measures are in place and gain a high-level picture of the sector as a whole. The LGA will use this information to develop a system of sector-led support and improvement, including a grant funding scheme which councils will be able to bid to improve their cyber resilience.
- 4.16. The General Data Protection Regulations (GDPR) came into effect as the data Protection Act 2018 on 25 May 2018. This new act placed a number of new duties on Data Controllers and Data Processors. The Council is GDPR "ready" and working towards compliance. Further work is being undertaken to: ensure all staff are trained in the new requirements and to ensure that all relevant contracts with third party suppliers contain clauses regarding the processing and retention of data which are compliant with the new regulations.
- 4.17. Risk 7 - **Managing statutory duties, health and safety:** an internal audit review in 2017/18 of corporate property's oversight of health and safety compliance of the principal contractor across the Council's corporate buildings gave limited assurance, identifying several strategic and operational weaknesses.
- 4.18. The Strategic Director of Finance & Governance is now responsible for corporate buildings, with a new interim Assistant Director of Corporate Property in place to ensure appropriate oversight and management of corporate buildings. Weekly building compliance board meetings with key personnel including corporate safety are held to monitor performance.
- 4.19. The Corporate Safety team has undertaken a review of fire evacuation plans across the Council's main corporate buildings including higher risk sites. Changes have been made as appropriate and recommendations for enhancement in fire safety have been put forward.

- 4.20. Corporate safety continues to meet fortnightly with Housing to review operational compliance. A recent audit of the gas safety management arrangements for compliance oversight gave satisfactory assurance. An audit of lift management is underway, other areas of compliance including fire are scheduled for later in the year.
- 4.21. Inspections of third party providers of accommodation to vulnerable adults and children is ongoing. Any concerns will be fed back to the commissioners to ensure learning is embedded in the commissioning process.
- 4.22. A report outlining the recently reviewed Growth and Place Directorate (G&P) policies for Asbestos, Fire and Gas Safety and Management have been developed for submission to Cabinet for adoption.
- 4.23. The policies explain how the Growth and Place Directorate will effectively promote and manage safety issues about asbestos, fire and gas safety and taking account of residents, staff, contractors and visitors. Implementation of these policies will ensure that the Council fulfils its duties in providing and maintaining a safe and healthy environment for our residents, staff, contractors and visitors and delivers against the Excellent Housing Services for all themes. Compliance with and performance of the policies will be monitored by the Strategic Core Compliance Group.
- 4.24. Risk 9 – **Partnerships and major contracts**: a Major Programmes Board has been established, supported by a Programme Management Office which will provide support to significant council programmes and assurance on the governance, progress and delivery of major programmes established to deliver the Council’s priorities. A programme management assurance framework is also being developed to support all programmes.
- 4.25. Risk 14 – **Compliance with the statutory duties to undertake inspection regimes** covering Management of Asbestos, Electrical Testing, Fire Risk, Plant and Equipment, Water/Legionella. The company responsible for managing statutory compliance for H&F Civic Properties has failed to provide all documentation relating to the inspection regime. They have therefore been instructed to re-test all inspections with missing documentation. The deadline to undertake re-inspections is 31 August 2018. This is also the deadline to remedy any expired or invalid certificates. The most up to date audit shows compliance at 47.8%, re-inspection is expected to elevate this to around 80% and further action is being taken to demonstrate 100% compliance.
- 4.26. Monitoring and reporting is in place for compliance across all areas of Housing. Fortnightly compliance meetings are held with Corporate Health and Safety to monitor progress and provide independent assurance. The Asbestos Action is being implemented. The Council continues to take a proactive approach to ensuring that Fire Risk Assessments are updated. Fire Risk Assessments for properties of 6 storeys and above are available on the Council’s website. A new water hygiene contract and contract for the inspection and testing of lightning conductors commenced April 2018. All Housing compliance records will have been entered onto a single database by the end of 2018.
- 4.27. Risk 16 - **Change Readiness** e.g. Smartworking, New systems, is a diminishing risk as the MSP Programme Board has been established. Communications to staff introducing the Integrated Business Centre (IBC) as part of the Hampshire partnership, which will provide our systems for finance, procurement (shopping), payroll and recruitment has commenced.

- 4.28. Risk 21 – **West King Street Renewal Programme:** A strategy has been developed for delivery of alternative of office facilities, with cabinet approval for commercial heads of terms was approved in March 2018. A planning application has been submitted in April 2018.
- 4.29. The July 2018 cabinet report included further detail around the business case for the scheme and appropriate approvals to allow the scheme to progress. The report explains the details of the legal structure and the enabling actions the Council needs to take for the project to be progressed. It sets out the risks associated with these decisions, including the possible financial costs.
- 4.30. Risk 22 - **Children's services placements:** A 50-child increase in the number of looked after children in the last 3 years creates budget pressures as the budget is not based on head count. Pressures are primarily due to the continued increase on service demand, higher unit costs and more complex needs. Funding is not formula driven so as demand is rising and the budget is reduced for savings, there is limited possibility to contain expenditure within budget. Work continues both to ensure that the forecast is robust and that young people are placed in the most appropriate placement type for their need.
- 4.31. Risk 23 - **High needs budget pressure in the Direct school block:** a full system review has been undertaken to reconcile activity, funding, and expenditure. A project team and governance has identified options and work streams to recover the deficit on the High Needs Block for the Local Authority and to support Special Schools with their financial planning and efficiency. A dedicated project team has identified potential options to reduce the underlying funding deficit. Officers are preparing a briefing for Cabinet.

New Risks

- 4.32. Risk 24 - **Financial Strategy in year budget 2018/2019 and Medium-Term Planning,** closing Risk 1. The Council's finances continue to tighten. Relatively minor overspends are widespread with few underspend areas identified. There is little 'slack' and no indication that the position will improve without change. In several key areas there is evidence of increased demand for services. For example, the number of household in temporary accommodation has increased by 460 (38%) in 3 years. The underlying Dedicated Schools Grant deficit continues to be a concern that the Council cannot ignore.
- 4.33. Action plans have been received from departments to mitigate the forecast overspends, delivery of action plans has been assigned to relevant responsible officers.
- 4.34. Risk 25 - **Adult Social Care balanced budget in 2018/2019 and in the medium term,** closing Risk 2. The department continues to experience budget pressures; this is mainly because of the full year implications of new service users coming through the service from 2017/18 especially within Home Care and Learning Disability.
- 4.35. The department has considered the new additional one-off funding from the Adult Social Care Grant of £574,000 to partly mitigate the some of these pressures. Historically, the department's budget has had underlying budget pressures, which were partly mitigated in year by using a combination of management actions to control the budget, one off reserves and from last year with the Improved Better Care Funding. At this early stage of the year, the department is highlighting a maximum risk of £1.3m due as a consequence of potential additional transitional service users and difficulty of some in year savings at risk of non-delivery.

- 4.36. Risk 26 – **Impact of a “no deal” Brexit:** a ‘no deal’ scenario is one where the UK leaves the European Union (EU) on 29 March 2019 without a Withdrawal Agreement and framework for a future relationship in place between the UK and the EU.
- 4.37. In a ‘no deal’ scenario there would therefore be no agreement to apply any of the elements of the Withdrawal Agreement. If the UK left the EU on 29 March 2019 without a deal there would be immediate changes to, as now routine procedures, in the event of a ‘no deal’ scenario. The Secretary of State for Exiting the European Union began publishing a series of 25 technical notices during August and September setting out information to allow businesses and citizens to understand what they would need to do in a ‘no deal’ scenario, so they can make informed plans and preparations, including but not limited to:
- *Trading with the EU:* if the UK left the EU on 29 March 2019 without a deal there would be immediate changes to the procedures that apply to businesses trading with the EU. It would mean that the free circulation of goods between the UK and EU would cease.
 - *Banking, insurance and other financial services:* In a ‘no deal’ scenario, UK firms’ position in relation to the EU would be determined by the relevant member state rules and any applicable EU rules for countries outside of the EEA.
 - *State aid:* state aid is support in any form (financial or in kind) from any level of government which gives a business or another entity a benefit in the single market that could not be obtained during the normal course of business. With no specific UK legislation related to state aid claims may be made in the UK courts to force aid givers who have not notified aid (to the EU) to stop giving aid until they have done so.
 - *Workplace rights:* the EU (Withdrawal) Act 2018 brings across the powers from EU Directives. This means that workers in the UK will continue to be entitled to the rights they have under UK law, covering those aspects which come from EU law.
 - *Medicines Supply Contingency Planning Programme:* the Department of Health and Social Care (DHSC) recently undertook reviewed the supply chain for medicines, including radioisotopes and vaccines, where the UK relies on imports from the EU and European Economic Area (EEA). Without a deal, the supply chains for these products may be affected by changes to border controls. DHSC is working with the relevant marketing authorisation holders to ensure that UK stocks of medicines are adequate to cope with any potential delays at the border that may arise in the short term.
- 4.38. A London Resilience Partnership project has been instigated to look at implications, with the aim of reporting to the London Resilience Forum on the 18th October. This will include local authority input, include a trawl of activities/issues within boroughs.

5. CONSULTATION

- 5.1. Consultation has taken place with the Strategic Leadership Team, service department risk representatives and subject matter experts in Business Continuity, Insurance, 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 legal implications associated with the presentation of Risk Registers to the Strategic Leadership Team and Audit, Pensions and Standards Committee.

7.2. *Implications verified/completed by Kevin Beale, Senior Corporate Solicitor, 02087532740*

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 02087532587.*

13. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name and contact details of responsible officer	Department/ Location
1.	Risk registers	Michael Sloniowski, Risk Manager, telephone 020 8753 2587	Internal Audit, Fraud, Risk and Insurance

LIST OF APPENDICES

Appendix A: List of Corporate Risks

APPENDIX A: Corporate Risks *profiled as at August 2018 showing periods Q4, 2017/18 and Q1 2018/19.*

No.	Risk	Q4 17/18 Likelihood	Q4 17/18 Impact	Q1 18/19 Likelihood	Q1 18/19 Impact	Movement	Officer	1st Line of Assurance Operational	2nd Line of Assurance Corporate Oversight	3rd Line of Assurance Independent
1	Financial Management in year budget 2017/2018 and Medium-Term Planning.	4	4	4	4	Proposed to close, see Risk 24	HJ	High	High	Very High
2	Adult Social Care balanced budget pressure in 2017/2018 and over the medium term.	2	4	2	4	Proposed to close, see risk 25	LR	High	High	Very High
3	Commercial Contract Management and Procurement risks, rules, outcomes social value, management.	4	4	4	4	Stable	LR	Low	Moderate	Moderate
4	Public Health funding reduction limiting investment in other departments and priorities.	4	4	2	2	No longer deemed a significant risk	LR	Moderate	Moderate	High
5	Business resilience risks, systems, processes, resources, IT and accommodation moves.	2	4	2	4	Stable	NA	Moderate	Moderate	High
6	Information management and digital continuity including Cyber Security, regulations, legislation and compliance.	3	4	3	4	Stable	VB	Moderate	Moderate	High
7	Managing statutory duties, health and safety, equalities, human rights, duty of care regulations, highways etc.	3	4	3	4	Stable	KD	High	High	High
8	Standards and delivery of care, protection of children and adults.	3	3	3	3	Stable	LR/SM	Very High	Very High	Very High
9	Failure of partnerships and major contracts (The Link, 3BM, Shared Service, Commercial Providers, EdCity, Family Support Services, TfL, Mayor for London)	3	4	3	4	Stable	LR	Moderate	Moderate	Moderate
10	Increase in complexity of working with Health partners.	3	4	2	4	Improved	LR	High	High	High
11	Decision making and maintaining reputation and service standards. Governance, conduct, external inspections, information management.	2	4	3	4	Increased	HJ/RD	High	High	High
12	Failure to identify and address internal and external fraud.	3	4	3	4	Stable	HJ/DH	High	High	High
13	Managed Services (Existing Human Resources and Financial Transactional Service)	4	4	4	4	Stable	MG	High	High	High
14	Compliance with the statutory duties to undertake inspection regimes covering Management of Asbestos, Electrical Testing, Fire Risk, Plant and Equipment, Water/Legionella.	3	5	3	5	Stable	HJ/JR	Moderate	Moderate	Moderate
15	Co-ordination and response to calls on the Council for Mutual Aid in a crisis	3	5	3	5	Stable	NA	High	High	High
16	Change Readiness e.g. Smartworking, New systems.	4	4	3	4	Improved	MG	High	Moderate	High

No.	Risk	Q4 17/18 Likelihood	Q4 17/18 Impact	Q1 18/19 Likelihood	Q1 18/19 Impact	Movement	Officer	1st Line of Assurance Operational	2nd Line of Assurance Corporate Oversight	3rd Line of Assurance Independent
17	Challenges in Recruitment and retention.	4	4	4	4	Stable	MG	High	Moderate	High
18	Moving on Programme, talent, resource, impact, cost, transition and mobilisation.	1	4			Closed	LR			
19	Coroner's Office (The Council Acts as a Lead for Services to other Local Authorities).	2	4	2	4	Stable	RD	High	Very High	High
20	Procurement of replacement HR, Payroll and Finance Services	3	4	3	4	Increased risk	MG	High	High	High
21	West King Street Renewal Programme	4	4	4	4	Stable	JR	Moderate	Moderate	Moderate
22	Children's services placements. 50 child increases in the number of looked after children in the last 3 years creates budget pressures as the budget is not based on head count	4	4	4	4	Stable	SM	High	High	High
23	High needs budget pressure in the Direct school block.	4	4	4	4	Stable	SM	High	High	High
24	Financial Management in year budget 2018/2019 and Medium-Term Planning.			4	4	New 2018 2019 Risk	HJ	High	High	Very High
25	Adult Social Care balanced budget pressure in 2018/2019 and over the medium term.			2	4	New 2018 2019 Risk	LR	High	High	Very High
26	Impact of a 'no-deal' Brexit.			4	4	New 2018 2019 Risk	KD	High	Moderate	Low

Key-Risks

High risk - immediate management action required.

Medium risk - review controls.

Low risk - monitor and if the risk escalates check controls.



Key-Assurance effectiveness

Very High - Robust level of assurance

High - Good level in assurance but not systemic.

Moderate - Some systemic weaknesses in assurance.

Low - Insufficient evidence available to make judgement.

