

Audit, Pensions and Standards Committee

Agenda

Wednesday 12 December 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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Members of the public are welcome to attend and the building has disabled access.

Date Issued: 04 December 2018

Audit, Pensions and Standards Committee Agenda

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| 1. | MINUTES OF THE PREVIOUS MEETING | 4 - 12 |
| | To approve the minutes of the previous meeting and to note the outstanding actions. | |
| 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. | TREASURY MANAGEMENT STRATEGY MID-YEAR REVIEW | 13 - 22 |
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10. DATES OF FUTURE MEETINGS

The following meeting dates have been scheduled:

- 12 March 2019

Agenda Item 1

London Borough of Hammersmith & Fulham
**Audit, Pensions and
Standards Committee**
Minutes



Tuesday 18 September 2018

PRESENT

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

Officers:

Kim Dero (Chief Executive)

Lisa Redfern (Director of Social Care and Interim Director of Public Services Reform)

Emily Hill (Head of Corporate Finance)

Hitesh Jolapara (Strategic Director of Finance and Governance)

Phil Triggs (Director of Treasury and Pensions)

David Hughes (Director of Audit, Fraud, Risk and Insurance)

Mike Sloniowski (Risk Manager)

Steve Miley (Director for Children's Services)

Simon Davis (Assistant Director for Contracts and Procurement)

Sarah Bright (Assistant Director, Public Services Reform)

Richard Buckley (Head of Environmental Health)

Jo Rowlands (Director of Growth & Place)

David McNulty (Assistant Director of Operations, Growth & Place)

David Abbott (Scrutiny Manager)

1. MINUTES OF THE PREVIOUS MEETING

Councillor Rebecca Harvey noted that her comments on Item 7 had not been recorded and asked that the minutes be updated to include them.

RESOLVED

With the correction above, that the minutes of the previous meeting held on 17 July 2018 were approved and signed by the Chair.

2. APOLOGIES FOR ABSENCE

There were no apologies for absence.

3. DECLARATIONS OF INTEREST

Councillor Alex Karmel declared a general non-pecuniary interest in pensions matters as a deferred member of the Local Government Pension Scheme.

4. INVESTING IN ASSET BACKED SECURITIES

Hitesh Jolapara (Strategic Director of Finance and Governance) introduced the item, noting that the Committee had requested a report on investing in Asset Backed Securities following consideration of the Treasury Management Strategy at the previous meeting.

Phil Triggs (Director of Treasury and Pensions) added that the request had arisen from a proposal that the portfolio could be subject to an enhanced level of risk to achieve a higher return. The higher level of risk related to the fact that these investments would be illiquid for a minimum period of two years.

Phil Triggs informed the committee that officers were hesitant to recommend a change in strategy at this time due to the economic uncertainty around the UK's exit from the European Union in March 2019. Of particular consideration were comments made by the Governor of the Bank of England about the significant potential negative impacts of a 'no-deal' scenario. Officers recommended postponing this decision until the impact of these events on the markets was more clearly understood.

Councillor Matt Thorley asked that when the proposal came back to members, it included what the investment parameters around the higher levels of risk.

RESOLVED

That the Committee postponed the decision to invest in Asset Backed Securities.

5. CORPORATE HEALTH AND SAFETY COMPLIANCE OVERSIGHT REPORT - DECEMBER 2017 TO JULY 2018

Richard Buckley (Head of Environmental Health) presented the report that provided 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. He highlighted the expanded audit programme in the wake of the Grenfell Tower fire – including compliance work on housing placements for vulnerable adults, and audit of lifts, fire risk assessments, and the use of fire wardens in tower blocks. Richard Buckley noted that there had been a welcome fall in the number of accidents and incidents across the organisation – though there was still a lot of work to do.

The Chair noted an issue that had been raised before by the Committee around how information about violent or threatening individuals was shared between services. Recently, an individual who had been temporarily banned from the Town Hall due to threatening behaviour towards staff had been invited to a public meeting by the website communications team. Richard Buckley said there was a corporate system in place to share information but GDPR requirements had made the process of logging issues more complicated. This area was on the audit programme for a review of systems across the organisation.

The Chair noted that in other organisations it had been reported that GDPR had meant staff weren't being frank about the danger of individuals because they know

those people have a right to see what's written about them. Richard Buckley said he would take this away and consider as part of the systems review.

Councillor Alex Karmel asked for clarification of the issues with Linford Christie stadium noted in 5.4 of the report. Richard Buckley said they related to high legionella counts at the facility due to the size of the water tank and how well used they were. While those issues were being resolved there would be regular testing and monitoring of the water. He added that a new Assistant Director was now in place with responsibility for this area of work and they had produced a detailed report which was currently being actioned.

Councillor Alex Karmel asked if the updated alarm system at the mortuary would present problems with access for undertakers. Richard Buckley assured members that the alarm system wouldn't disrupt access.

Councillor Rebecca Harvey, in reference to 5.2 of the report, asked if the Committee was the place to raise the issue of Hammersmith Bridge's surface being unsafe for cyclists. Richard Buckley said the report was referring to the training and equipment used by contractors doing works on the bridge – but he would raise the cyclist safety issue with highways colleagues.

Councillor Jonathan Caleb-Landy, in reference to 5.2, asked if the Council was logging common complaints about contractors and if they were fed into the audit process. Richard Buckley said, in the case of this report, officers had looked at KPIs in the contract relating to health and safety, and accident and incident stats.

Councillor Rebecca Harvey, in reference to 5.3, asked how officers carried out the carbon monoxide checks in foster carers homes. Richard Buckley noted that this area was more about process, ensuring that staff had done the required checks and validated the required training. Steve Miley (Director for Children's Services) informed members that all foster carers were subject to an annual review and health and safety in their homes formed a part of this review.

Councillor Matt Thorley, in reference to 3BM performance in 5.2, asked for some examples of weaknesses and what measures were put in place. Richard Buckley replied that officers had checked a major school development project that 3BM were working on and the health and safety processes on site were 'perfect' - but some of their internal processes within their own organisation needed improving. Officers met with them to advise them and now they have the necessary policies and procedures in place.

Councillor Matt Thorley asked for a progress update on the libraries premises management issues mentioned in the report. Richard Buckley advised that this linked to the Amey contract exit negotiations. The general issue related to not having the necessary paperwork on-site and officers were working to resolve this now.

The Chair asked if there was a risk of Amey 'taking their eye off the ball' as the contract wrapped up. Richard Buckley said this was inevitable and so external consultants had been brought in to ensure continuity. Simon Davis (Assistant Director for Procurement and Contracts) added that officers had been doing a lot of

work to improve compliance in this area – reviewing all assets across the estate, completing condition surveys, and ensuring all certification was in place. Compliance, from a low base last year, had been brought up to 82.6 percent today. Officers were now working to close that gap and get compliance up close to 100 percent.

Councillor Alex Karmel, on housing, asked for examples of current health and safety works in progress at Lannoy Point and Hartopp Point. David McNulty (Assistant Director of Operations, Growth & Place) informed the Committee that experts were currently reviewing the structure and planning the necessary internal works. Fire Wardens were in place to safeguard residents until works are completed.

Councillor Karmel asked what the current number of Fire Wardens was. David McNulty said they were using the 'Waking Watch' standard that required a warden to be placed on every other floor and additional roving wardens. At any one time there would be 20 wardens across the two blocks with two 12 hour shifts per day. The Charecroft and Edward Woods estates had seven wardens on site.

Councillor Matt Thorley asked if the new alarm systems meant that the number of wardens would be reduced. And if there were currently any plans for further works? David McNulty said the number of wardens would be reviewed once the alarms reached a certain level of coverage within the buildings. And there were no plans for further works at this time. A structural survey was currently being completed by Arup and their report was scheduled to be completed later this year. The alarm systems in Hartopp Point and Lannoy Point would also be completed later this year.

Councillor Thorley asked what works were being done at the Charecroft estate. David McNulty said works on the panelling were being planned this year and work on site would commence next year. Regarding the Edward Woods estate, David McNulty said he would have to check the capital work timelines and would send the information to members by email.

ACTION: David McNulty

Councillor Matt Thorley noted his concern for H&F's librarians who had reported the highest number of incidents and accidents. Richard Buckley explained that this was a common issue – libraries being an open, frontline service often had to deal with challenging individuals and incidents were unfortunately common. The Chair noted that this issue had been covered in greater depth in a previous report and asked that it be circulated to the Committee for information.

ACTION: David Abbott

The Chair asked that, in future, health and safety reports included a more detailed breakdown of the types of incidents and accidents that were being reported on.

ACTION: Richard Buckley

RESOLVED

The Committee noted the report.

6. INTERNAL AUDIT QUARTERLY UPDATE REPORT

David Hughes (Director of Audit, Fraud, Risk and Insurance) presented the report that summarised internal audit activity during the period 1 April to 30 June 2018. He noted that there were no outstanding audit recommendations from the quarter. The Chair thanked officers for the impressive progress.

RESOLVED

That the Committee noted the report, and the progress made in reducing outstanding audit recommendations.

7. FINAL AUDIT REPORT - LBHF VENTURES LIMITED 2017-18

Lisa Redfern (Director of Social Care and the Interim Director of Public Services Reform) gave a short introduction to the report before handing over to Simon Davis (Assistant Director of Contracts and Procurement) and Sarah Bright (Assistant Director, Public Services Reform).

Councillor Alex Karmel noted that the company was reported to have been incorporated in June 2016 but Cabinet approval for the incorporation was not given until the following month, in July 2016. Officers said they would check the dates.

ACTION: Lisa Redfern

Councillor Alex Karmel asked officers to put this venture into context – was the company meeting its targets or falling behind? Kim Dero (Chief Executive) explained that the LBHF Ventures vehicle was established as an umbrella for the Council to undertake particular commercial ventures - but it hadn't been used for those projects. The commercial vehicle had been established but not fully utilised. The projects it was designed to encompass all became standalone vehicles.

Councillor Alex Karmel asked if the company, when it was set up, had budgets for income and expenditure. Hitesh Jolapara (Strategic Director for Finance and Governance) said it was assigned a small initial set-up budget of £5-10k.

Councillor Matt Thorley asked for officers to explain the future of the company. Kim Dero said it was important to recognise that LBHF Ventures was led by the Commercial Director at time (who has since left) and he saw it as critical to this area. Now the Council was doing this work in different ways and re-evaluating its commercial income projects and targets.

Simon Davis outlined a number of commercial projects, including selling business intelligence services to other Councils, ethical debt pilots, and increasing revenue from advertising hoardings in the borough. Sarah Bright added that there had been a review of ten of these programmes to identify where resources should be focused to achieve the best outcomes.

Councillor Alex Karmel asked if LBHF Ventures had an income target for the current financial year. Hitesh Jolapara said this particular vehicle didn't, but there was a Council-wide income target and the latest budget monitoring report that went to Cabinet showed the Council falling short of that target.

Councillor Jonathan Caleb-Landy asked for clarification that the board had met but hadn't signed off the accounts. Hitesh Jolapara said the accounts would be finalised at the next board meeting, scheduled for 17 December 2018. Officers added that the Governance around the company was being reviewed due to a number of role changes within the Council leading to Directors stepping down.

Councillor Alex Karmel noted that both Councillor members of the Board had stepped down and asked why neither had been replaced. Kim Dero said officers would take this away as part of the review of the Governance arrangements. Councillor Karmel asked for an update report in six months.

ACTION: Lisa Redfern

8. INTERNAL AUDIT CHARTER

David Hughes (Director of Audit, Fraud, Risk and Insurance) presented the report, noting that the Internal Audit Charter was reviewed annually in accordance with the requirements of the Public Sector Internal Audit Standards. He added that there were no significant changes to the charter since the previous report.

RESOLVED

That the Committee noted the report.

9. RISK MANAGEMENT HIGHLIGHT REPORT

David Hughes (Director of Audit, Fraud, Risk and Insurance) presented the report that provided members with an update on risk management within the Council, including the key corporate risks and how management are addressing them.

The Chair noted that the risk level against the coroner's office had been substantially reduced and asked for an update on the situation. Mike Sloniowski (Risk Manager) noted that there had been an independent review of the service and an action plan was in place that could be reported to the next meeting. Kim Dero added that the six boroughs served by the coroner had agreed a joint action plan and investment to improve the service.

The Chair asked what the outcome of the case against the Senior Coroner had been. Kim Dero said the coroner had been issued a reprimand by the Lord Chief Justice and Lord Chancellor for bullying a member of Coronial staff and that his behaviour amounted to serious misconduct. The Senior Coroner had since undertaken a schedule of training and was assigned a mentor to support him and the Chief Coroner said he was fit to return to work. The Council had judicially reviewed the lack of reasons for the decision and subsequently the process leading to the decision, the proceedings are ongoing.

Councillor Alex Karmel asked how robust the Council's defences against cyber attacks were. David Hughes said the Council was required to do an annual review of IT security, including firewall penetration testing, to be able to access the Government's Public Service Network. This year's test was scheduled for next week.

Officers added that the Council's network was attacked every day and it was very closely monitored.

Councillor Jonathan Caleb-Landy, noting the Brexit risk, asked if that was to be taken as a general risk or if it led to a multitude of more specific risks. Hitesh Jolapara replied that this was a wide-ranging risk due to the potential consequences of a number of outcomes. A 'no deal' scenario was of particular concern given the likely impacts on citizenship, the financial markets, and the labour markets (particularly affecting staffing for the NHS and social care sector). Mike Sloniowski noted that the Government had published 90 risk scenarios but they were very high level, lacking the detail required for detailed risk modelling. A key area of risk for the Council was the impact on the procurement market - that affected services across the Council and there was very little information on it from the Government or other public bodies.

Kim Dero said that of particular concern to her was the workforce - the Council employed a number of EU citizens and there needed to be assurances about their status. Councillor Rebecca Harvey asked how many staff had permanent right to residence. Officers said they would check and provide that information to the Committee after the meeting.

ACTION: Mark Grimley

The Chair added that this also applied to the Council's contractors. He also noted, by way of an example, that in Fulham Reach Ward EU citizens made up around 20 percent of the population. He asked for a report on the risks of Brexit, focussing on the Council's staffing, partners, and local businesses.

ACTION: David Hughes, Mike Sloniowski, Peter Smith

The Chair asked for an update on BT Managed Services. Hitesh Jolapara informed the Committee that the Council was moving to a new system developed and managed by Hampshire County Council. Officers had recently completed user acceptance testing and the system was due to go-live on 1 December. There was still some further work to do on payroll, with one more test run to be completed - then it would move to parallel running ahead of the go-live date.

10. DATES OF FUTURE MEETINGS

The date of the next meeting – 12 December 2018 – was noted.

More information can be found on the Council's website:
www.lbhf.gov.uk/committees

Meeting started: 7.00 pm
Meeting ended: 8.30 pm


Chair

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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) – officers to report back on progress. | Rachael Wright-Turner | Pending |
| July 2018 | | | |
| 1. | Outstanding Audit Recommendations – Public Services Reform – Lisa Redfern to update the Committee once all recommendations were completed. | Lisa Redfern | Pending |
| September 2018 | | | |
| 1. | Corporate Health and Safety Compliance Oversight Report – Councillor Thorley asked about works on Charecroft estate. David McNulty to check the capital work timelines and send the information to members by email. | David McNulty | Pending |
| 2. | Corporate Health and Safety Compliance Oversight Report – DA to send previous H&S report containing more detail on safety issues for libraries staff. | David Abbott | Completed |
| 3. | Corporate Health and Safety Compliance Oversight Report – The Chair asked that, in future, health and safety reports included a more detailed breakdown of the types of incidents and accidents that were being reported on. | Richard Buckley | Noted |
| 4. | Final Audit Report - LBHF Ventures – Cllr Alex Karmel noted that the company was reported to have been incorporated in June 2016 but Cabinet approval for the incorporation was not given until the following month, in July 2016. Officers to check the dates. | Lisa Redfern | Pending |
| 5. | Final Audit Report - LBHF Ventures – Councillor Alex Karmel noted both councillor members of the Board had stepped down and asked why neither had been replaced. Kim Dero said this part of the review of the Governance arrangements. Cllr Karmel asked for an update report in six months. | Kim Dero / 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>

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| <p align="center">London Borough of Hammersmith & Fulham</p> <p align="center">AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p align="center">12 December 2018</p> |  |
| <p align="center">TREASURY MANAGEMENT STRATEGY MID-YEAR REVIEW 2018/19</p> | |
| <p>Report of the Cabinet Member for Finance and Commercial Services – Councillor Max Schmid</p> | |
| <p>Open Report</p> | |
| <p>Classification: For Review and Comment Key Decision: No</p> | |
| <p>Consultation</p> | |
| <p>Wards Affected: ALL</p> | |
| <p>Accountable Director: Hitesh Jolapara, Strategic Director of Finance and Governance Phil Triggs, Director of Treasury and Pensions</p> | |
| <p>Report Author: Halfield Jackman Treasury Manager</p> | <p>Contact Details: Tel: 020 7641 4354 E-mail: hjackman@westminster.gov.uk</p> |

1. EXECUTIVE SUMMARY

1.1. The purpose of this report is to:

- update Members on the delivery (six-month point to 30 September 2018) of the 2018/19 Treasury Management Strategy approved by Council on 5 February 2018; and
- note the Annual Treasury Management Strategy 2018-19 mid-year review.

1.2. Treasury management comprises:

- managing the Council's borrowing to ensure funding of the Council's future capital programme is at optimal cost;
- investing surplus cash balances arising from the day-to-day operations of the Council to obtain an optimal return while ensuring security and liquidity.

- 1.3. This report complies with CIPFA's Code of Practice on Treasury Management, and covers the following:
- a review of the Council's investment portfolio for 2018/19 to include the treasury position as at 30 September 2018;
 - a review of the Council's borrowing strategy for 2018/19;
 - a review of compliance with Treasury and Prudential Limits for the first six months of 2018/19;
 - an economic update for the first part of the 2018/19 financial year.
- 1.4. The Council has complied with all elements of the Treasury Management Strategy Statement (TMSS).

2. RECOMMENDATIONS

- 2.1. To note the Annual Treasury Management Strategy 2018/19 mid-year review.

3. REASONS FOR DECISION

- 3.1. This report presents the Council's mid-year Treasury Management Strategy half-year review for 2018/19 in accordance with the Council's Treasury Management Practices. It is a regulatory requirement for this report to be presented to the Council.

4. TREASURY POSITION AS AT 30 SEPTEMBER 2018

- 4.1. As at 30 September 2018, net cash invested was £94m, a decrease of £28m on the position at 31 March 2018 as shown below:

| | 30 September 2018 | 31 March 2018 | 31 March 2017 |
|--------------------------|-------------------|---------------|---------------|
| | £m | £m | £m |
| Total borrowing | 217 | 217 | 225 |
| Total cash invested | (311) | (339) | (327) |
| Net cash invested | (94) | (122) | (102) |

- 4.2. The decrease in net cash reflects the forecast pattern of the Council's cash flows and largely relates to the timing of grants, council tax and business rates received.

Investments

- 4.3. The Council's Annual Investment Strategy, which forms part of the annual Treasury Management Strategy Statement (TMSS) for 2018/19, was approved by the Council on the 5 February 2018. The Council's policy objective is the prudent investment of cash balances to achieve optimum

returns on investments subject to maintaining adequate security of capital and a level of liquidity appropriate to the Council's projected need for funds over time.

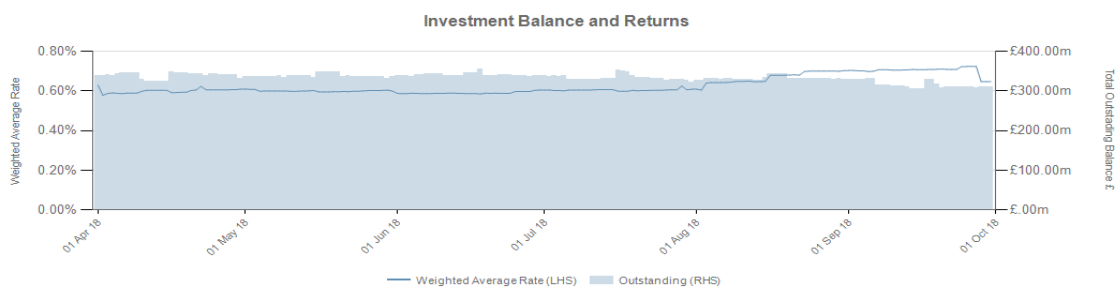
- 4.4. The table below provides a breakdown of investments, together with comparisons for the previous two financial year ends.

| | 30 September 2018 | 31 March 2018 | 31 March 2017 |
|----------------------------|-------------------|---------------|---------------|
| | £m | £m | £m |
| Money Market Funds | 65 | 84 | 38 |
| Call Accounts | 2 | 0 | 3 |
| Notice Accounts | 50 | 70 | 33 |
| Term Deposits | 82 | 115 | 45 |
| Bonds | 52 | 30 | 208 |
| Enhanced Cash Funds | 60 | 40 | 0 |
| Total cash invested | 311 | 339 | 327 |

- 4.5. Liquidity is managed through the use of Call Accounts and Money Market Funds providing same day liquidity. The average level of funds available for investment in the first six months of 2018/19 was £334m.

- 4.6. Daily investment balances have varied from a high of £352m in mid-July 2018 to a low of £307m in mid-September 2018 as shown on the shaded area in the chart below.

- 4.7. The Enhanced Cash Funds (ECF) average return as at 30 September 2018 is approximately 0.35%. Portfolio wide average returns have increased from 0.63% to 0.65% as shown by the solid line in the chart.



- 4.8. There are two non-specified one-year fixed term deposits with the London Borough of Sutton (£7.5m at 1% in January 2018) and Dudley Metropolitan Borough Council (£10m at 1.25% in March 2018) where the interest will be paid on maturity, with the remainder of the investments being specified. All investments complied with the Annual Investment Strategy.

- 4.9. Appendix 1 provides a full list of the Council's investment limits and exposures as at 30 September 2018.

Borrowing

- 4.10. At 30 September 2018, the Council's long-term borrowing amounted to £217m and was well within the Prudential Indicator for external borrowing, namely that borrowing should not exceed the Capital Financing Requirement¹ (CFR) for 2018/19 of £305m.
- 4.11. Currently the Council is internally borrowed by £60m because it has used internal resources to fund capital expenditure.
- 4.12. The TMSS for 2018/19 stated the Council had no immediate requirement to undertake new borrowing due to the high level of cash holdings. However, officers are monitoring market conditions and reviewing the need to borrow at current low rates if a requirement is identified for either the General Fund or Housing Revenue Account (HRA).
- 4.13. The table below shows the Council's external borrowing as at 30th September 2018, split between the General Fund and HRA.

| External borrowing | 30 September 2018 | | 31 March 2018 | |
|------------------------|-------------------|-------------|---------------|-------------|
| | Balance | Rate | Balance | Rate |
| | £m | % | £m | % |
| General Fund | 37 | 4.86 | 37 | 4.86 |
| HRA | 180 | 4.86 | 180 | 4.86 |
| Total borrowing | 217 | 4.86 | 217 | 4.86 |

- 4.14. No new borrowing was undertaken in the first half of 2018/19.

5. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

- 5.1. During the financial year to 30 September 2018, the Council operated within the Treasury Limits and Prudential Indicators set out in the TMSS and Budget approved by Council on 5 February 2018 as set out below.

¹ The CFR measures the Council's underlying need to borrow for capital purposes.

| PI ref | Indicator | 2018/19 indicator | 2018/19 actual | Indicator met? |
|--------|---|--|--|----------------|
| 1 | Net financing need | £113m | £98m | Met |
| 2 | Capital Financing Requirement (CFR) | £322m | £305m | Met |
| 3 | Net debt vs CFR | £109m underborrowing | £88m underborrowed | Met |
| 4 | Ratio of financing costs to revenue stream | GF 0.14% HRA 29.25% | GF 0.14% HRA 29.25% | Met |
| 5 | Impact of new capital investment decisions on housing rents | £0.00 decrease in average rent per week | £0.00 decrease in average rent per week | Met |
| 6a | Authorised limit for external debt | £345m | £217m | Met |
| 6b | Operational debt boundary | £290m | £217m | Met |
| 6c | HRA debt limit | £255m | £255m removed October 2018 | Met |
| 7 | Working capital balance | £0m | £0m | Met |
| 8a | Upper limit for fixed interest rate borrowing | £120m | £17.5m | Met |
| 8b | Upper limit for variable rate borrowing | £0m | £0m | Met |
| 8c | Limit on surplus funds invested | £120m | £17.5m | Met |
| 9 | Maturity structure of borrowing | Upper limit under 12 months - 15% Lower limit 10 years and above - 100% | Upper limit under 12 months - 15% Lower limit 10 years and above - 100% | Met Met |
| | | | | |

Capital expenditure and borrowing limits

- 5.2. Capital expenditure to 30 September 2018 was £29.850m for both the General Fund and the HRA against a latest forecast for the whole year of £91.342m.
- 5.3. External borrowing was well within the Capital Financing Requirement, Authorised Borrowing Limit and the Operational Boundary as shown in the table above:
- The Authorised Limit is a level for which the external borrowing cannot be exceeded without reporting back to Full Council. It therefore provides sufficient headroom such that in the event that the planned capital programme required new borrowing to be raised over the medium term, if interest rates were deemed favourable and a thorough risk analysis determined, the cost of carry was appropriate, this borrowing could be raised ahead of when the spend took place.
 - The Operational Boundary is set at a lower level and should take account of the most likely level of external borrowing. Operationally, in accordance with CIPFA best practice for Treasury Risk Management, a

liability benchmark is used to determine the point at which any new external borrowing should take place. As a result of the significant level of cash balances, it is deemed unlikely that any new borrowing will be required in the foreseeable future.

- 5.4. The purpose of the maturity structure of borrowing indicator is to highlight any potential refinancing risk that the Council may be facing if any one particular period there was a disproportionate level of loans maturing. The table below shows that the maturity structure of the Council's borrowing as at 30 September 2018 was within the limits set and does not highlight any significant issues.

| Maturity structure of borrowing | Upper Limit (%) | Lower Limit (%) | Actual as at 30 September 2018 (%) |
|---------------------------------|-----------------|-----------------|------------------------------------|
| Under 12 months | 15 | 0 | 2 |
| 12 months and within 24 months | 15 | 0 | 4 |
| 24 months and within 5 years | 60 | 0 | 7 |
| 5 years and within 10 years | 75 | 0 | 14 |
| 10 years and above | 100 | 0 | 73 |

- 5.5. The purpose of the interest rate exposure indicators is to demonstrate the extent of exposure to the Council from any adverse movements in interest rates. The table at paragraph 5.1 shows that the Council is not subject to any adverse movement in interest rates as it only holds fixed interest borrowing.
- 5.6. The average rate on the fixed interest borrowing is 4.86% with an average redemption period of 22 years. This reflects the historical legacy of borrowing taken out some years ago which is now higher than PWLB interest rates for comparable loans if they were taken out now. Officers have considered loan re-financing but premiums for premature redemption are prohibitively high, making this option poor value for money.

Investment limits

- 5.7. Specified investments are limited to a maximum maturity of less than one year. Non-specified investment have a maturity of one year and over. Investments in non-specified investments are currently at £17.5 million within the limit of £120m. Officers continue to seek appropriate longer-term investment opportunities.
- 5.8. Whilst the short duration is within approved limits, there is scope within the Investment Strategy to extend the duration of investments for up to five years. Using longer duration investments and possibly marginally lower credit ratings is likely to increase the yield of the investment portfolio.

6. THE ECONOMY AND INTEREST RATES

- 6.1. The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee (MPC) to unanimously (9-0) vote to increase the Bank Rate on 2 August 2018 from 0.50% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August 2018 Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats, mainly related to whether or not the UK achieves an orderly withdrawal from the European Union on 29 March 2019.
- 6.2. Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value against both the US dollar and the euro. The Consumer Price Index (CPI) measure of inflation dropped to 2.4% in September 2018 due to increases in volatile components, and is expected to fall back to the 2% inflation target over the next two years, given a scenario of minimal increases in the Bank Rate. The MPC has indicated that the Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in the Bank Rate for the second half of 2019.
- 6.3. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in the Bank Rate in August 2018 as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing the Bank Rate again, especially given all the uncertainties around Brexit.
- 6.4. There is a degree of uncertainty surrounding the UK's departure from the European Union. Depending on the outcome, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weaker pound and concerns around inflation picking up.

7. PRUDENTIAL INDICATORS

- 7.1. The Local Government Act 2003 requires the Council to have regard to the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. These are contained within this report.

8. EQUALITY IMPLICATIONS

- 8.1. The report is for noting so there are no equality implications as a result of this report.
- 8.2. Implications completed by Peter Smith, Head of Policy & Strategy, tel. 020 8753 2206.

9. LEGAL IMPLICATIONS

- 9.1. There are no legal implications arising from this report.
- 9.2. *Implications completed by: Rhian Davies, Assistant Director of Legal and Democratic Services*

10. FINANCIAL IMPLICATIONS

- 10.1. This report is wholly of a financial nature.
- 10.2. *Implications verified by Emily Hill – Assistant Director (Corporate Finance), Tel. 020 873 3145”.*

11. IMPLICATIONS FOR BUSINESS

- a. The Council’s borrowing and investment activity is presented to 30 September 2018. This represents significant expenditure within the Borough and, consequently, where supplies are sourced locally, changes in borrowing or investment may impact either positively or negatively on local contractors and sub-contractors. Where capital expenditure increases, or is brought forward, this may have a beneficial impact on local businesses; conversely, where expenditure decreases, or is slipped, there may be an adverse impact on local businesses.
- b. Implications verified/completed by: Albena Karameros, Economic Development Team, tel. 07739 316 957.

12. RISK MANAGEMENT

- 12.1. Treasury Management contributes to all the Council Values and Delivery of Objectives. Management of treasury risks are commensurate to the risk appetite of the Council. The effective understanding, control and management of the many aspects of risk associated with treasury management are essential to achieving an authority’s objectives. Risk management is therefore embedded throughout treasury guidance, policies and practices.
- 12.2. Treasury risks present themselves in many forms, from failure to optimise performance by not taking advantage of opportunities, to managing exposure to changing economic circumstances, most recently the situation is somewhat uncertain due to this Government’s negotiations over the UK’s departure from the European Union as expressed in paragraph 6.5 of this report. In adopting a policy of managing risk, an authority is determining its level of risk acceptance.
- 12.3. The key challenge is to understand, identify, monitor and manage risks in a planned and effective way. Local authorities are required to report annually to full council on their treasury management strategy (TMS) before the start of the year, which sets the objectives and boundaries for the approach to treasury activity.

- 12.4. The authority supplements this with treasury management practice schedules (TMPs), which set out the practical arrangement to achieve those objectives. The TMPs inform the day-to-day practices applied to manage and control treasury activities. Local authorities are typically financially risk averse and greatly value stability in order to form council tax and housing rent levels, through to general fund and HRA budgets.
- 12.5. Implications verified by: Michael Sloniowski, Risk Manager, tel. 0208 753 2587.

13. COMMERCIAL IMPLICATIONS

- 13.1. There are no procurement implications arising from this report.
- 13.2. *Implications verified/completed by: Andra Ulianov, Procurement consultant, tel. 020 8753 2284.*

14. IT IMPLICATIONS

- 14.1. There are no IT implications arising from this report.
- 14.2. *Implications verified/completed by: Tina Akpogheneta, Interim Head of Strategy and Strategic Relationship Manager, te. 020 8753 5748.*

15. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

| No. | Description of Background Papers | Name/Ext of holder of file/copy | Department/ Location |
|-----|--|---------------------------------|---------------------------------------|
| | Treasury Management Strategy Statement 2018/19 | Phil Triggs | Shared Services Treasury and Pensions |


LIST OF APPENDICES:

Appendix 1: Investment Limits and Exposures at 30 September 2018.

Appendix 1

Limits and exposures as at 30 September 2018

| Category | Limit per Counterparty (£m) | Duration Limit | Counterparty Name | Current Exposure (£m) |
|--|--|------------------------|--|-----------------------|
| UK Government (Gilts/T- Bills/Repos) | Unlimited | Unlimited | UK Government Treasury Bill | 19.3 |
| | | | UK Government Treasury Bill | 5.8 |
| | | | UK Government Treasury Bill | 20.0 |
| | | | UK Government Treasury Bill | 6.8 |
| Rated UK Building Societies (A-/A3/A) | £30m | 3 years | Coventry Building Society | 20.0 |
| UK Local Authorities | £20m per local authority; £100m in aggregate | 3 years | Fife Council | 5.0 |
| | | | London Borough of Sutton | 7.5 |
| | | | Stockport Metropolitan Borough Council | 20.0 |
| | | | Dudley Metropolitan Borough Council | 10.0 |
| Money Market Funds | £30m per fund. £200m Total | Up to three day notice | Federated Sterling Liquidity Fund | 30.0 |
| | | | Morgan Stanley Liquidity 3 | 30.0 |
| | | | BlackRock ICS Institutional Liquidity Heritage Dis | 4.7 |
| Enhanced Cash Funds | £20m per fund. £60m in total | Up to seven day notice | Payden & Rygel Sterling Reserve | 19.9 |
| | | | Royal London Asset Mgmt Cash Plus | 20.0 |
| | | | Federated Prime Rate Cash Plus | 20.0 |
| UK Banks (A-/A3/A-) | £50m | 3 years | Lloyds Bank | 25.0 |
| | | | Goldman Sachs Intl Bank | 20.0 |
| UK Banks (AA-/ Aa3/ AA-) or UK Government ownership greater than 25% | £70m | 5 years | National Westminster Bank | 1.8 |
| Non-UK Banks (AA-/ Aa2/ AA-) | £50m | 3 years | Svenska Handelsbanken | 25.0 |
| Total | | | | 310.8 |

| | |
|---|--|
| <p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>12 December 2018</p> |  |
| BREXIT IMPACT REPORT | |
| Report of the Chief Executive – Kim Dero | |
| Open Report | |
| Classification: For Information Key Decision: No | |
| Consultation: All Council Departments | |
| Wards Affected: All | |
| Accountable Director: Lisa Redfern, Director of Public Services Reform | |
| <p>Report Author: Peter Smith, Head of Policy and Strategy</p> | <p>Contact Details: Tel: 020 8753 2206 E-mail: peter.smith@lbhf.gov.uk</p> |

1. EXECUTIVE SUMMARY

- 1.1. The attached Brexit briefing paper is the latest in a series of briefings updating Members on the potential impact of Brexit on H&F and the mitigating actions being planned or developed.

2. RECOMMENDATIONS

- 2.1. That the Committee note the briefing paper.

3. REASONS FOR DECISION

- 3.1. The report is for information and discussion only.

4. PROPOSAL AND ISSUES

- 4.1. The briefing sets out what the Council is doing to prepare for Brexit. It does not make proposals for this Committee to consider.

5. OPTIONS AND ANALYSIS OF OPTIONS

- 5.1. The report is a briefing and does not present options for analysis.

6. CONSULTATION

- 6.1. The author of this report has consulted with all Council Departments in preparing the Brexit Briefings.

7. EQUALITY IMPLICATIONS

- 7.1. The report is for information. There are no recommendations so there are no equality implications arising from this report.
- 7.2. Implications verified by: Ruth Redfern, Community Engagement Lead, tel. 07718 206425 (Text only).

8. LEGAL IMPLICATIONS

- 8.1. The report is for information and there are no legal implications arising from this report.
- 8.2. Implications completed by: Rhian Davies, Assistant Director of Legal and Democratic Services, tel. 07827 663794.

9. FINANCIAL IMPLICATIONS

- 9.1. The report is for information. There are no recommendations so there are no financial implications arising from this report.
- 9.2. Implications verified by Emily Hill – Assistant Director (Corporate Finance), Tel. 020 873 3145.

10. IMPLICATIONS FOR LOCAL BUSINESS

- 10.1. The report is for information. There are no recommendations so there are no implications for local business arising from this report. The potential implications for business of Brexit are covered in the briefing paper.
- 10.2. Implications verified by: Albena Karameros, Economic Development Team, tel. 020 7938 8583.

11. COMMERCIAL IMPLICATIONS

- 13.1 The report is for information. There are no recommendations so there are no commercial implications arising from this report.

12. IT IMPLICATIONS

- 12.1. The report is for information. There are no recommendations so there are no ICT implications arising from this report.

13. RISK MANAGEMENT

- 13.1 The risk of a 'no-deal' Brexit (Workforce, Housing, Contracts, Residents, Finances) was added to the Council's Corporate Risk Register earlier this year. As is reported in the Risk Management report elsewhere on the same agenda the score for this risk has been increased in Q2 2018/19.
- 13.2 The attached briefing paper sets out officers' assessment of the potential impact of this risk on service delivery and details a range of current and planned mitigations which will be in place should this risk materialise. This is the latest in a series of papers prepared to ensure that the Council is assessing the impact of the decision to leave the EU on 29 March 2019.
- 13.3 Implications verified by: David Hughes, Director of Audit, Fraud, Risk and Insurance, tel: 020 7361 2389.

14. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None.

LIST OF APPENDICES:

Appendix 1: Brexit Briefing no. 4

Briefing No 4: December Update on the Potential Impacts of Brexit in H&F and Mitigating Actions Being Planned or Developed

1. Introduction

- 1.1 At a special EU summit on 25 November a draft withdrawal agreement between the EU and the UK was agreed. This now has to be passed by Parliament in a vote that will take place on 11 December. At present it is looking unlikely that the draft agreement will be passed by Parliament. The next scheduled EU summit date is 13/14 December.
- 1.2 As things stand, deal or no deal, Brexit is due to happen at 11pm UK time on 29 March 2019. If the UK and EU fail to reach an agreement on the withdrawal deal by March 2019, they can decide to continue talks and extend the two-year Article 50 period but it would require agreement by both sides. That would mean agreement by all 27 Member states of the EU in addition to the UK (although the Government is taking legal advice on whether a unilateral decision to extend Article 50 might be possible).
- 1.3 If a withdrawal agreement is reached and ratified by March 2019, it could include provisions for a transitional period, or implementation phase, which would extend the negotiating period for the future relationship. It would provide time for negotiations on the future UK-EU relationship to continue before substantive change in the UK's status takes place.

2. Settled Status

- 2.1 In March 2018 the Government and the EU agreed a reciprocal settlement scheme to safeguard the rights of EU nationals in the UK and British citizens in other EU states. To be granted settled status, all EU citizens resident in the UK will need to apply online by June 2021. Their rights will be protected up until the end of 2020. Brexit Briefing No.1 sets out the detail of the settled status arrangement.
- 2.2 The settled status agreement, however, is only secured if the UK and EU sign up to the Withdrawal Treaty, i.e. if an overall Brexit deal is negotiated. In the event of a no-deal Brexit, the settled status agreement would fall. The UK Government might then opt to progress a unilateral arrangement, whereby it progresses the online process of EU residents applying for settled status and retaining their rights under UK law. If it does not then there would be a major impact on the borough's workforce as EU citizens would lose their employment rights.

2.3 The position for UK residents living in the EU would be equally affected and they would be subject to whatever decisions each of the 27 EU states came to as to whether or not they choose to unilaterally implement the settled status application arrangement.

3. **Workforce**

3.1 The government has said that there will be strict controls on unskilled migrants (EU and non-EU) entering Britain from March 2019 and earning less than £30,000 per annum. This will directly affect the construction, hospitality & catering, healthcare and retail sectors. Pay rates may have to increase (to attract resident workers) and this could affect the inflation rate (and, therefore, potentially interest rates).

Table 1: High impact employment sectors

| Sector | Number of employees in H&F in 2017 | Proportion of total employees in H&F |
|---------------------------------|---|---|
| Construction | 3,500 | 2.6% |
| Retail | 15,000 | 11.1% |
| Accommodation and Food Services | 11,000 | 8.1% |
| Healthcare | 12,000 | 8.9% |

Construction and development

3.2 Construction contractors and developers that officers are in contact with are concerned about the effect that Brexit could have on recruitment and retention. Data produced by Build London indicates that, on the Thames Tideway project alone, the majority of the workforce recruited is from Eastern Europe, i.e. non-UK nationals.

Social care

3.3 The national analysis of the potential impact of Brexit on social care providers looks bleak:

- Ending freedom of movement after Brexit could result in 115,000 fewer adult social care workers by 2026, according to a report by Global Future published in August 2018;

- There are at present 1.3 million care workers in the UK, but an estimated 2 million will be needed by 2035 to cope with the rising number of elderly people;
- A report on future migration patterns by the independent Migration Advisory Committee, published in October 2018, found that more than one in 20 social care staff (5.9%) were from the EU in 2017, with staff from new member states making an increasing contribution to the workforce.

“The combination of rising demand, downward pressure on public spending leading to relatively low wages making many jobs relatively unattractive to resident workers, and the absence of a non-EEA (European Economic Area) work-related route for the lower-skilled roles in the sector mean that this is a sector that could face even more serious problems if EEA migration was restricted.”

(Global Future report on the impact of Brexit on the social care workforce, August 2018)

- 3.4 H&F’s three main current homecare providers; Sage, Mi Homecare and CRG, have anywhere between 11-21% of their workforce from EU countries and they all pay London Living Wage, in accordance with contractual requirements. These three contractors provide 81% of the Council’s homecare services.
- 3.5 Officers are actively assessing the potential impact of social care provision in the event of a no-deal Brexit and providers are being asked for their contingency plans.
- 3.6 The biggest concern of H&F commissioners is around residential care homes, and the potential impact on nursing. Official figures show that the number of nurses from the EU registering to work in the UK dropped by 96%, less than a year after the Brexit vote, so this will compound the existing challenges around recruiting nurses to work in care homes and finding suitably skilled and qualified nursing home managers.

4. Goods and Services

Supply chain

- 4.1 Business Continuity and Corporate Procurement are identifying clusters of corporate contracts (e.g. food, IT, construction, care and medical equipment) that may be more sensitive to no-deal Brexit changes using known contracts identified on CapitalEsourcing and ProClass, covered in paragraph 4.4.

- 4.2 A cross-departmental Service Resilience Group (SRG) will meet on 4th December to start to form strategies around contingencies for partial or whole loss of critical suppliers, such as sourcing from alternative markets and gaining insight of the local area distribution network.
- 4.3 Officers updated 89 Service Continuity Plans (SCPs) in summer 2018, specifically the highest priority services, to be Brexit ready. Should the need arise they can be dynamically adapted to changes in needs.
- 4.4 A Brexit Impact Tracking Guide will be presented at SRG on 4th December. This guide includes a template to capture potential Brexit risks to services and is to be attached to existing SCPs. The guide also contains the register of contracts, where Departments will be requested to confirm ownership, any Brexit implication, area affected, impact on service in a no-deal scenario, and any actions taken.

Housing and construction

- 4.5 The construction industry relies heavily on foreign migrant labour for skilled and non-skilled roles. It is feared that outside of the EU, which guarantees the right to free movement, the skills shortage could worsen. If immigration is limited, particularly for skilled workers, the UK could witness higher project costs where labour demand outstrips supply. This could have a knock-on effect on the capacity of housebuilders to meet the government's housing targets, with cost increases possible for the housing market and construction companies. This further decline in housebuilding could deepen the housing crisis, especially in London.
- 4.6 Alternatively, if global investors start to take their money out of the UK property market, this could lead to a reduction in prices and free up investment properties that are currently sitting empty.
- 4.7 It is likely that Brexit will have an impact on current rules around immigration and who is eligible to apply for housing. Currently, EU citizens, if they meet additional criteria, can apply for housing (which is considered a public fund). This could change following Brexit.
- 4.8 We don't know yet if any change would be retrospective and, if so, how that would impact on existing tenants of temporary accommodation. Permanent tenants would not be impacted as they would already have a permanent tenancy, although it could impact on their ability to succeed to a tenancy.

5. Communities

- 5.1 To date officers have not seen any evidence in their work with communities, through tenant and resident associations (TRAs), consultation activities and events, that Brexit has affected community cohesion in H&F. We encourage TRAs to work with all residents in their community and it may well be that next summer we run a series of community focussed events to celebrate the diversity of our estates, and the wealth of nationalities across our borough.
- 5.2 If problems in the supply chain should lead to a shortage of basic and vital items – foodstuffs, medicines etc – this may lead to social unrest. Early indications could be captured via Tension Monitoring, possibly on a weekly basis, using social media as an early warning sign.
- 5.3 Should there be signs of community tension, the Service Resilience Group would convene, a risk assessment undertaken and dynamic solutions would be agreed and implemented at the time.

6. Funding

- 6.1 In terms of ESOL Functional Skills (maths and English and ICT) provision, our Adult Learning Service is currently funded by the ESFA grant until August 2019, when the budget will be devolved to the London Mayor. We are told that the sub-regions, in our case West London, will continue to receive the current level of funding up to 2021, after which the devolution arrangements will be fully implemented. The H&F Adult Learning Service is currently the second highest recipient of the ESFA budget in West London, but that is likely to change after 2021, when we are likely to have a reduction if the devolution is based on the West London demographics of deprivation.
- 6.2 Environmental improvement projects, such as the sustainable drainage systems (SuDS) on Queen Caroline Estate and Maystar Estate, were funded by the EU Life project. From March 2019 we will not be able to apply to this funding stream anymore. Our two improvement budgets, Housing Estate Improvement Projects [run by Groundwork] and the Neighbourhood Improvement Fund, use Housing Revenue Account funds.
- 6.3 The loss of European Structural and Investment Funding should be of less impact, as the Treasury announced in July that it would underwrite this funding in the event of a no-deal Brexit.
- 6.4 With regard to the London Mayor's Skills and Adult Education Strategy for Londoners, the Mayor has given guarantees to prioritise the following in relation to substitutes for ESF funding:

- those with poor basic skills – English, maths and ESOL;
- those at risk of redundancy from automation and other digital changes;
- parents and care leavers, particularly those who are long-term unemployed or stuck in low paid/insecure work, providing support with childcare where possible;
- people with SEND;
- BAME groups;
- people who are long-term unemployed (i.e. for more than 12 months) and economically inactive and/or cycling in and out of work;
- people who face complex barriers including those who are homeless, facing drug and/or alcohol addiction, and ex-offenders.

7. Wider Economic Impacts

7.1 At a high-level there are several specific financial risks regarding a no-deal Brexit. The potential for short and medium-term disruption includes:

- Inflation - this is likely to increase due to a potential fall in the value of the pound, the impact of tariffs, supply chain concerns and labour shortages;
- An economic slowdown - tariffs and supply chain concerns could disrupt trade whilst some businesses may decide to relocate to the EU zone or reduce plans for UK investment;
- Worse public finances - lower growth will mean less funding for public services.

7.2 The extent to which each of the above factors impacts on the Council depends on their depth and duration. As examples:

- Each extra 1% of inflation will lead to a cost pressure of £0.8m per annum for H&F Council wages and £2m for supplies and services and payments to others;
- An economic slowdown would impact on a range of services and income budgets. For example, planning income, land charges income and business rates income could all decline, while the cost of the local council tax support scheme and the costs to the Council of addressing homelessness would be likely to increase;
- Worsening of public finances may result in longer and deeper cuts to government funding. To date local authority funding has not received the protection provided to health or police budgets;
- The viability of regeneration initiatives might be affected. Economic uncertainty, such as around housing values, may hamper regeneration initiatives or be impacted by adverse movements in long-term interest rates.

- 7.3 In the longer-term, pro-Brexit economists believe growth will eventually pick up, should Britain leave the European Union next March. Those in the 'remain' camp are generally of the opinion that the slowing down of the economy will continue.
- 7.4 Local authority finances are already under significant pressure from years of austerity imposed by national government. A recent National Audit Office report emphasised that the financial position of the local authority sector, particularly for those authorities with social care responsibilities, has worsened markedly since 2014. As set out above, in the short to medium term, a no-deal Brexit is likely to add to such pressures for both the wider sector and for Hammersmith and Fulham. The financial resilience of many authorities will be further tested. The position over the longer term is uncertain.
- 7.5 The Chancellor confirmed on 28th October 2018 to media outlets that the government will set a new Budget if it is unable to reach a Brexit deal with the EU, with "fiscal buffers" being maintained to provide support for the economy.
- 7.6 As a member of the EU, the UK has access to the European Investment Bank (EIB) and the European Investment Fund (EIF). Losing both these revenue streams could have a significant impact on the delivery of big infrastructure projects as well as start-ups across the UK. Whilst this may be replaced by some of the money saved from EU membership, it seems unlikely in the face of ongoing cuts to government spending that there would be like for like investment in infrastructure.

8 HM Treasury and Bank of England Reports


- 8.1 The government's Brexit deal faces a potentially difficult vote in the House of Commons on 11 December. Before that vote the Prime Minister is touring the country to promote the deal. On 28th November the Treasury issued a long-term economic analysis of the EU exit under different scenarios, with the objective of providing Parliament and the public with an assessment of the long-term economic impacts of the UK's future relationship with the EU. The analysis considers the potential impacts from changes to specific trade-related policies, including analysis of EU trade costs and opportunities from an independent UK trade policy.
- 8.2 The UK and the EU have agreed the Political Declaration which sets the framework for the UK's future relationship with the EU. It sets out a free trade area for goods, including no tariffs, with ambitious customs arrangements. It will be the first such agreement between an advanced economy and the EU. It will also allow the UK to develop an independent trade policy beyond the partnership, with the ability to sign new trade deals with other countries.

Agreement of the Political Declaration will be followed by negotiations on the legal text.

- 8.3 The UK put forward proposals that would enable frictionless trade to be achieved outside the Customs Union and Single Market. That is not something that is accepted by everyone in the EU, but the UK has the ability in the future negotiations to continue to work for its objective of achieving frictionless trade.
- 8.4 Given the range of outcomes, including Parliament rejecting a deal, the Council is planning an appropriate and measured approach to identify and address the impacts of Brexit.

December 2018
HPS/PSR/LBHF

Agenda Item 6

| | |
|--|---|
| <p>London Borough of Hammersmith & Fulham</p> <p>AUDIT PENSIONS AND STANDARDS COMMITTEE</p> <p>12 DECEMBER 2018</p> |  <p>h&f hammersmith & fulham</p> |
| CORPORATE ANTI-FRAUD SERVICE HALF YEAR REPORT - 1 APRIL 2018 to 30 SEPTEMBER 2018 | |
| Open Report | |
| Classification - For Decision Key Decision: No | |
| Consultation Please state which other services have been consulted when drafting this report. | |
| Wards Affected: All | |
| Accountable Director: Hitesh Jolapara, Strategic Director of Finance and Governance | |
| Report Author: Andrew Hyatt Shared Service Head of Fraud | Contact Details: Tel: 0207 361 3795 E-mail: andy.hyatt@lbhf.gov.uk |

1. EXECUTIVE SUMMARY

- 1.1 This report provides an account of fraud related activity undertaken by the Corporate Anti-Fraud Service (CAFS) from 1 April 2017 to 30 September 2018.
- 1.2 Since April 2018 CAFS identified 46 positive outcomes, including 36 tenancy and housing-related successes which include the recovery of 14 properties. For the period 1 April 2018 to 30 September 2018, fraud identified by CAFS has a value of over £240,000 and is detailed in the following table.
- 1.3 CAFS continues to provide the London Borough of Hammersmith & Fulham with a full, professional counter fraud and investigation service for fraud attempted or committed against the Council. CAFS work closely with the HR department to ensure that allegations of fraud and corruption against staff are fully investigated to enable prompt and appropriate disciplinary action to be taken as well as pursuing civil or criminal proceedings where sufficient evidence has been gathered.

- 1.4 CAFS remains a shared service covering three Councils and continues to reap the benefits of sharing skills and expertise, identifying best practice and the streamlining of anti-fraud related policies and procedures.

| Activity | 2017/18 (Q1 & 2) | | 2018/19 (Q1 & 2) | |
|---|---------------------|--------------------------|---------------------|--------------------------|
| | Fraud proved | Notional Values (£'s) | Fraud proved | Notional Values (£'s) |
| Housing Fraud (including applications, assignments & successions) | 7 | 15,500 | 10 | 8,650 |
| Right to Buy | 29 | 29,000 | 12 | 16,600 |
| Pro-active operations | 3 | 3,000 | 2 | 4,500 |
| Prevention subtotal | 39 | 47,500 | 24 | 29,750 |
| Tenancy Fraud (Council and Registered Providers) | 10 | 58,700 | 14 | 162,700 |
| Internal Staff | - | - | 1 | 4,000 |
| High/Medium risk fraud – NNDR, Procurement, ASC/FCS | 2 | 43,329 | 1 | 5,864 |
| Low-risk fraud – Parking, Accessible Transport, and Council Tax SPD | 3 | 1,305 | 2 | 3,544 |
| Detection subtotal | 15 | 103,334 | 18 | 176,108 |
| Proceeds of Crime repaid from award | 2 | 29,488 | 3 | 29,930 [award 51,800] |
| Press releases and publicity | 3 | 2,000 | 1 | 7,850 |
| Deterrence subtotal | 5 | 31,488 | 4 | 37,780 |
| Total | 59 | 182,322 | 46 | 243,638 |

2. RECOMMENDATION

- 2.1 Note the fraud work undertaken during the half year period from 1 April 2018 to 30 September 2018.

3. REASONS FOR DECISIONS

- 3.1 To inform the Committee of the actions taken in accordance with the Council's Anti-Fraud and Corruption Strategy and the successful outcomes achieved through the counter fraud response in the first half of 2018/19.

4. ANTI-FRAUD AND CORRUPTION STRATEGY

4.1 The Council's Anti-Fraud & Corruption Strategy is based on three key themes: Acknowledge, Prevent and Pursue, and is aligned with the National Strategy: *Fighting Fraud and Corruption Locally*.

4.2 The Strategy places emphasis upon the following anti-fraud activities:

- i. **Acknowledge:** recognising and understanding fraud risks, and committing resource for tackling fraud.
- ii. **Prevent:** preventing and detecting more fraud by making better use of information and technology, and developing an anti-fraud culture.
- iii. **Pursue:** punishing fraudsters and recovering losses.

5. ACKNOWLEDGE, PREVENT, PURSUE

(i) ACKNOWLEDGE

Committing support and resource for tackling fraud

5.1 CAFS have recognised the need for competent staff and support officer development.

5.2 One newly appointed investigator has recently become a CIPFA Accredited Counter Fraud Specialist, and the Accredited Financial Investigator has maintained his Continuing Professional Development.

Maintain a robust anti-fraud response

5.3 There are three critical elements of the operational plan that underpins and drives the Anti-Fraud and Corruption Strategy, and CAFS refer to this as the *Fraud Resilience Triangle*. The triangle is formed of:

- 1) Fraud Risk Register (*Acknowledge*)
- 2) Pro-Active Work Programme (*Prevent*)
- 3) Reactive Referrals (*Pursue*)

5.4 Responding solely with reactive referrals often fails to provide the levels of coverage required to maintain a robust anti-fraud response. Therefore, guided by the fraud risk register, CAFS also undertake proactive risk reviews and operations.

5.5 Combining pro-active work plans with reactive capability increase the chances of fraud detection.

(ii) PREVENT

Whistleblowing

- 5.6 The Council's whistleblowing policy continues to be the primary support route for staff wishing to report a concern.
- 5.7 Since April 2018 CAFS received two referrals via the whistleblowing process although neither referral was assessed as a protected disclosure. Outcomes are detailed in the table below:

| Allegation | | Outcome | Case status |
|-------------------|---------------------------|---|--------------------|
| i. | Codes of conduct breaches | The preliminary investigation failed to reveal any corroborating evidence, and therefore no further action was required. | Closed |
| ii. | Misconduct and fraud | An investigation identified incomplete and inaccurate time recording by an agency staff member. Appropriate action was taken. | Closed |

Corporate investigations

- 5.8 Corporate investigations are defined as fraud cases which relate to employee fraud or other third party fraud which does not fall within a particular CAFS service areas such as Housing or Tenancy Fraud. CAFS are working closely with the Council's HR department to ensure that matters are investigated promptly so that appropriate disciplinary action can be taken, as well as ensuring that civil or criminal proceedings are also pursued where sufficient evidence has been gathered. This approach has already led to one member of staff resigning prior to being prosecuted in the current year, following a Blue Badge investigation (see Appendix 1), with further cases pending which will be reported to the Committee in the end of year report.
- 5.9 Since 1 April 2018 work in this area has resulted in:
- Termination of an agency staff member for incomplete time recording
 - Business rate fraud
 - Accessible transport fraud

Housing/Tenancy Fraud

- 5.10 CAFS provides an investigative service to all aspects of housing, including the verification applications for housing support, as well as applications for the succession or assignment of tenancies.

- 5.11 For the period 1 April 2018 to 30 September 2018, CAFS had successfully prevented a false succession and removed nine persons from the housing register when investigations revealed they were no longer in need of support.
- 5.12 CAFS have also recovered 14 properties including four vitally needed three-bedroom properties which are in high demand and can now be allocated to families in genuine need of assistance. Of the 14 recoveries, 12 involved the return of keys and vacant possession without the need for lengthy and costly legal action and ensuring properties could be promptly reallocated.
- 5.13 A further six cases are currently lodged with the Council's solicitors awaiting a court date.

Right to Buy (RTB)

- 5.14 CAFS apply an enhanced fraud prevention process to all new RTB applications, including anti-money laundering questionnaires as well as financial and residential verification.
- 5.15 For the period 1 April 2018 to 30 September 2018, CAFS have successfully prevented 12 Right to Buys from completion and obtaining a sizeable financial discount, where suspicion was raised as to the tenant's eligibility or financial status. In many instances, the tenant has withdrawn their application after checking commenced.

National Fraud Initiative (NFI)

- 5.16 A vital component of the of the anti-fraud and corruption strategy is making better use of information and technology. To this effect, CAFS participate in the National Fraud Initiative (NFI) which is a data matching exercise carried out by the Cabinet Office.
- 5.17 The Cabinet Office has statutory powers in the Local Audit and Accountability Act 2014 to request data from Councils, but as the data owners, we must ensure the Council remains compliant with the Data Protection Act 2018 in light of the additional burdens introduced by the General Data Protection Regulations (GDPR).
- 5.18 To provide this assurance CAFS have been required to review how the Council collects data, ensure that fair processing notices exist (mandatory) and privacy notices (best practice) are in place or agree on action plans for correction and/or improvement. A total of seventeen different datasets were reviewed, and the findings are detailed in the table below.

| Ref. | Data Set | Fair Processing Notice (FPN) | Privacy Notice | Comments |
|------|-------------------------------------|------------------------------|----------------|---|
| 1. | Blue Badge | Yes | Yes | No action required |
| 2. | Resident's Parking Permit | Yes | Yes | No action required |
| 3. | Concessionary Travel | Yes | Yes | No action required |
| 4. | Council Tax Reduction Scheme (CTRS) | Yes | No | Improvement: Letters have enhanced FPN and privacy notice to be reviewed |
| 5. | Council Tax | Yes | No | Improvement: Privacy notice to be reviewed |
| 6. | Trade Creditors Standing | No | No | Corrective action: Due to change from BT Agresso to IBC, new arrangements agreed for IBC website to include FPN notices. |
| 7. | Trade Creditors History | No | No | |
| 8. | Payroll | No | Yes | Corrective action: IBC will include FPN on initial payroll runs |
| 9. | Pensions | Yes | Yes | No action required |
| 10. | Housing Tenants | Yes | Yes | No action required |
| 11. | Waiting List | Yes | Yes | No action required |
| 12. | Right To Buy | No | Yes | Corrective action: Raised awareness with Cabinet Office – government form fails to address FPN – Council's AML process contains forms with FPN |
| 13. | Residential Care Homes | Yes | Yes | Improvement: Review identified and agreed an enhanced FPN |
| 14. | Personal Budgets (Direct Payments) | Yes | Yes | Improvement: New contracts 2019 have enhanced FPN |
| 15. | Electoral Roll | Yes | Yes | No action required |
| 16. | Market Traders | Yes | Yes | Improvements action to improve application forms – to include UK right to work & NINO data |
| 17. | Alcohol Licence | No | Yes | Corrective action: Raised awareness with Cabinet Office – government form fails to address FPN. |

5.19 This data is currently being produced for the Cabinet Office, and matching results will be received in early 2019 for investigation.

(iii) PURSUE

Deterrence

- 5.20 Stopping fraud and corruption from happening in the first place must be our primary aim. However, those who keep on trying may still succeed. It is, therefore, essential that a robust enforcement response is available to pursue fraudsters and deter others.

Proceeds of Crime Act 2002 (POCA)

- 5.21 Prompt and efficient recovery of losses is an essential component in the fight against fraud, and the Proceeds of Crime Act is a crucial part of the Council's counter fraud strategy.
- 5.22 For the period 1 April 2018 to 30 September 2018, CAFS were awarded compensation of £51,800 of which £29,930 has been recovered. Currently, four cases are lodged with Legal Services.
- 5.23 The Act remains a powerful deterrent and is deployed by the Council where appropriate to recover fraud losses and deter potential fraudsters. The use of POCA by CAFS makes fraudsters aware that every effort will be made by the Council to recoup losses and confiscate assets gained as a result of criminal activity.

Press release

- 5.24 To deter fraud it is important that the Council publicise the successful outcomes of their investigations. CAFS record a positive outcome each time a story is published by the national or local media because positive publicity about the successful detection, prosecution or prevention of fraud may help to deter others from attempting to commit similar offences.
- 5.25 In August 2018, a CAFS investigation made the national press when a barrister appeared at Isleworth Crown Court charged with fraud, and with tendering false documents, to obtain social housing. The barrister pleaded guilty, and the trial will commence in March next year.

6. OPTIONS AND ANALYSIS OF OPTIONS

- 6.1 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. This includes having appropriate arrangements for protecting, detecting and deterring fraud against the Council.

7. CONSULTATION

- 7.1 The report has been subject to consultation with the Strategic Leadership team.

8. EQUALITY IMPLICATIONS

- 8.1 There are no equality implications arising from this report.

Implications verified by Peter Smith, Head of Policy and Strategy, tel. 020 8753 2206.

9. LEGAL IMPLICATIONS

- 9.1 The work of CAFS is governed by a range of legislation including: the Police and Criminal Evidence Act, the Criminal Procedures Investigation Act, the Regulation of Investigatory Powers Act, the Fraud Act, the Prevention of Social Housing Fraud Act and the Proceeds of Crime Act.

- 9.2 There are no particular legal implications arising from this report.

Implications verified by Rhian Davies, Assistant Director of Legal and Democratic Services, tel. 07827 663794

10. FINANCIAL AND RESOURCES IMPLICATIONS

- 10.1 Resources required to deliver on the Council's counter fraud strategy come from the budget allocated to the Corporate Anti-Fraud Service. There are no additional resource implications arising from this report. Successful investigations and prosecutions can lead to the recovery of Council assets and money which are required to protect front line services.

Financial implications verified by Emily Hill, Assistant Director, Corporate Finance, telephone 020 8753 3145.

11. RISK MANAGEMENT

- 11.1 The delivery of the counter fraud strategy contributes to the management of fraud risks faced by the Council, with proactive fraud exercises supporting managers to put effective counter fraud controls in place in their systems and processes and in accordance with our Council Objective of Being Ruthlessly Financially Efficient.

Implications verified by Michael Sloniowski, Risk Manager, telephone 020 8753 2587

12. IMPLICATIONS FOR BUSINESS

- 12.1 There are no direct implications for local businesses, however, identifying and tackling fraud against the council effectively, promotes the Council's integrity and its standing with local communities, including local businesses.

Implications verified by Albena Karameros, Programme Manager, Economic Development, 07739 316 957.

13. COMMERCIAL IMPLICATIONS

- 13.1 There are no procurement implications arising from this report.

Implications verified by Andra Ulianov, Procurement Consultant, 0777 667 2876.

14. IT IMPLICATIONS

- 14.1 There are no direct IT implications arising from this report.

Implications verified 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. | Operational and performance management papers. | A Hyatt | HTH |

Appendix 1 – Noteworthy Investigations


NOTEWORTHY INVESTIGATIONS

| | Case Description |
|----|---|
| 1. | <p>EMPLOYEE – A former employee was caught using a fake disabled parking permit (Blue Badge) while parking in the borough.</p> <p>The investigating officer was checking disabled parking bays in Bulwer Street, adjacent to Westfield Shopping Centre when he spotted the fake badge on display. Upon closer inspection, he saw the badge was stamped to show it was issued by the London Borough of Ealing. However, once the serial number on the badge was checked against the national database, it matched one issued by Barnsley Metropolitan Borough Council that had expired in April 2016.</p> <p>The investigating officer waited for the driver to reappear and confronted a female when she returned to the vehicle and was in the process of unlocking it. She identified herself and upon request handed over the blue badge which was immediately seized as evidence. She was cautioned, and following a series of questions, it was explained that her case would be passed to the Council’s solicitors for further action.</p> <p>While preparing case papers, the investigating officer established that the female was a Council employee who lived in W12, where she held a valid parking permit. According to Google Maps, a walk from this location to Westfield Shopping Centre would have taken less than 10 minutes.</p> <p>Ahead of her court appearance, the defendant resigned from her Council post.</p> <p>On 8th August 2018, the matter was heard at Westminster Magistrates Court where the defendant entered a guilty plea to an offence under the Fraud Act 2006. She was sentenced to a curfew order, an electronic tag was fitted for four weeks, and she was ordered to remain inside her home address between 8:15 pm – 6:00 am plus a total fine of £560.</p> |

| | |
|----|--|
| 2. | <p>TENANCY FRAUD – A case referred to CAFS suggested that a flat in Poynter House, W11 was sublet while the tenant lived in Abu Dhabi.</p> <p>Investigators visited the address where the door was answered by a man claiming to be a relative of the tenant minding the flat while the tenant was away. However, officers became suspicious because their inspection could not attribute any of the personal effects in the property to the tenant or his young family. No female clothes, no children’s clothes or toys.</p> <p>Using powers under the Prevention of Social Housing Fraud Act (POSHFA) 2013, the investigator obtained the tenant’s bank statements and found credits to the account narrated “rent”. The investigator invited the tenant to attend an interview, but before the meeting could reach a conclusion, the tenant relinquished his two-bedroom tenancy, returned the keys and provided the Council with vacant possession of the two-bedroom property forthwith.</p> |
| 3. | <p>TENANCY FRAUD – At the same time as the above case was referred, a second referral for a different Poynter House flat was referred to CAFS with suggestions that the tenant had been subletting the address since her tenancy started.</p> <p>Initially, the investigator was unable to place the tenant at an alternative address which might support the allegations. However, an unnotified visit to the property found a subtenant in situ. Then, to further support the case the tenant’s bank statements were obtained under Prevention of Social Housing Fraud Act powers, that showed regular credits indicating rental payments.</p> <p>The tenant was invited to attend an interview under caution. During questioning the tenant denied the allegations of subletting and said the credits were in respect of repayment for a loan she gave her friend. At the end of the interview the tenant was reminded of the consequences should she be found guilty of subletting including a criminal conviction, payment of court costs and unlawful profit orders.</p> <p>A few hours after the interview concluded the tenant called the investigating officer to relinquish her tenancy and to make arrangement for returning a vacant possession and keys.</p> |

| | |
|----|--|
| 4. | <p>TENANCY FRAUD – CAFS received a referral from housing management that suggested the tenants of a Barton House (SW6) address had not been living in the property since August 2016 but living overseas.</p> <p>Background checks were unsuccessful, and visits to the property failed to find the tenant in residency.</p> <p>Following further enquiries, and email address was located, and the tenant contacted. He confirmed that he had taken his family to Yemen to get his wife treated when she became ill. He was adamant that he intended to return. However, his travel records showed he spent most of the time in Yemen.</p> <p>The tenant could not give officers a return date, and so a formal Notice to Quit was served on the property which went unchallenged, and the outright possession for this three-bedroom property was secured by the Council.</p> |
| 5. | <p>TENANCY/RIGHT TO BUY FRAUD - The tenant of a property at Aspen Gardens submitted a Right to Buy (RTB) application. In line with the Council's preventative processes, all new RTB applications are referred to CAFS to undertake some checks to verify eligibility. Part of these checks involved un-notified visits which led investigators to discover she was no longer resident.</p> <p>Further enquiries discovered that the only active bank accounts at the property belonged to the tenant's daughter, while the tenant's finances were all linked to another address in Shepherd's Bush. The investigation further revealed that when the tenant received housing from LBHF, she was a single mother, but she had since married and was now living in her husband's property, having left Aspen Gardens.</p> <p>Investigators were unable to find any proof that the Aspen Gardens address was being sub-let, but sufficient evidence was amassed to prove non-residency.</p> <p>The Council commenced repossession proceedings, but the tenant returned the keys upon receipt of a summons, saving the Council further legal costs to recover this two-bedroom property.</p> |

Agenda Item 7

| | |
|--|---|
| <p>London Borough of Hammersmith & Fulham</p> <p>AUDIT PENSIONS AND STANDARDS COMMITTEE</p> <p>12 DECEMBER 2018</p> |  |
| REVIEW OF ANTI-FRAUD POLICIES | |
| Open Report | |
| Classification - For Information Key Decision: No | |
| Consultation Please state which other services have been consulted when drafting this report. | |
| Wards Affected: All | |
| Accountable Director: Hitesh Jolapara, Strategic Director of Finance and Governance | |
| Report Author: Andrew Hyatt Shared Service Head of Fraud | Contact Details: Tel: 0207 361 3795 E-mail: andy.hyatt@lbhf.gov.uk |

EXECUTIVE SUMMARY

- 1.1 In accordance with the terms of reference the Committee is responsible for the effective scrutiny of anti-fraud arrangements and activities, the Audit, Pensions and Standards Committee:
- review and note certain anti-fraud policies
 - is responsible for gaining assurance that policies are kept up to date and are fit for purpose.
- 1.2 This paper contains three revised anti-fraud policies, reported in the appendices to this report, for review and comment. They are:
- Anti-Bribery Policy (Appendix 1)
 - Anti-Money Laundering Policy (Appendix 2)
 - Fraud Response Plan (Appendix 3)

2. RECOMMENDATION

- 2.1 Note the updated anti-fraud policies.

3. REASONS FOR DECISIONS

- 3.1 To inform the Committee of policy revisions and to provide assurance that policies are kept up to date and are fit for purpose.

4. ANTI-FRAUD POLICIES

- 4.1 Minimising any losses to fraud and corruption is an essential part of ensuring that all of the Council's resources are used for the purposes for which they are intended and ensuring we remain ruthlessly financially efficient.
- 4.2 Staff are often the first to spot possible cases of wrongdoing at an early stage and are therefore encouraged and, indeed, expected to raise any concern that they may have, without fear of recrimination. Any concerns raised will be treated in the strictest confidence and will be properly investigated.
- 4.3 It is therefore vitally important that anti-fraud policies are kept up to date to support and guide Council staff, ensuring compliance with laws and regulations, giving guidance for decision-making, and streamlining internal processes. Arrangements will be made to communicate the updated policies to staff, contractors and Members to raise awareness and ensure that allegations are reported to the Corporate Anti-Fraud Service for investigation.
- 4.4 The table below details the key anti-fraud policies, their dates of revision and date of their next review.

| Policy | Last review | Next review |
|---|--------------------|--------------------|
| Anti-Fraud & Corruption Strategy | August 2016 | August 2019 |
| Whistleblowing Policy | August 2017 | Under review |
| Anti-Bribery Policy | August 2017 | December 2018 |
| Anti-Money Laundering Policy & Procedures | October 2017 | December 2018 |
| Fraud Response Plan | August 2017 | December 2018 |
| Fraud Risks: A Guide for Managers | February 2018 | February 2019 |

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. This includes having appropriate arrangements for protecting, detecting and deterring fraud against the Council.

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.

Implications verified by Peter Smith, Head of Policy and Strategy, tel. 020 8753 2206.

8. LEGAL IMPLICATIONS

- 8.1 The work of CAFS is governed by a range of legislation including: the Police and Criminal Evidence Act, the Criminal Procedures Investigation Act, the Regulation of Investigatory Powers Act, the Fraud Act, the Prevention of Social Housing Fraud Act and the Proceeds of Crime Act.

- 9.2 There are no particular legal implications arising from this report.

Implications verified by Rhian Davies, Assistant Director of Legal and Democratic Services, tel. 07827 663794

9. FINANCIAL AND RESOURCES IMPLICATIONS

- 9.1 Resources required to deliver on the Council's counter fraud strategy come from the budget allocated to the Corporate Anti-Fraud Service.

- 9.2 There are no additional resource implications arising from this report.

- 9.3 Successful investigations and prosecutions can lead to the recovery of Council assets and money which are required to protect front line services.

Implications completed by Danielle Wragg, Finance Business Partner, 0208 753 4287 and verified by Emily Hill, Assistant Director, Corporate Finance, 0208 753 3145.

10. RISK MANAGEMENT

- 10.1 The delivery of the counter fraud strategy and associated policies contributes to the management of fraud risks faced by the Council, with proactive exercises supporting managers to put effective counter fraud and corruption controls in place in their systems and processes in accordance with our Corporate Risk Register and Being Financially Ruthlessly Efficient Objective.

Implications verified by Michael Sloniowski, Risk Manager, 020 8753 2587

11. IMPLICATIONS FOR BUSINESS

- 11.1 Updated and effective anti-fraud council policies will serve to protect better local communities so are likely to have a beneficial impact on local businesses.

Implications verified by Albena Karameros, Programme Manager, Economic Development, 07739 316 957.

12. COMMERCIAL IMPLICATIONS

- 12.1 There are no direct procurement implications arising from this report.

Implications verified by Andra Ulianov, Procurement Consultant, 0777 667 2876.

13. IT IMPLICATIONS

- 13.1 There are no direct IT implications arising from this report.
- 13.2 Any data gathered as part of any investigations will need to meet the data handling requirements of GDPR and the Data Protection Act, and the council's local information management policies.

Implications verified/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. | Operational and performance management papers. | A Hyatt | HTH |

Appendices

1. Anti-Bribery Policy
2. Anti-Money Laundering Policy
3. Fraud Response Plan

ANTI-BRIBERY POLICY



| Date of Issue | Date of last issue | Review Date |
|----------------------|---------------------------|--------------------|
| December 2018 | August 2017 | December 2019 |

INDEX

1. Introduction: Policy statement
2. Objective
3. The Bribery Act 2010
4. Responsibilities
5. Declarations of interest
6. Gifts and hospitality
7. Red flags: warning signs of bribery
8. Reporting your concerns

1. Introduction: Policy statement

- 1.1 Bribery is an inducement or reward offered, promised or provided to gain a personal, commercial, regulatory or contractual advantage. Bribery is a criminal offence and punishable for individuals by up to ten years' imprisonment.
- 1.2 It is the Council's policy to conduct all our business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our activities.
- 1.3 We are committed to the prevention, deterrence and detection of bribery. We aim to maintain anti-bribery compliance "business as usual", rather than as a one-off exercise.
- 1.4 Those employed by or acting as agent for the Council and its schools will not pay bribes nor offer improper inducements to anyone for any purpose. Nor will those individuals accept bribes or improper inducements.
- 1.5 To use a third party as a conduit to channel bribes to others is a criminal offence. The Council does not, and will not allow its staff or Members engage indirectly in or otherwise encourage bribery.

2. Objective

- 2.1 The purpose of this policy is to:
 - (a) Set out our responsibilities, and of those working for us, in observing and upholding our position on bribery and

corruption; and

- (b) Provide information and guidance to those working for us on how to recognise and deal with bribery and corruption issues.

3. Bribery Act 2010

3.1 There are four key offences under The Bribery Act 2010 :

- bribery of another person (section 1)
- accepting a bribe (section 2)
- bribing a foreign official (section 6)
- failing to prevent bribery (section 7)

3.2 In many instances of bribery or corruption, Fraud Act 2006 offences are also relevant, for example, fraud by abuse of position or fraud by failing to disclose.

4. Responsibilities

4.1 The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the organisation. All staff are required to avoid activity that breaches this policy.

4.2 All staff must:

- Ensure that you read, understand and comply with this policy,
- Raise concerns as soon as possible if you believe or suspect that a conflict with this policy has occurred, or may occur in the future.

4.3 It is unacceptable for staff to:

- Accept payment, a gift or hospitality from a third party that you know or suspect is offered with the expectation that it will obtain a business advantage for them.
- Give, promise to give, or offer a payment, gift or hospitality with the expectation or hope that a business advantage will be

received, or to a government official, agent or representative to "facilitate" or expedite a routine procedure.

5 Declarations of interest

- 5.1 All employees need to declare whether they have any personal interests that may conflict with the interests of the Council. Outside activities, additional employment or voluntary work can all create the potential for the interests of the employee to come into conflict with those of the Council.
- 5.2 All employees need to read the Council's advice regarding declarations of interest and decide whether they have any conflicting personal interests and to agree to inform the Council if these circumstances change.
- 5.3 Because declarations of interest are fundamental to the effective operation and reputation of the Council, failing to declare an interest will always be dealt with by the Council as a disciplinary matter and is likely to be deemed gross misconduct which may result in your dismissal.

6 Gifts and hospitality

- 6.1 This policy is not meant to change the requirements of our gifts and hospitality.
- 6.2 The acceptance of gifts and hospitality, even on a modest scale, may arouse suspicion and must be capable of public justification. A register of gifts and hospitality is therefore kept for each of the Council's directorates
- 6.3 Employees are still required by the Officers' Code of Conduct to record gifts or hospitality offered to them (whether accepted or not) and hospitality provided to others outside the Council. This should preferably be recorded as it happens, rather than at the end of a fixed period. In any case, it must be recorded within one month of the event (or the date of an offer of hospitality, if refused). Regular nil returns are not required.
- 6.4 Gifts and hospitality records are subject to review by the employee's line manager and lead director. In addition, the records are subject to period review by Internal Audit and the Corporate Anti-Fraud team.

7 Red flags: warning signs of bribery

7.1 The risk of Bribery will vary across the Council depending upon the functions. It is, therefore, important that staff are aware of the warning signs.

- A member of staff receives and accepts excessive hospitality, or has a personal interest. Is this declared?
- A member of staff constantly ignores the procurement process
- Continued use of a particular supplier/contractor despite reports of poor performance, and the same supplier or contractor seems to be winning all the work
- Officers asking for invoices to be approved that do not have sufficient detail, or where there are concerns that the work/supply has never been undertaken or received.
- A member of staff has a meeting with a supplier or contractor and they insist on going alone, there is also a lack of minute taking. There is the risk that a corrupt relationship could develop.
- Any third party information that suggests a supplier or contractor engages in, or has been accused of engaging in, improper business practices. Especially a reputation for paying bribes.

8 Reporting your concerns

8.1 If in the course of your duties someone attempts to influence the outcome of a project, procurement or decision, you must politely refuse and immediately;

- Report the matter to your line manager, their manager or the Head of Service. If for any reason this is not possible you should speak to those named below.
- You should make a note of who attempted to influence you and what was offered, who they work for, their contact details and the date and time of the incident. Also you should note any witnesses, if any.

- Members should report the incident immediately to the Leader of the Council.
- 8.2 If an incident of bribery, corruption, or wrongdoing is reported, the Council will act as soon as possible to evaluate the situation. The Council has clearly defined procedures for investigating fraud, misconduct and non-compliance issues and these will be followed in any investigation of this kind.
- 8.3 Employees can also raise their concerns in accordance with the Council's Whistleblowing Policy.
- 8.4 If you have any questions about these procedures, please contact:
- Director of Audit, Fraud, Risk and Insurance: David Hughes, 07817 507695
 - Head of Fraud: Andy Hyatt, 07739 313817
 - Fraud Hotline: 020 8753 1273
 - Director Corporate Services: Mark Grimley, 07468 710425

ANTI-MONEY LAUNDERING POLICY AND PROCEDURES



| Date of Issue | Date of last issue | Review Date |
|----------------------|---------------------------|--------------------|
| December 2018 | October 2017 | December 2019 |

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1. Introduction
2. What is Money Laundering?
3. What is Terrorism Financing?
4. What are the main offences?
5. What are the obligations on the Council?
6. Nominated officers
7. High value cash transactions
8. What should I do if I suspect money laundering?
9. Suspicious Activity Reports (SARs)
10. Policy and procedure

Appendix 1 – making a report to the MLRO

Appendix 2 – procedure for reporting (flow chart)

1. Introduction

- 1.1 The Council will take measures to prevent the organisation, its Members and officers being exposed to money laundering, to identify areas where money laundering may occur and to comply with legal and regulatory requirements.
- 1.2 The Proceeds of Crime Act 2002, the Terrorism Act 2000 and Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 place obligations on the Council and its employees to establish internal procedures to prevent the use of their services for money laundering and the prevention of terrorist financing. The Council must also appoint a Money Laundering Reporting Officer (MLRO) to receive disclosures from employees of money laundering activity.
- 1.3 It is the responsibility of staff and Members to be vigilant and act promptly where money laundering is suspected. Failure to comply with this Policy, and accompanying procedures, may lead to disciplinary action being taken against them. Failure by a Member to comply with the procedures may be referred to the Monitoring Officer.

2. What is Money Laundering?

- 2.1 Money laundering is a process of converting cash or property derived from criminal activities to give it a legitimate appearance. It is a

process of channelling 'bad' money into 'good' money in order to hide the fact that the money originated from criminal activity, and often involves three steps:

- **Placement** - cash is introduced into the financial system by some means. For example, depositing the cash into bank accounts, exchanging currency or simply changing small notes for large notes (or vice versa).
- **Layering** - a financial transaction to camouflage the illegal source; transfers between accounts including offshore, offering loans, investments and complex financial transactions.
- **Integration** - acquisition of financial wealth from the transaction of the illicit funds. For example, buying residential and commercial property, businesses and luxury goods.

3. What is Terrorism Financing?

- 3.1 Terrorism financing is the act of providing financial support, funded from either legitimate or illegitimate source, to terrorists or terrorist organisations to enable them to carry out terrorist acts or will benefit any terrorist or terrorist organisation.
- 3.2 While most of the funds originate from criminal activities, they may also be derived from legitimate sources, for example, through salaries, revenues generated from legitimate business or the use of non-profit organisations to raise funds through donations.

4. What are the main offences?

- 4.1 There are three main offences:
- **Concealing:** knowing or suspecting a case of money laundering, but concealing or disguising its existence.
 - **Arranging:** becoming involved in an arrangement to launder money, or assisting in money laundering.
 - **Acquisition, use or possession:** benefiting from money laundering by acquiring, using or possessing the property concerned.

4.2 None of these offences are committed if:

- the persons involved did not know or suspect that they were dealing with the proceeds of crime; or
- a report of the suspicious activity is made promptly to the Money Laundering Reporting Officer (MLRO).

5. What are the obligations on the Council?

5.1 The main requirements of the legislation are:

- To appoint a money laundering reporting officer (Nominated Officer)
- Implement a procedure to receive and manage the concerns of staff about money laundering and their suspicion of it, and to submit reports where necessary, to the National Crime Agency (NCA)
- To make those staff most likely to be exposed to or suspicious of money laundering situations aware of the requirements and obligations placed on the organisation, and on them as individuals
- To give targeted training to those considered to be the most likely to encounter money laundering;

5.2 Providing the Council does not undertake activities regulated under the Financial Services and Markets Act 2000, the offences of failure to disclose and tipping off do not apply. However, the Council and its employees and Members remain subject to the remainder of the offences and the full provisions of the Terrorism Act 2000.

5.3 The Terrorism Act 2000 made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism.

6. Nominated Officers

6.1 The regulations require the Council to appoint a Nominated Officer, sometimes known as Money Laundering Reporting Officer ("MLRO").

6.2 The MLRO and their appointed Deputy MLRO are responsible for receiving internal suspicious transaction reports (also known as

disclosures), deciding whether these should be reported to the National Crime Agency (NCA), and making the report when required.

6.3 The Nominated Officers within the Council are;

- **MLRO: Section 151 officer,** Hitesh Jolapara (Hitesh.jolapara@lbhf.gov.uk)
- **Deputy MLRO: Andy Hyatt,** Shared services Head of Fraud (andy.hyatt@lbhf.gov.uk) 07739 313817

7. High value cash transactions

- 7.1 Those receiving or arranging to receive cash on behalf of the Council must ensure they are familiar with the Council's Anti-Money Laundering Policy.
- 7.2 The first stage of money laundering, placement, is where vigilance can often detect and prevent it happening, because large amounts of cash are pretty conspicuous.
- 7.3 In line with the National Crime Agency recommended thresholds for reporting, no single payment to the Council should be accepted in cash if it exceeds **£10,000**.

8. What should I do if I suspect money laundering?

- 8.1 Staff who know or suspect that they may have encountered criminal activity and that they may be at risk of contravening the money laundering legislation, they must report this as soon as practicable to the Money Laundering Responsible Officer (MLRO) or Deputy MLRO to advise of their concerns.
- 8.2 The disclosure should be at the earliest opportunity of the information coming to your attention, not weeks or months later.
- Refer to the Council's Anti-Money Laundering Procedures
 - Do not tell the customer about your suspicions.
 - Report your suspicions immediately to the Council's MLRO or Deputy MLRO (details above).
 - Keep all records relating to the transaction(s). If you are unsure about what records or information to keep, please ask the MLRO.

8.2 More information about making a report to the MLRO is detailed at **appendix 1** and a flow chart illustrating the procedure for reporting money laundering is at **appendix 2**.

9. Suspicious Activity Report (SAR)

9.1 Once a suspicious transaction or activity is referred to the Nominated Officer it is their responsibility to decide whether they need to send a report or 'disclosure' about the incident to the NCA. They do this by making a Suspicious Activity Report (SAR).

9.2 The nominated officer must normally suspend the transaction if they suspect money laundering or terrorist financing. If it's not practical - or not safe - to suspend the transaction, they should make the report as soon as possible after the transaction is completed.

9.3 The NCA receives and analyses SARs and uses them to identify the proceeds of crime. It counters money laundering and terrorism by passing on important information to law enforcement agencies so they can take action.

10. Policy and procedure

10.1 The Money Laundering legislation is complex. This policy has been written as a safeguard and to enable the Council to meet its legal obligations. It will be reviewed annually.

APPENDIX 1: Making a report to the MLRO

If you suspect that money laundering activity is taking place (or has taken place), or think that your involvement in a matter may amount to a prohibited act under the legislation, you must disclose this as soon as possible to the MLRO or the Deputy MLRO. Considerations of confidentiality do not apply if money laundering is at issue.

In the first instance, the report may be made informally to allow the MLRO to assess the information and decide whether a Suspicious Activity Report (SAR) should be made to the National Crime Agency (NCA).

You should provide as much detail as possible, for example:

- Details of the people involved – name, date of birth, address, company names, directorships, phone numbers etc;
- Full details of the nature of the involvement;
- A description of the activities that took place;
- Likely amounts of money or assets involved;
- Why you are suspicious.

This will assist the MLRO to make a judgement as to whether there are reasonable grounds for assuming knowledge or suspicion of money laundering. The MLRO may initiate an investigation to enable him to decide whether a report should be made to the NCA.

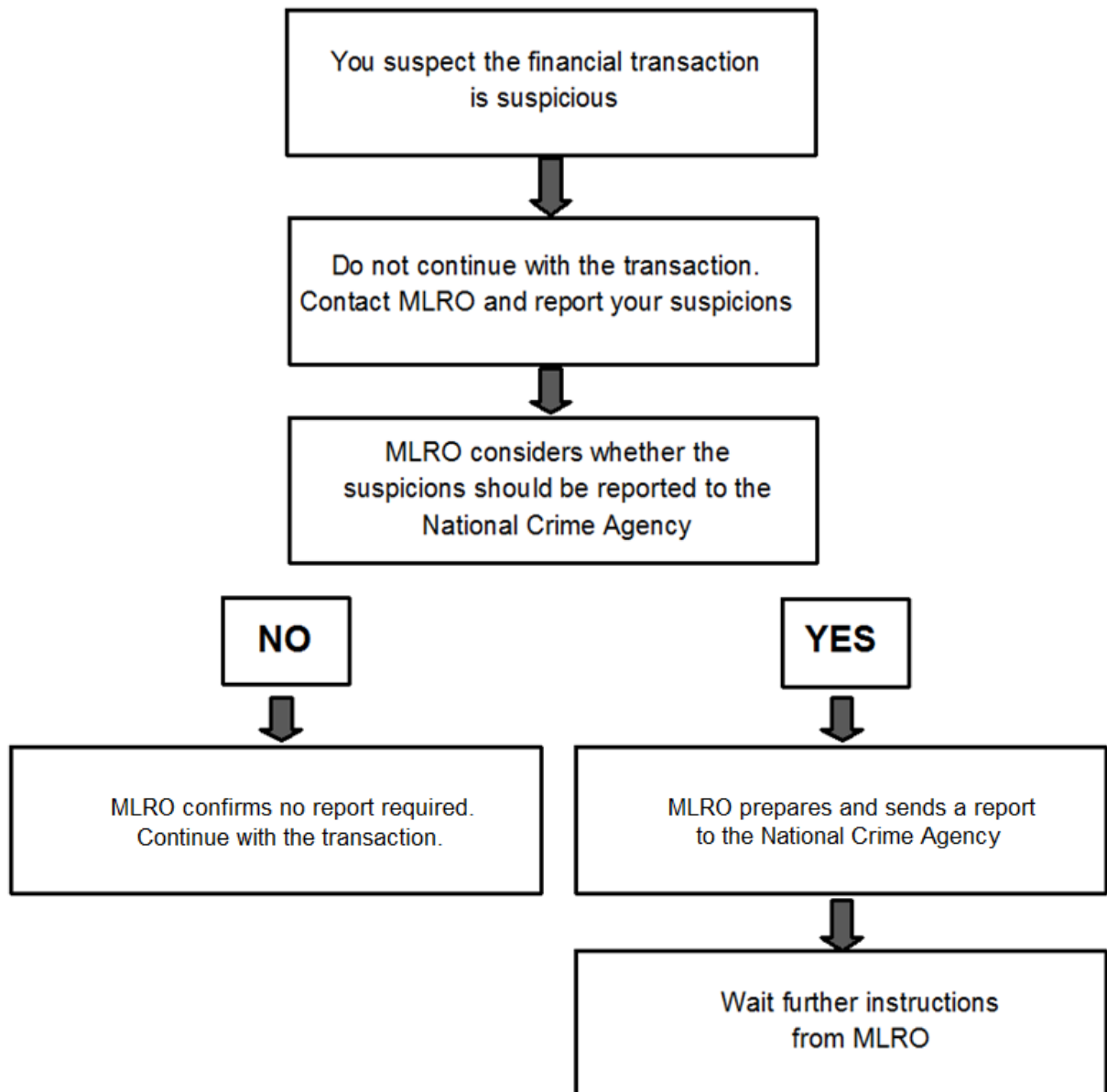
In cases where legal professional privilege may apply, the MLRO must decide (taking legal advice if required) whether there is a reasonable excuse for not reporting the matter.

Once the matter has been reported to the MLRO, you must follow any directions they may give you. ***You must not make any further enquiries into the matter yourself.*** Any investigations will be undertaken by the NCA.

If the NCA has any queries on the report, responses to those queries should be routed via the MLRO to ensure that any reply is covered by appropriate protection against claims for breaches of confidentiality.

You should not make any reference on a client file to a report having been made to the MLRO – the client might exercise their right to see the file, and such a note would tip them off to a report having been made, and might make you liable to prosecution.

APPENDIX 2: The procedure for reporting (flow chart)



FRAUD RESPONSE PLAN



| Date of Issue | Date of last issue | Review Date |
|----------------------|---------------------------|--------------------|
| December 2018 | August 2017 | December 2019 |

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2. Responsibilities
 - All employees
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 - Action by employees
 - Action by managers
 - Reviewing allegations
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4. Investigation process
5. Disciplinary/Legal action
6. Recovery of loss
7. Further Advice

Appendix 1: The procedure for reviewing allegations (flow chart)

1. Introduction

- 1.1 The Council is committed to sound corporate governance and to protecting the public funds with which it has been entrusted. Minimising any losses to fraud and corruption is an essential part of ensuring that all of the Council's resources are used for the purposes for which they are intended and ensuring we remain ruthlessly financially efficient.
- 1.2 The Fraud Response Plan provides guidance on the action to be taken when a fraud is suspected or discovered and enables the Council to:
 - Minimise and recover losses
 - Establish and secure evidence necessary for criminal and disciplinary action
 - Take disciplinary action against those involved
 - Review the reasons for the incident and ensure that actions are implemented to strengthen procedures, controls and prevent recurrence.
- 1.4 Any suspicion of fraud will be treated seriously and will be investigated in accordance with the Council's procedures and the relevant legislation.

2. Responsibilities

ALL EMPLOYEES/AGENCY WORKERS

2.1 Individual members of staff and agency workers are responsible for:

- Acting with propriety in the use of resources and in the handling and use of public funds, whether they are involved with cash or payments systems, receipts or dealing with contractors or suppliers.
- Reporting immediately to their line manager or those named in this policy, if they suspect that a fraud has been committed or see any suspicious acts or events.

MANAGERS

2.2 In addition to those individual responsibilities, managers are responsible for:

- Identifying the risks to which systems and procedures are exposed.
- Developing and maintaining effective controls to prevent and detect fraud.
- Ensuring that controls are complied with.

3. Reporting a suspected fraud

ACTION BY EMPLOYEES

3.1 Staff are encouraged and, indeed, expected to raise any concern that they may have, without fear of recrimination. Any concerns raised will be treated in the strictest confidence and will be properly investigated.

3.2 Staff are often the first to spot possible cases of wrongdoing at an early stage. Staff should **not** try to carry out an investigation themselves. This may damage any subsequent enquiry.

3.3 In the first instance, any suspicion of fraud, theft or other irregularity should be reported, as a matter of urgency, to your line manager. If such action would be inappropriate, your concerns should be reported upwards to one of the following persons (contact details in section 7):

- Director of Audit, Fraud, Risk and Insurance
- Head of Fraud
- Director of Corporate Services

3.4 Staff may choose to report concerns anonymously or request anonymity. While total anonymity cannot be guaranteed, every endeavour will be made not to reveal the names of those who pass on information.

ACTION BY MANAGERS

3.5 If you have reason to suspect fraud or corruption in your work area, or received information that might suggest wrongdoing, you should do the following:

- Listen to the concerns of staff and treat every report seriously and sensitively.
- Obtain as much information as possible from the member of staff including any notes or evidence to support the allegation. Do not interfere with this evidence and ensure it is kept secure.
- **Do not** attempt to investigate the matter yourself or covertly obtain any further evidence as this may adversely affect any criminal enquiry.
- Report the matter immediately to the Director of Audit, Fraud, Risk and Insurance; Director of Corporate Services; or Head of Fraud.

REVIEWING ALLEGATIONS

3.6 Once reported the referral should be addressed by the Corporate Anti-Fraud Service and HR function to review any allegation, establish the facts of the statements made, and to recommend an investigation strategy (see flowchart at appendix 1).

MALICIOUS ALLEGATIONS

3.7 If an allegation is made in good faith, but it is not confirmed by the investigation, no action will be taken against the person raising the concern. If, however, the allegations are malicious or vexatious, the action may be taken against the person making the allegation.

4. Investigation process

- 4.1 The Corporate Anti-Fraud Service is responsible for initiating and overseeing all fraud investigations and have a dedicated team of trained investigators who will lead the enquiries.
- 4.2 In accordance with Section 67(9) of Police and Criminal Evidence Act, officers of the Corporate Anti-Fraud Service are referred to as, "charged with the duty of investigating offences or charging offenders".
- 4.3 Investigations will be undertaken with consideration for the relevant legislation, regulations and codes. In certain circumstances, investigation work may be carried out by Departmental Management following agreement and liaison with Corporate Anti-Fraud Service and Human Resources.
- 4.4 Investigation results will not be reported or discussed with anyone other than those who have a legitimate need to know. Where appropriate the person raising the concern will be kept informed of the investigation and its outcome.
- 4.5 Interim reports detailing progress and findings may be produced throughout the investigation to assist decision making.
- 4.6 On completion of the investigation, the investigating officer, will prepare a full written report setting out the background, findings of the investigation, and recommendations to reduce further exposure if fraud is proven.
- 4.7 A brief and anonymised summary of the circumstances may be published in the half-yearly Corporate Anti-Fraud Report to the Audit and Pension Scrutiny Committee.

5. Disciplinary/Legal action

- 5.1 Where evidence of fraud is discovered, and those responsible can be identified:
 - Appropriate disciplinary action will be taken in line with the disciplinary procedure.

- Where legal action is considered appropriate, full co-operation will be given to investigating and prosecuting authorities, including the police if appropriate.

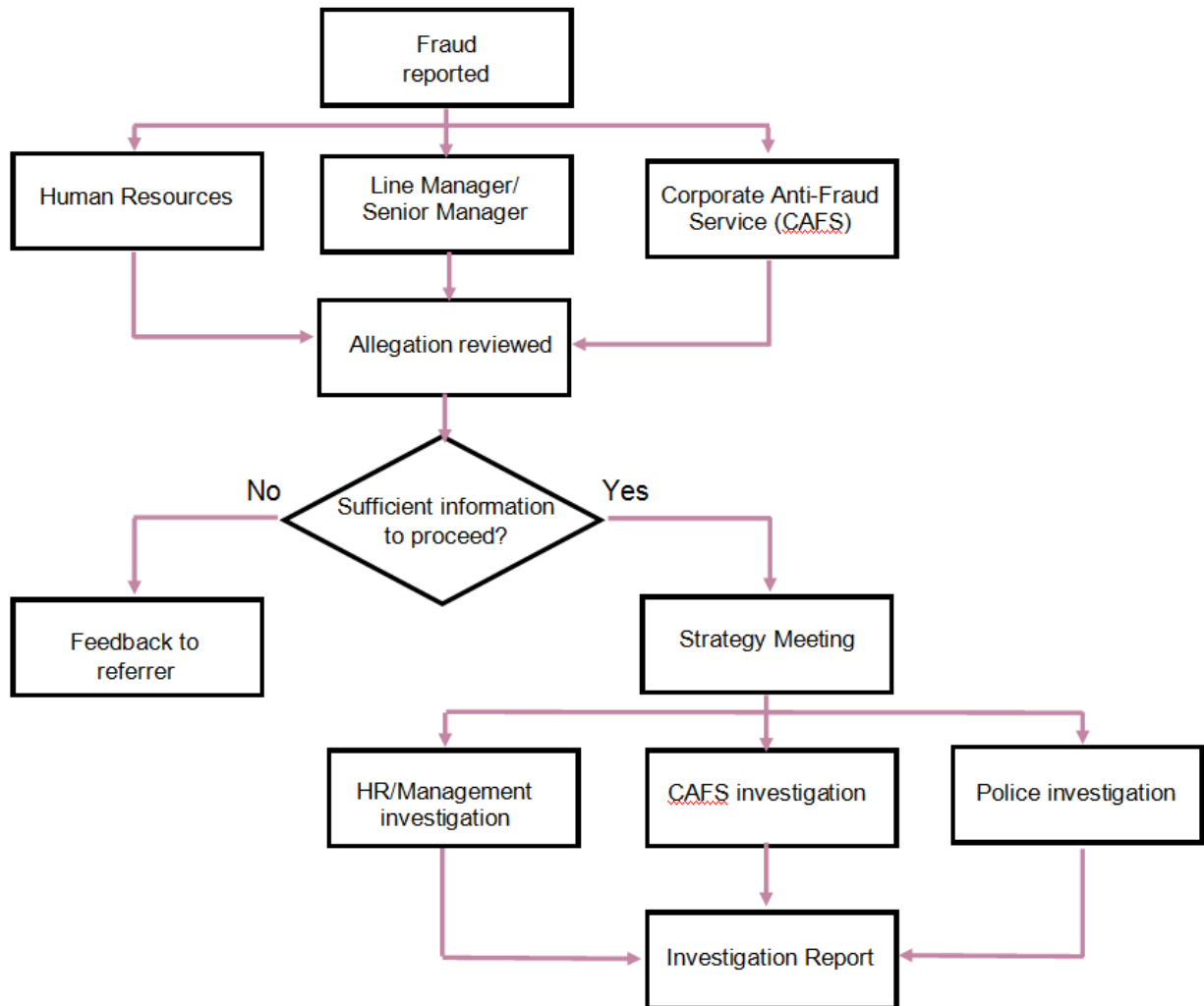
6. Recovery of loss


- 6.1 Where the Council has suffered loss, restitution will be sought of any benefit or advantage obtained, and the recovery of costs will be sought from an individual(s) or organisations responsible for fraud.
- 6.2 The Corporate Anti-Fraud Service will utilise all relevant powers to recover fraud losses including the use of Financial Investigators working within the realms of the Proceeds of Crime Act.
- 6.3 Where an employee is a member of Council's Pension scheme and is convicted of fraud, the Council may be able to recover the loss from the capital value of the individual's accrued benefits in the Scheme, which are then reduced as advised by the actuary.
- 6.4 The Council may also consider taking civil action to recover the loss.

7. Further advice

- 7.1 Advice or guidance about how to pursue matters of concern regarding potential fraud or corruption may be obtained from any of the following contacts:
 - Director of Audit, Fraud, Risk and Insurance: David Hughes, 07817 507695
 - Head of Fraud: Andy Hyatt, 07739 313817
 - Fraud Hotline: 020 8753 1273
 - Director Corporate Services: Mark Grimley, 07468 710425

APPENDIX 1: The procedure for reviewing allegations (flow chart)



| | |
|---|--|
| <p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>12 December 2018</p> |  |
| <p>INTERNAL AUDIT UPDATE REPORT FOR THE PERIOD 1 July – 31 October 2018</p> <p>Report of the Strategic Director of Finance and Governance</p> | |
| <p>Open Report</p> | |
| <p>Classification: For Information</p> <p>Key Decision: No</p> | |
| <p>Wards Affected: None</p> | |
| <p>Accountable Director: Hitesh Jolapara, Strategic Director of Finance and Governance</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 July to 31 October 2018 and the outcomes of follow up work undertaken for the 12-month period up to 31 October 2018. This change in reporting, and the improved assurances provided in this report on audit work undertaken, reflect the positive impact of the increased focus on assurance and risk management, led by the Chief Executive.

2. RECOMMENDATION

- 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 July to 31 October 2018 and the follow up work on agreed actions undertaken by Internal Audit for the 12-month period to 31 October 2018.

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 14 audit reports were finalised in the period from 1 July to 31 October 2018, including 8 Substantial Assurance and 6 Satisfactory Assurance reports.
- 4.4. No limited assurance reports were issued in the period 1 July to 31 October 2018. In the previous 12-month cycle, the Committee has received 7 Limited Assurance reports; 1 in September 2018, 3 in July 2018, 2 in March 2018 and 1 in December 2017.
- 4.5. Departments are given 10 working days for management agreement to be given to each report and for the responsible Director to sign it off so that it can then be finalised. There are no overdue draft reports awaiting management responses at the time of writing.

Follow up of Recommendations

- 4.6. From December 2018, Internal Audit will be reporting in more detail to Committee on the outcome of our follow up of recommendations raised and actions agreed with management. This follows on from improvements in performance over the past 18 months, where the Committee received reports on instances where management had not updated progress against agreed actions or reported completion of actions by their due date.
- 4.7. As this is the first time of reporting in this way, we are reporting on 12 months of follow up activity undertaken by Internal Audit for the period 1 November 2017 to 31 October 2018. Future reports will set out the outcomes of follow up work undertaken on a quarterly basis.
- 4.8. In the 12 months to 31 October 2018, 82 recommendations which were due to have been implemented have been followed up by Internal Audit (12 High and 70 Medium priority), of which 89% have been fully or partly implemented. In 60 cases (73%) we confirmed that the recommendation had been implemented, 13 (16%) had been partly implemented (4 High and 9 Medium priority recommendations) and 2 (2%) had not been implemented (both Medium priority recommendations). 7 recommendations were identified as no longer applicable.

- 4.9. More detail on the results of our follow up work in the period is shown at Appendix C, specifically where either a specific recommendation was identified as High priority or the overall assessment of the audit was Limited Assurance.
- 4.10. A full follow up of the Limited Assurance Section 75 Agreements – Mental health audit was undertaken in May 2018. Of the 3 High and 2 Medium priority recommendations raised, 3 were fully implemented and 2 partly implemented. The results of the follow up can be seen in Appendices A and C.

Update on External Audit Recommendations

- 4.11. Attached is a table showing the outstanding recommendations arising from the External Audit Report 2017/18 which was presented to the Committee in July 2018. The table in Appendix C contains updates from the relevant responsible officers for each recommendation as at the end of November 2018. Internal Audit has not verified the information provided and can therefore not give any independent assurance in respect of the reported position. All such recommendations are followed up by the external auditor and are reported to the Committee as part of the annual audit report.

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.

Implications verified by Peter Smith, Head of Policy and Strategy, tel. 020 8753 2206.

8. LEGAL IMPLICATIONS

- 8.1. Regulation 3 of the Accounts and Audit Regulations 2015 sets out the Council's responsibility for ensuring that it has a sound system of internal control which:

- a. facilitates the effective exercise of its functions and the achievement of its aims and objectives;
 - b. ensures that the financial and operational management of the authority is effective; and,
 - c. includes effective arrangements for the management of risk.
- 8.2. Regulation 5 requires the Council to ensure that it undertakes an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 8.3 There are no particular legal implications arising from this report.

Implications verified by Rhian Davies, Assistant Director of Legal and Democratic Services, tel. 07827 663794

9. FINANCIAL IMPLICATIONS

- 9.1 The Internal Audit Plan is delivered within the revenue budget for the service. 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.
- 9.2 The proposals contained in this paper have no additional resource implications for the audit service.

Implications completed by Danielle Wragg, Finance Business Partner, 0208 753 4287 and verified by Emily Hill, Assistant Director, Corporate Finance, 0208 753 3145.

10. IMPLICATIONS FOR BUSINESS

- 10.1 There are no implications for business arising from this report.

Implications verified by Alben Karameros, Programme Manager, Economic Development, 07739 316 957.

11. COMMERCIAL IMPLICATIONS

- 11.1 There are no commercial implications arising from this report.

Implications verified by Andra Ulianov, Procurement Consultant, 0777 667 2876.

12. IT IMPLICATIONS

12.1. There are no ICT implications arising from this report.

*Implications verified/completed by: Veronica Barella, Chief Information Officer,
Tel 020 8753 2927.*

13. RISK MANAGEMENT

13.1 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.

Implications verified by Michael Sloniowski, Risk Manager, telephone 020 8753 2587

LOCAL GOVERNMENT ACT 2000 **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:

1. Audit reports issued 1 July to 31 October 2018
2. Summary of Follow Up Activity
3. 2017/18 External Audit Recommendations Update

Audit reports Issued 1 July to 31 October 2018

APPENDIX A

We have finalised a total of 14 audit reports for the period of 1 July to 31 October 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 | Day Time Contact Centre | Nick Austin (now Sharon Lea) | Substantial |
| 2 | 2017/18 | Out of Hours Contact Centre | Nick Austin (now Sharon Lea) | Substantial |
| 3 | 2017/18 | Parking Suspensions | Nick Austin (now Sharon Lea) | Substantial |
| 4 | 2017/18 | Contract Management of Waste Contract | Nick Austin (now Sharon Lea) | Satisfactory |
| 5 | 2017/18 | Off Payroll Working (IR35) | Mark Grimley | Substantial |
| 6 | 2017/18 | Universal Credit Trusted Partner Status | Jo Rowlands | Satisfactory |
| 7 | 2017/18 | Office 365 | Veronica Barella | Substantial |
| 8 | 2017/18 | Network Security Compliance | Veronica Barella | Satisfactory |
| 9 | 2017/18 | Libraries Target Operating Model | Mike Clarke | Satisfactory |
| 10 | 2017/18 | Direct Payments | Lisa Redfern | Satisfactory |
| 11 | 2017/18 | Commissioning Planning and Delivery: Behavioural Change and Prevention | Mike Robinson (now Lisa Redfern) | Substantial |
| 12 | 2017/18 | Children's Services Supplier Resilience | Steve Miley | Satisfactory |
| 13 | 2018/19 | Ellerslie Day Centre | Lisa Redfern | Substantial |
| 14 | 2018/19 | Imperial Wharf Day Centre | Lisa Redfern | Substantial |

| | |
|-------------------------------|--|
| Substantial Assurance | There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and few material errors or weaknesses were found. |
| Satisfactory Assurance | While there is a basically sound system, there are weaknesses and/or omissions which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk. |
| Limited Assurance | Weaknesses and / or omissions in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk. |
| No Assurance | Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse. |

Other Reports

Management Letters

| No. | Audit Plan | Audit Title | Director / Sponsor |
|-----|------------|--|------------------------------|
| 15 | 2017/18 | Parks Sports Booking Income | Nick Austin (now Sharon Lea) |
| 16 | 2018/19 | GDPR - Programme Assurance | Veronica Barella |
| 17 | 2018/19 | Desktop Strategy- Programme Assurance | Veronica Barella |
| 18 | 2018/19 | King Street Regeneration – Programme Assurance | Jo Rowlands |
| 19 | 2018/19 | Client Affairs | Lisa Redfern |

Full audit follow up

| No. | Audit Year | Audit Title | Total Recs | Recs Implemented | Partly Implemented | Not Implemented |
|-----|------------|---------------------------------------|------------|------------------|--------------------|-----------------|
| 20 | 2015/16 | Section 75 Agreements – Mental health | 5 | 3 | 2 | 0 |

Summary of Follow Up Activity

APPENDIX B

The table below shows the outcome of our follow up of recommendations raised and actions agreed with management. As this is the first time of reporting in this way we are reporting on 12 months of follow up activity from 1 November 2017 to 31 October 2018.

| Recommendation | Priority | Follow Up Outcome | Follow up findings | Management update |
|---|----------|--------------------|--|---|
| Department: Finance and Governance, Sponsor: Hitesh Jolapara, Audit Name/Year: Trading Accounts (2015/16), Original Assurance Rating: Limited | | | | |
| <p>The Council should consider assigning an officer the responsibility for central oversight of trading accounts across the Council, to put in place governance processes and monitor compliance with these. The Council should develop guidelines for the end to end process over the management of trading accounts. As minimum the guidelines should include the following:</p> <ul style="list-style-type: none"> • Steps to be undertaken for the set-up of trading accounts including business case preparation, scrutiny and approval; • Consideration of the Council's risk appetite in respect of providing traded services; • Agreeing objectives, profitability & growth targets for the service; • Recording income and expenditure associated with the service; • Billing and Debt Management including vetting of customers or measures to prevent default payments where possible; and • A performance management framework on financial (revenue and profitability) and non-financial (quality of service and customer feedback) performance. | High | Partly implemented | <p>The Head of Commercial Operations oversees the Council's income streams and commercial activities. A Commercial Operations Board (COB) has been formed to govern the Council's trading activities and its profit/loss including fee setting. In addition, a Commercial Revenue Committee has been formed. This Committee is able to approve new income generating business cases with a value of up to £1m and will be responsible for central oversight of trading accounts across the Council.</p> <p>The Commercial Revenue Committee has not yet met. Following the first committee meeting, officers will undertake a review of each trading account.</p> <p>The detailed guidelines regarding the end to end processes for the set up and operation of trading accounts will then be developed.</p> | <p>An enterprise framework is now in place standardising the stages for the development of new traded initiatives.</p> <p>Templates have been developed for the feasibility/ outline business case stage. This step necessitates both outline benefits and risks to enable consideration of Council's risk appetite.</p> <p>Ideas reaching feasibility/ business case outline stage are now scrutinised by SLT and Commercial Revenue Board as a necessary step before approval of resources to develop full business case. Current examples include Family Story and Children's IFA which have not been approved for further work and investment.</p> <p>Objectives, profitability and growth targets are being reviewed for three main enterprises (H&F Collections, Business Intelligence & Advertising) since significant reported shortfalls against budgeted income were reported for 2018-19.</p> <p>A debt management steering group and working group has been implemented. Both groups have met through 2018-19 and delivered a draft council wide debt management strategy and implementation plan. The latter, subject to necessary investment, provides a roadmap for the strategic redesign of Hammersmith Council's approach to debt prevention and recovery.</p> <p>A commercial dashboard has been developed to provide SLT quarterly performance information including revenue, profitability and ROI for the commercial portfolio.</p> |
| <p>A fee setting framework should be developed for all traded services. This should include the steps to be taken in determining the fees including any factors such as overheads, direct/indirect costs to consider. Assumptions used and calculations supporting the fee setting should be documented and retained.</p> | Medium | Partly implemented | <p>A Commercial Operations Board (COB) has been formed to gather all relevant data. Although each department has a local fee setting process and fees are reviewed and approved by Cabinet and Corporate Finance on an annual basis, a fee setting framework has not yet been developed.</p> <p>As an example of a local fee setting process, the Environmental Health Fees and Charges proposals for 2018/19 were obtained. The proposals were submitted to Cabinet for approval on 19 February 2018 and included a summary of the basis of the calculations and assumptions used.</p> | <p>The council services carry out the annual fees and charges review annually. The uplifts are restricted to inflation index. These reviews are completed by service areas responsible for the fees and charges and presented at cabinet member briefings.</p> |
| <p>Separate accounts should be maintained to record all income and related expenditure including overheads and any other direct and indirect costs of providing the traded service. Trading accounts should be monitored regularly to check whether the profitability and growth targets are being achieved. Where the required profitability is not achieved, remedial action should be</p> | High | Partly implemented | <p>Whilst we were advised by the Head of Commercial Operations that separate accounts are maintained to record all traded income and related expenditure, our review of the monitoring report provided for Period 9 indicated that most of the traded services were making significant losses. This suggests that the traded element of the service is not being separated from normal operations.</p> | <p>Resident Experience is a council wide customer contact program in development which will include a work stream to establish a new target operating model for H&F In-Touch and associated information management teams.</p> <p>A thematic review of the Council's main traded initiatives was undertaken and recommendations were made to SLT in summer 2018. Following the review, a revised focus on three initiatives was agreed: LBHF JV Ltd, Business Intelligence and Advertising. Business Intelligence sales were deprioritised following the review to</p> |


| Recommendation | Priority | Follow Up Outcome | Follow up findings | Management update |
|--|---------------|---------------------------|---|---|
| <p>taken. Non-financial performance should also be monitored regularly to assess customer satisfaction and quality of services provided. Continuing viability of the traded services should be reviewed periodically to make a decision on whether the service should continue.</p> | | | <p>Non-financial performance is not currently being monitored. H&F In-Touch deals with customer feedback. Each department have their own customer care and quality assurance approach. Further work will be done to identify each department's customer care policy.</p> <p>A review of continuing viability of the traded services has not been undertaken. Following the first Commercial Revenue Committee Meeting, a detailed study of traded services will be undertaken.</p> | <p>enable a focus on the team's fulfilment of internal council requirements. A business case is in development considering the case for investment in a relaunch of Business Intelligence sales. An advertising working group has been created in 2018-19 which has met monthly since September 2018 to progress the realisation for advertising revenue. A conclusion as to the viability of LBHF JV Ltd will be possible in 2019-20 once the company's new debt recovery products have been tested fully.</p> <p>The leadership and structure of the commercial team at LBHF, which includes traded services, is now under review (with SLT).</p> |
| <p>Trading account debtors should be monitored separately from other non-traded services.</p> | <p>Medium</p> | <p>Not implemented</p> | <p>Discussions with the Head of Commercial Operations indicated that this has yet to commence. It is scheduled to take place during middle of 2018/19.</p> | <p>There has been review of the council's debt management approach. Further consideration will be taking place with the LBHF Ethical Debt Strategic Board, including debt categories.</p> |
| <p>Department: Adult Social Care, Sponsor: Lisa Redfern, Audit Name/Year: Section 75 Agreements - Mental Health (2015/16), Original Assurance Rating: Limited</p> | | | | |
| <p>LBHF and WLMHT should ensure the Section 75 agreement is finalised and signed. If necessary, the partners should consider practical ways of facilitating the finalisation and signing of the agreement. For example, certain schedules and appendices that contain detail that is likely to change over the life of the agreement could be included in a separate document that is reviewed and agreed annually by the partners.</p> <p>The benefit of a Section 75 agreement written in this way is that it is less likely to quickly become out of date due to structural, financial and programmatic changes. Appropriate legal consultation should be made in consideration practical ways of facilitating the finalisation and signing of the agreement.</p> | <p>High</p> | <p>Partly Implemented</p> | <p>LBHF is reviewing its partnership arrangements with WLMHT and therefore has made a strategic decision to hold off on signing the agreement until this is completed.</p> <p>The Section 75 agreement between LBHF and West London Mental Health Trust (WLMHT) is in the process of being updated and is near completion after which it will be signed at the Partnership Board meeting.</p> | <p>We agree that the s75 agreement needs to be signed and a meeting has been set to complete this. However, it is proposed that this new Agreement will only be for a period of nine months, as due to long-standing quality, performance and budgetary concerns, a report has been prepared for the SLT recommending that LBHF's social workers are brought back in-house which will be presented to Members for approval.</p> |
| <p>LBHF and their NHS Trust partners should ensure that final budgets are confirmed by the Section 75 Partnership Boards before the start of the new Financial Year to which they relate and are included in a Revised Annual Finance Agreement in the form as described in Schedule 5 of the Section 75 agreements.</p> | <p>High</p> | <p>Partly Implemented</p> | <p>We were advised that it is not possible to have a full sign off of the budget before the start of the financial year as the WLMHT budgets are not set until April. A draft budget was discussed before the start of the financial year; however, the budget has not been included in a Revised Annual Finance Agreement as LBHF do not currently have a signed S75 agreement in place. As described above, LBHF is reviewing its partnership arrangements with WLMHT and therefore has made a strategic decision to hold off on signing the agreement until this is completed.</p> | <p>See above which sets out the proposed actions to be taken in respect of the s75 agreement which will supersede the need for the financial element of this recommendation.</p> |

2017/18 External Audit Recommendations Update

APPENDIX C

| Recommendation/Areas of Improvement | Initial response and timescale | Responsible Officer | Update to Audit, Pensions and Standards Committee |
|--|---|---|---|
| <p>NEW 2017/18: Schools year end bank account reconciliation - (Priority 3)</p> <p>To support the early close of the financial statements, schools were required to forecast their year end cash balances based on their M11 position. Whilst this was done in many cases with a great deal of accuracy, there were a number of cases where final year end estimates did not agree to actuals. The year end difference was £410k.</p> <p>Recommendation: Schools should complete a year end bank account reconciliation. This should agree to the cash balances reflected in the financial statements.</p> | <p>Agreed</p> <p>This has been discussed with the Schools Finance Team and a process will be put in place for the closure of accounts 2018/19.</p> <p>Officer: Chief Accountant/Head of Finance for Children's Services and Education</p> <p>By when: March 2019</p> | <p>Strategic Director of Finance and Governance</p> | <p>Update at November 2018:</p> <p>An accounts closing planning meeting has been scheduled in early December to ensure that this recommendation remains on track.</p> |
| <p>2016/17: Accruals identification/calculation - (Priority 2)</p> <p>During our testing of creditor accruals, we identified two accruals which had been made even though the expense had not yet been incurred by the Authority. The values in question were not material to the financial statements</p> <p>Moreover, the backing for accruals submitted by the services was not always accompanied by detailed supporting evidence of working, making obtaining audit evidence together with the internal scrutiny of the corporate finance team, challenging.</p> <p>Recommendation: Detailed guidance should be issued to the services regarding what expenditure should be accrued and the level of evidence required to support these accruals.</p> | <p>Agreed</p> <p>Existing guidance for raising accruals will be reviewed, updated as necessary and re-issued to the services. This guidance will specify the level of evidence required to support accruals. Corporate Finance will monitor compliance by the services with this guidance</p> <p>By when: December 2017</p> | <p>Strategic Director of Finance and Governance</p> | <p>July 2018: Partially Implemented</p> <p>Further analytical controls will be introduced to manage the identification and accounting of accruals. This will comprise analytical procedures such as detecting duplicates and signage checks.</p> <p>Officer: Chief Accountant, By when: March 2019</p> <p>Update at November 2018: The above checks are in development and will be deployed as part of the closure of accounts for 2018/19.</p> |
| <p>2016/17: IT Control Deficiency- Change Documentation (Priority 3)</p> <p>During our testing of changes to the IT environment, we identified that there was one instance where the relevant change request and approval minutes could not be located. The reason for this is that the change was relatively old and the contractor who processed it had left BT's employment.</p> <p>Whilst a description of the change did not indicate that the change to the IT environment was inappropriate, there is a risk that the council cannot gain comfort over the appropriateness of its change control procedure if sufficient documentation is not held.</p> <p>Recommendation: Storage of change documents related to IT change requests should be reinforced to key officers.</p> | <p>Agreed</p> <p>The shortfall in required practices will be notified to BT and supported by the issue of the appropriate contract warning notices. The Council will work with BT to increase the performance monitoring in this area, and will introduce checks and controls to confirm resolution by BT.</p> <p>By when: March 2018</p> | <p>Strategic Director of Finance and Governance</p> | <p>July 2018: Partially Implemented</p> <p>This matter has been raised with BT however it should be noted that change requests are now only being raised in exceptional circumstances in the run up to the transition to new provider.</p> <p>Update at November 2018: The Council will be exiting the BT arrangement and transferring to the new service provided by Hampshire County Council in early December 2018.</p> |
| <p>2016/17: Transactions processed by service organisation (Priority 1)</p> <p>During our test work over journal transactions, we were unable to view supporting evidence or verify segregation of duties for transactions initiated at BT.</p> <p>During other areas of our test work, including debtors and pensions, we noted several instances of transactions that were originally posted incorrectly by BT and detected/corrected by local finance staff.</p> <p>Typically, service organisations provide an assurance report on controls at the service organisation (ISAE 3402). The report would be issued by a third party and provide an assessment of the financial control environment. This was not provided (or commissioned) by BT.</p> <p>Recommendation: The Council should consider how to obtain assurance over the control environment at BT. This can be achieved through the commissioning of an ISAE 3402 as noted above or specific internal audit work undertaken at BT. The resulting report should be reviewed by management and any areas for local consideration should be actioned accordingly.</p> | <p>Original Management Response</p> <p>We will investigate and consider options as to how we can obtain increased assurance over the control environment at BT. This may include an internal review of controls, an externally certified review, or a combination of both. Management will review any findings and ensure that any areas for local consideration are actioned accordingly.</p> <p>By when: March 2017</p> | <p>Strategic Director of Finance and Governance</p> | <p>Sept 2017: Partially Implemented</p> <p>There is still no segregation of duties of transactions initiated at BT. However, Internal Audit have undertaken a series of reviews at BT Managed Services and have raised a number of recommendations to management. In order to gain more assurance also the KPMG audit team has also conducted a visit of the managed service provider to gain an understanding of the control environment at BT.</p> <p>July 2018: Partially Implemented</p> <p>Unchanged from status as at September 2017. Arrangements are now well underway to move to a new provider.</p> <p>Update at November 2018: The Council will be transferring to the new service provided by Hampshire County Council in early December 2018. Officers are currently in discussion with</p> |

| Recommendation/Areas of Improvement | Initial response and timescale | Responsible Officer | Update to Audit, Pensions and Standards Committee |
|--|--|--------------------------------|--|
| | | | the new provider regarding the provision of ISAE3402 or similar assurance. |
| <p>2016/17: Pension Fund membership data (Priority 1) Pension fund data integrity has been impacted by both the transfer of administering responsibilities from Capita to Surrey County Council (SCC), and through the introduction of a new financial ledger through the managed services program.</p> <p>We undertake a number of analytical procedures within the pension fund audit. As part of this, we need to gain assurance over the pension fund membership data through detailed sample testing.</p> <p>During our initial testing of membership data on contributions and pension benefits, we found a number of issues which required us to expand our sample in order to be able to reach an opinion on the financial statements.</p> <p>The Council is aware of the issues encountered with the handover of data from Capita to SCC both in terms of technical difficulties and completeness/accuracy of data held; and also the lack of a direct interface between BT managed services systems and SCCs pensions administration systems. Consequently, there is a comprehensive plan to ensure all membership data is complete and accurate within the next 6-12 months.</p> <p>Recommendation Once the cleansing of membership data is complete and all parties are agreed that this is the case, LBH&F should ensure that a detailed assurance exercise is undertaken. This exercise will need to be more detailed than an audit and could be externally procured or completed by Internal Audit.</p> <p>LBH&F should also ensure that it is able to routinely reconcile appropriate information between BT managed services systems and SCCs pensions administration systems. This would provide assurance throughout the year that all contributions are being collected by LBH&F and passed to the Pension Fund.</p> | <p>Original Management Response The Council will ensure that a detailed assurance exercise is put in place to tackle the historical casework backlog inherited from Capita as well as the proposals for cleansing inherited data on the pensions administration system where required. The aim will be to complete the work within a one year period starting on 1 October 2016, although it is recognised that some aspects could take longer if any complicating factors arise.</p> <p>The Council agrees that the reconciliation of pension contributions between BT Managed Services and the Pension Fund needs to be more robust and transparent. The Pensions and Treasury Service is leading on the review of the current processes and will put satisfactory arrangements in place before the end of the current financial year.</p> <p>The Council will commence a reconciliation of appropriate scheme member information between BT Managed Services and Surrey County Council before the end of the current financial year.</p> <p>Responsible Officer: Mark Grimley, Director of Corporate Services</p> <p>Due dates: Reconciliation processes will be place by: 31 March 2017 with the majority of the casework to be cleared by 30 September 2017"</p> | Director of Corporate Services | <p>Sept 2017: Ongoing The data cleanse process of information inherited from Surrey County Council is still ongoing and is expected to be completed in September 2017.</p> <p>There are still delays in receiving timely information from BT, including a delay in receiving the membership data for the year end accounts which has still not been received. Management at Surrey County Council are continuing to work with BT to develop a live interface between the Altair System used at Surrey and Agresso but the live interface is not yet fully operational.</p> <p>July 2018: Partially Implemented All high-priority casework has been resolved. A review of lower priority areas remains underway and is anticipated to be completed by December 2018.</p> <p>Update at November 2018: COMPLETED: Pension Fund administration through SCC has been subject to a service improvement plan agreed between all parties. indicators show a significant improvement, including data cleanse activity completed. Indicators are reported to the Pension Sub-Committee. An area of continued under-performance is inter-fund transfers, for which a revised plan is in place. The latest indicators are here: http://democracy.lbhf.gov.uk/documents/s103521/Pensions%20Sub%20Committee%20Administration%20Report.pdf</p> |

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| <p>London Borough of Hammersmith & Fulham</p> <p>AUDIT PENSIONS AND STANDARDS COMMITTEE</p> <p>12 December 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 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 present 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 – Doing things with residents not to them;
- ensure robust financial management – Being Ruthlessly Financially Efficient;
- protect staff and residents – Creating a compassionate council;
- protect valuable assets – Taking pride in Hammersmith and Fulham; and,
- maintain and promote the council’s reputation – Building shared prosperity.

4. PROPOSAL AND ISSUES

4.1. 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, review and escalate risks.

4.2. This report provides the Committee with an update on the Council’s 23 live corporate risks following their review by the Council’s Strategic Leadership Team in November. The full suite of Corporate Risks is listed in **Appendix 1**.

4.3. Risks are represented in the following Heat Maps, Chart 1 illustrates the previous position for Quarter 1 for 2018/2019 and Chart 2 illustrates the Quarter 2 position for 2018/2019.

OVERVIEW RISK HEAT MAPS

Chart 1:

Quarter 1 2018/2019

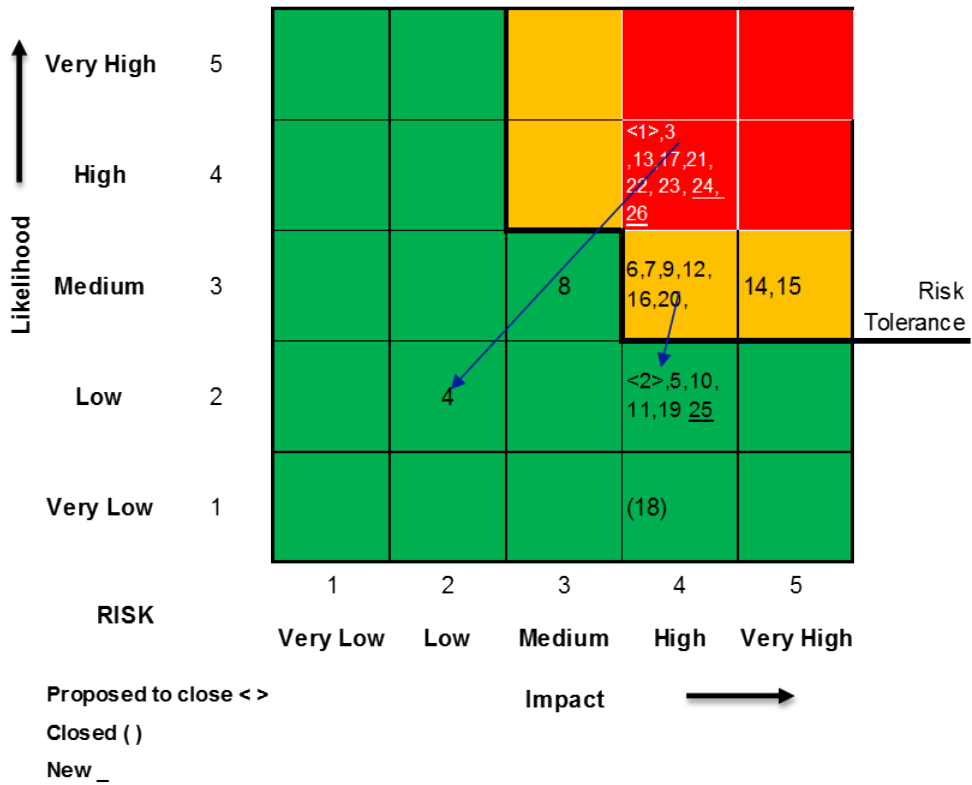
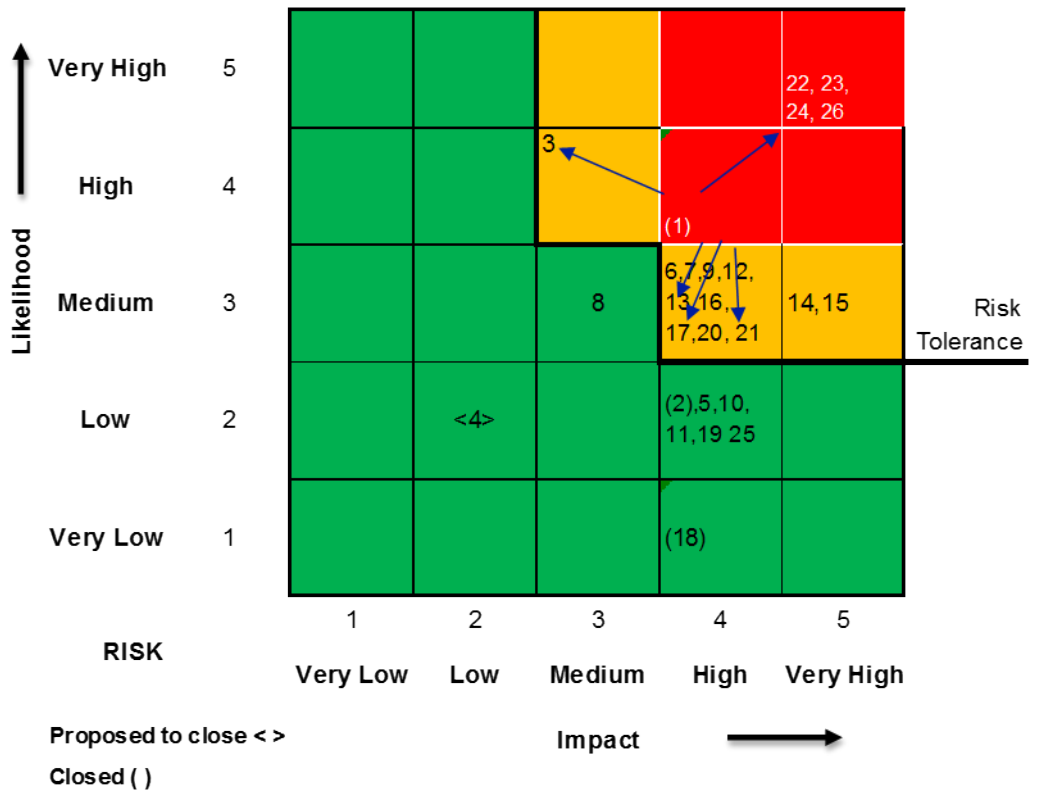


Chart 2:

Quarter 2 2018/2019



Summary

- 4.4. There are currently 23 live corporate risks, including the new 'Brexit' risk. (Risk 25). Movement from Quarter 1 to Quarter 2 is as summarised as follows:

9 High Risks present at Q1 down to 4 in Q2
9 Medium Risks present at Q1 up to 12 in Q2
7 Low Risks remain unchanged from Q1 - Q2

Risk Narrative

- 4.5. Heat Maps, (see Charts 1 and 2) show the direction of travel for all corporate risks, which are expected, over time and through the implementation of appropriate mitigating actions, to come within risk appetite (or tolerance).
- 4.6. It is also proposed to close Risk 4, Public Health funding, as this is no longer deemed a significant pressure for LBHF departments by the Lead Director.
- 4.7. All Corporate risks continue to be reviewed and in this period, were subject to more rigorous internal Officer challenge and updated where appropriate. Hence some further downward movement (trend) from Q1 to Q2. This, along with a range of management actions implemented, has resulted in an improved outlook from Q1 to Q2 for 3 Risks (Risks 13,17 and 21).
- 4.8. New mitigations are also being introduced in the next period for;
- 4.9. **Risk 3, Commercial & Procurement** where work has been undertaken to review and update the Council's Corporate Procurement Strategy, develop the Forward Plan of Procurement and hold regular cross-service Contracts and Procurement meetings to evolve Strategy. Additional activity undertaken includes, improving the content on the Council's Contracts Register, Business Resilience training for Commissioners and work to ensure that the Council's Contractors are compliant with the General Data Protection Regulations.
- 4.10. **Risk 11, Decision making and Corporate Governance** including hosting of three briefing sessions for report writers across the Council on the decision-making process that should result in further improvements to the Council's governance. Additional work is being scheduled to review the Council's procurement regulations (Contract Standing Orders) to ensure they remain fit for purpose.
- 4.11. Essentially movement continues to be in a positive (risk is reducing) direction and, as confirmed at the last Audit, Pensions and Standards Committee meeting, a risk narrative of the principal movements on risks is noted for assistance below:
- Increase in risk scores in Chart 2 (end of Q2):**
- 4.12. There is some increase to Risk which relate to Demand Led Service Pressures: Dedicated School Grant (Risk 22), High Needs Funding Pressures (Risk 23) and In-Year Financial Management (Risk 24) where further mitigations are being applied as part of the Council's Corporate Revenue Monitoring process.
- 4.13. **Risk 26:** The likelihood of a 'No-deal Brexit' Risk has increased this quarter following Brexit negotiations with the EU, publication of the Technical Notes on

Contingency Planning issued by the Government and the potential rejection of the withdrawal agreement by Parliament. The National Audit Office have warned the Government that, for example, it is too late to prepare changes to border controls needed to tackle serious, organised crime and terrorism and allow trade to pass easily. The Federation of Small Businesses have also warned lack of preparation for leaving the EU next March will be damaging and dangerous for small firms.

- 4.14. In December the Council's Service Resilience Group will meet and discuss the potential ramifications of a No-Deal and assess any potential issues that may arise in Service Delivery along with any mitigating actions.
- 4.15. **Reduced Risks** This, along with a range of management actions implemented, has resulted in an improved outlook from Q1 to Q2 for 3 Risks (Risks 13,17 and 21).
- 4.16. **Risk 13: Managed Services (Existing Human Resources and Financial Transactional Service).** The Council has joined the Hampshire Partnership for management of transactional Human Resources and Finance systems. As this new programme accelerates the residual risks of the Managed Service reduce. On decommissioning of the previous service, the Council's Strategic Leadership Team will be asked to close this risk.
- 4.17. **Risk 17: Challenges in Recruitment and retention.** Risk is decreasing with the launch of our People Strategy to cover longer-term approach to the recruitment and retention of staff, including creating attractive workplaces, smarter working 2, and developing our own. Additional actions include the use of Agency Reduction programme and improvement of the recruitment process and employee experience within the People Strategy
- 4.18. **Risk 21 – King Street Regeneration Programme.** A strategy has been developed for delivery of alternative of office facilities, with cabinet approval for commercial heads of terms approved in March 2018. A planning application was submitted in April 2018. Several Cabinet Reports have provided approvals at various stages of the project development and a business case for the scheme is nearing completion for future consideration by Members.

5. CONSULTATION

- 5.1. Consultation has taken place with the Strategic Leadership Team, Service Department Risk Representatives and Subject Matter Experts in Business Continuity, Insurances, Health and Safety, Commercial and Procurement, Internal Audit and Information Management.

6. EQUALITY IMPLICATIONS

- 6.1. There are no direct Equality implications associated with the presentation of Risk Registers to the Strategic Leadership Team and Audit, Pensions and Standards Committee.
- 6.2. Equality implications verified by Peter Smith, Head of Policy and Strategy, tel. 020 8753 2206.

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. Legal implications verified by: Rhian Davies, Assistant Director, Legal and Democratic Services, telephone 07827 663794

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.
- 8.2. Financial implications verified by: Emily Hill, Assistant Director, Corporate Finance, telephone 020 8753 3145.

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.
- 9.2. Business implications verified by: Albena Karameros, Growth and Place, telephone 07739 316 957

10. COMMERCIAL IMPLICATIONS

- 10.1. There are no direct procurement implications for business associated with the presentation of Risk Registers to the Strategic Leadership Team and Audit, Pensions and Standards Committee.
- 10.2. Commercial & Procurement will work closely with departments to stabilise the risks associated with procurement exercises. Moreover, the team will develop and monitor a Risk Register and Issue Log for each high-profile procurement exercises such as Repairs & Maintenance and Facilities Management.
- 10.3. Additional activity includes the review of the Council's Contracts Standing Orders and Contracts Register, Business Resilience training for Commissioners and work to ensure that the Council's Contractors are compliant with the General Data Protection Regulations.
- 10.4. Commercial implications verified by: Andra Ulianov, Procurement Consultant, telephone 07776672876

11. IT IMPLICATIONS

- 11.1. There are no direct implications for Information Technology associated with the presentation of Risk Registers to the Strategic Leadership Team and Audit, Pensions and Standards Committee.

12. OTHER IMPLICATION PARAGRAPHS

- 12.1. A list of Corporate Risks is required in the narrative of the Council's Statement of Accounts. Risk Management is a statutory responsibility under the Accounts and Audit Regulations 2015. A relevant authority, the Council, must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk.
- 12.2. *Implications completed by Michael Sloniowski, Risk Manager, telephone 020 8753 2587.*

13. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

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

LIST OF APPENDICES

Appendix 1 - List of Corporate Risks

Appendix 1, List of Corporate risks

| Priority | Risk | No. | Likelihood | Impact | Likelihood | Impact | Movement | Exposure | Officer |
|--|---|-----|------------|----------|------------|----------|---|----------|----------|
| | | | Q1 18/19 | Q1 18/19 | Q2 18/19 | Q2 18/19 | | | |
| Being ruthlessly financially efficient | Financial Management in year budget 2017/2018 and Medium-Term Planning. | 1 | | | | | Closed | H | HJ |
| Being ruthlessly financially efficient | Adult Social Care balanced budget pressure in 2017/2018 and over the medium term. | 2 | | | | | Closed | L | LR |
| Being ruthlessly financially efficient | Commercial Contract Management and Procurement risks, rules, outcomes social value, management. | 3 | 4 | 4 | 4 | 4 | Stable (Mitigating measures applied in Aug, more coming into effect Oct-Nov 18) but there are a significant number of procurement exercises which will be required in order to deliver both the replacement Repairs and Maintenance contractors. | H | LR |
| Being ruthlessly financially efficient | Public Health funding reduction limiting investment in other departments and priorities. | 4 | 2 | 2 | 2 | 2 | No longer deemed a significant risk, propose to close this risk. | L | LR |
| Being ruthlessly financially efficient | Business resilience risks, systems, processes, resources, IT and accommodation moves. | 5 | 2 | 4 | 2* | 4 | Stable (All Council Plans Refreshed in Aug 18) * at risk of increasing if a bad Brexit or No deal is reached in Q3 | L | SL |
| Being ruthlessly financially efficient | Information management and digital continuity, regulations, legislation and compliance. | 6 | 3 | 4 | 3 | 4 | Stable (Additional mitigations include the Contract Review and ensuring PSN compliance for EDMS Oct 18) | M | VB |
| Creating a compassionate council | Managing statutory duties, health and safety, equalities, human rights, duty of care regulations, highways etc. | 7 | 3 | 4 | 3* | 4 | Stable * at risk of increasing if a bad Brexit or No deal is reached in Q3 | M | SL |
| Creating a compassionate council | Standards and delivery of care, protection of children and adults. | 8 | 3 | 3 | 3 | 3 | Stable | L | LR/SM |
| Creating a compassionate council | Failure of partnerships and major contracts (The Link, 3BM, Shared Service, Commercial Providers, Family Support Service) | 9 | 3 | 4 | 3 | 4 | Stable (Should improve with managed ending of FM and Housing Repairs and Maintenance Contracts) | M | LR |
| Creating a compassionate council | Increase in complexity of working with Health partners. | 10 | 2 | 4 | 2 | 4 | Stable | L | LR |
| All Council Priorities | Decision making and maintaining reputation and service standards. Governance, conduct, external inspections, information management. | 11 | 3 | 4 | 3 | 4 | Stable (Mitigating measures coming into effect Oct-Nov 18) | M | HJ/RD |
| Being ruthlessly financially efficient | Failure to identify and address internal and external fraud. | 12 | 3 | 4 | 3 | 4 | Stable | M | HJ/DH |
| Being ruthlessly financially efficient | Managed Services (Existing Human Resources and Financial Transactional Service) | 13 | 4 | 4 | 3 | 4 | Improving as contract ends. | M | MG |
| Doing things with, not to residents | Compliance with the statutory duties to undertake inspection regimes covering Management of Asbestos, Electrical Testing, Fire Risk, Plant and Equipment, Water/Legionella. | 14 | 3 | 5 | 3 | 5 | Stable | M | HJ/JR/SL |
| Doing things with, not to residents | Co-ordination and response to calls on the Council for Mutual Aid in a crisis | 15 | 3 | 5 | 3 | 5 | Stable | M | SL |
| All Council Priorities | Change Readiness e.g. Smartworking, New systems. | 16 | 3 | 4 | 3 | 4 | Stable | M | MG |
| All Council Priorities | Challenges in Recruitment and retention. | 17 | 4 | 4 | 3 | 4 | Improving - People Strategy to cover longer-term approach to the recruitment and retention of staff, including creating attractive workplaces, smarter working 2, and developing our own. Agency Reduction programme and improvement of recruitment process, employee experience within the People Strategy | M | MG |
| Creating a compassionate council | Moving on Programme, talent, resource, impact, cost, transition and mobilisation. | 18 | | | | | Closed | L | LR |
| Doing things with, not to residents | Coroner's Office (The Council Acts as a Lead for Services to other Local Authorities, West London Coroner's Service). | 19 | 2 | 4 | 2 | 4 | Stable (Additional mitigating measures include a proposed upgrade of the Case Management System and Improvement Plan) | L | RD |

Appendix 1, List of Corporate risks

| | | | | | | | | | |
|--|---|----|---|---|---|---|--|---|----|
| Being ruthlessly financially efficient | Procurement of replacement HR, Payroll and Finance Services | 20 | 3 | 4 | 3 | 4 | Stable | M | MG |
| Doing things with, not to residents | King Street Regeneration Programme | 21 | 4 | 4 | 3 | 4 | Improving - Several Cabinet Reports have provided approvals at various stages of the project development- A business case for the scheme is nearing completion . A planning application for the scheme was submitted April 2018. | M | JR |
| Creating a compassionate council | Children's services placements. 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. | 22 | 4 | 4 | 5 | 4 | Increased risk assessed in Corporate Revenue Monitoring 5 report. Existing mitigation, Cabinet agreed set-aside of reserves. | H | SM |
| Creating a compassionate council | High needs budget pressure in the Direct school block. | 23 | 4 | 4 | 5 | 4 | As above (R22) Increased risk assessed in Corporate Revenue Monitoring 5 report | H | SM |
| Being ruthlessly financially efficient | Financial Management in year budget 2018/2019 and Medium-Term Planning. | 24 | 4 | 4 | 5 | 4 | Increased risk assessed in Corporate Revenue Monitoring 5 report | H | HJ |
| Being ruthlessly financially efficient | Adult Social Care balanced budget pressure in 2018/2019 and over the medium term. | 25 | 2 | 4 | 2 | 4 | Stable | L | LR |
| All Council Priorities | Impact of a 'no-deal' Brexit (Workforce, Housing, Contracts, Residents, Finances) | 26 | 4 | 4 | 5 | 4 | Increased risk as a result of the deadlock in this Government's negotiations with the EU and poor-quality contingency planning guidance from DexEU. | H | KD |