London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee

Agenda

Tuesday 23 July 2019 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 PJ Murphy	Councillor Alex Karmel Councillor Matt Thorley

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Date Issued: 15 July 2019

London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee
Agenda

Item		**Pages**
1.	**MINUTES OF THE PREVIOUS MEETINGS**	4 - 13

To approve the minutes of the previous two meetings* and note any outstanding actions.

**The first meeting of this municipal year was a short procedural meeting to approve the membership of the Pension Fund Sub-Committee.*

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.	**LONDON BOROUGH OF HAMMERSMITH AND FULHAM STATEMENT OF ACCOUNTS, INCLUDING PENSION FUND ACCOUNTS FOR 2018-19**	14 - 323

This report presents the London Borough of Hammersmith and Fulham's 2018/19 Statement of Accounts, including the Pension Fund Accounts and Annual Governance Statement for approval.

9. **DATES OF FUTURE MEETINGS**

The following meeting dates have been scheduled for 2019-20:

- 17 Sep 2019
- 9 Dec 2019
- 11 Mar 2020

Agenda Item 1

London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee

Minutes

Tuesday 12 March 2019

PRESENT

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

Guests: Andrew Smith and Sam Harding (Grant Thornton, External Auditors)

Officers:
Kim Smith (Chief Executive)
Hitesh Jolapara (Strategic Director of Finance and Governance)
Emily Hill (Assistant Director of Corporate Finance)
Steve Miley (Director for Children's Services)
Karen Sullivan (Assistant Director of Residents' Services)
Jane Sheehan (Resident Experience Manager)
David Hughes (Director for Audit, Fraud, Risk and Insurance)
Mike Sloniowski (Risk Manager)
Sarah Bright (Assistant Director of Public Services Reform)
Rhian Davies (Assistant Director of Legal and Democratic Services - and Monitoring Officer)
David McNulty (Assistant Director of Operations)
Katie Estdale (Corporate Policy and Performance Manager)
Mark Grimley (Director for Corporate Services)
David Abbott (Scrutiny Manager)

1. **MINUTES OF THE PREVIOUS MEETING**

The minutes of the previous meeting held on 12 December 2018 were agreed as a correct record and signed by the Chair.

2. **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Rebecca Harvey and Alex Karmel.

3. **DECLARATIONS OF INTEREST**

There were no declarations of interest.

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

4. EXTERNAL AUDIT PLAN 2018-19 AND AUDIT FEE LETTER

Hitesh Jolapara (Strategic Director of Finance and Governance) introduced Andrew Smith and Sam Harding from Grant Thornton, the Council's new external auditors. Andrew Smith presented Grant Thornton's External Audit Plan which provided an overview of the planned scope and timing of the statutory audits of the Council accounts and the Council's pension fund. He noted that the key risks identified for the Council were:

- Management override of controls
- Valuation of property
- Plant and equipment
- Valuation of pension fund net liability
- Implementation of the new general ledger resulting in material misstatements across the accounts

The pension fund's key risks were identified as:

- Management override of controls
- The valuation of Level 3 (hard to value) investments
- Implementation of the new general ledger resulting in material misstatements across the accounts

Andrew Smith then stated the material thresholds for the Council would be £30m or 1.8 percent of gross expenditure and the threshold for the pension fund would be £80m or 1.8 percent of the total fund value. If there was a material error over and above those thresholds Grant Thornton would qualify their opinion. Errors identified below that level would be report to management for a response.

The Chair noted that the Committee had spent a lot of time considering items related to Agresso and the move to the new IBC system. He asked what additional work was being done in this area and if it would attract additional fees. Sam Harding responded that the auditor had already looked at the closing and opening balances on the transfer from Agresso to IBC SAP and they found no issues. They were also working with IT and insurance specialists to ensure the system and data quality was up to standard. Hitesh Jolapara informed members that auditors were involved in all stages of the transfer to provide reassurance.

The Chair asked if the audit of the pension fund would be looking into some reported issues with payments to pensioners. Andrew Smith said their focus would be on the accounts and higher-level controls. The issue raised was more about the day-to-day controls and the audit wouldn't go into that level of detail. It would however be picked up in any internal audit work in that area.

Members asked for an update on the interim audit. Sam Harding said the interim audit had started in December and auditors had completed work looking at the Council's significant business processes. She noted they hadn't found any issues at this time.

RESOLVED
The Committee noted Grant Thornton's external audit plan and audit fees letter.

5. APPOINTMENT OF ADDITIONAL INDEPENDENT PERSON

Rhian Davies (Assistant Director of Legal and Democratic Services - and Monitoring Officer) presented the report requesting that the Council undertake a recruitment exercise to appoint an additional Independent Person. She noted that the Committee on Standards in Public Life's report on local government ethical standards, published on 21 January 2019, recommended at least two Independent Persons and she recommended the Council followed this best practice. She also noted the current Independent Person had been in place since 2012 and the report recommended a maximum of two terms of two years - so pending a successful recruitment the Council would take this opportunity to follow best practice.

She advised that it would be at least two years before legislation catches up to the report but in the meantime the Council should move towards best practice where possible. She would bring back options to a future meeting.

Rhian Davies highlighted the following key recommendations from the report:

- A return to Standards Committees
- Councillors can be suspended for 6 months
- If a Councillor is suspended they would have the right to appeal to an ombudsman
- Councils should have a model code of conduct
- On declarations of interest - pecuniary and non-pecuniary interests would be changed back to the previous system of personal and prejudicial interests

The Chair asked if the new Standards Committee would be a standalone Committee. Rhian Davies said it would be - a separate committee would allow members to consider standards issues in more detail.

Councillor Jonathan Caleb-Landy asked how consideration of standards in H&F compared with other authorities. Rhian Davies said practice varied considerably between different local authorities. H&F was already meeting many of the best practices outlined in the report though.

Rhian Davies noted that the report also covered member complaints and that she would be informing the committee of such complaints once a year. In each of the cases in the report she contacted the Independent Person and took their view on whether to progress. It was determined that none of the three complaints merited a full investigation.

RESOLVED

1. The Committee noted the outcome of the complaints received.
2. The Committee approved the recruitment of an additional Independent Person.

6. RISK MANAGEMENT HIGHLIGHT REPORT

David Hughes (Director for Audit, Fraud, Risk and Insurance) and Mike Sloniowski (Risk Manager) presented the report that provided members of the Committee with an update on risk management within the Council - and presented the Corporate Risk Register for consideration.

Mike Sloniowski noted the following key risks:

- **Risk 3: Commercial & Procurement** - Work was concluding on a review and update to the Council's Corporate Procurement Strategy, the Forward Plan of Procurement and cross-service contracts and commercial training. Improvements had been embedded in departments to ensure they were more effective and efficient in this area.
- **Risk 27: Digital Accessibility** - The EU Web Accessibility Directive meant there would have to be a radical overhaul of the structure and content of public bodies websites and mobile apps to transform the way 13 million disabled people in Britain access the Internet.
- **Risk 6: Information Management, legislation and compliance** - A joint programme being trialled in Children's Services to improve information management. The disentanglement of shared services exposed issues with the management reporting system and the Business Intelligence Unit were looking at how to resolve this. Steve Miley noted that since coming out of shared services Children's Service hadn't received a single monthly management information report.

Mike Sloniowski noted that officers were also considering how the Council was prepared for a range of Brexit scenarios. They had spent a lot of time understanding the supply chain risk, staffing risks, impact on residents etc. In recent weeks there had been daily meetings with the business continuity team to keep updated on these issues. There was also a service group chaired by the Chief Executive and there were additional assurances through the London Resilience Forum that the Council was closely involved with.

Councillor Jonathan Caleb-Landy asked if the digital accessibility work meant the Council would be re-investing in the website or updating what was already in place. Mike Sloniowski said the work was more about future-proofing the design of web content - embedding accessibility by design.

Councillor Caleb-Landy noted that some residents struggled to find information on the website. He suggested involving community groups and groups like the Disabled People's Commission in the development of the new content. Kim smith informed the Committee that the Council had just appointed a senior co-production post, one of the key recommendations from the Disabled People's Commission, and they would be starting work at the end of the month. She said she would pass this work over to them to take it forward.

The Chair asked for officers to update the Committee on risk 22 - Children's Services placements - and the risks associated with knife crime, particularly given the recent fatal stabbing of a young person in the borough. Steve Miley said that, as with other London Boroughs, H&F was seeing a rise in demand from adolescents at risk due to knife crime, child sexual exploitation and children being used for drug trafficking (County lines). Last Thursday a 17-year-old was stabbed and died and this weekend a 15-year-old was charged with his murder. He noted that officers had recently attended a Community Safety Partnership meeting and a Youth Crime Partnership meeting to discuss how all public agencies could work together on these problems.

The Chair asked if the Council had the necessary resources to properly deal with these issues. Steve Miley felt the Council had adequate resources but needed to use them in more effective ways. Different resources were needed at different points in a young person's life. For those displaying extreme behaviours like supplying drugs they would need a period of intensive intervention to move that person to a more positive pathway. The Council needed to identify individuals as early as possible and put the right support in place. Officers were currently looking at how they could support inclusion and move resources up-stream.

RESOLVED
That the Committee noted the report and reviewed the Corporate Risk Register.

7. INTERNAL AUDIT QUARTERLY UPDATE

David Hughes (Director for Audit, Fraud, Risk and Insurance) presented the report that summarised internal audit activity undertaken during the period 1 November 2018 to 1 February 2019. He noted that there had been seven further audits since the last meeting with 21 recommendations followed-up on and implemented. There had also been two full follow-up reviews (the limited assurance reports on the agenda) and of them, all high and medium recommendations had been implemented. David Hughes noted that the improved assurances provided in the report reflected the positive impact of the increased focus on assurance and risk management, led by the Chief Executive.

8. LIMITED ASSURANCE REPORT - LBHF JOINT VENTURES LTD

Sarah Bright (Assistant Director of Public Services Reform) and Rhian Davies (Assistant Director of Legal and Democratic Services) presented the limited assurance report.

David Hughes (Director for Audit, Fraud, Risk and Insurance) informed the Committee that LBHF Joint Ventures Ltd was an ethical debt joint venture set up in partnership with the company Intrum. The venture was slow to start, and governance was not as developed as it should have been in the early stages, but officers had since been working with Legal Services to develop more robust governance for this and any other joint ventures.

Sarah Bright added that the Public Services Reform department was involved in the early stages and have taken the project forward. They welcomed the recommendations from audit, though when the department picked the project up officers were aware of performance issues and rather than wait for the recommendations they had been actively working to address the issues identified in the report. Now the joint venture was in a much more positive situation. Two board meetings had been agreed with Intrum and new Directors had been appointed. There was also positive interest in the joint venture's products - three Council's had confirmed signed access agreements for pilots and three more were in the pipeline.

The Chair asked if all the products were related to ethical debt. Sarah Bright said there was a range of products, but they were all based on the same principles of ethical debt recovery.

David Hughes noted that this had been actively tracked by the senior leadership team and they were confident that it was moving in the right direction. Positive work had been completed on future governance structures to ensure the Council was properly discharging its shareholder duties.

Councillor Asif Siddique asked if officers could give an estimate of the near-term investment in the venture. Sarah Bright said officers have been working on investment costs, but they needed to complete pilot the work to fully understand the implications. Ultimately those decisions would be made by the Commercial Revenue Board.

9. LIMITED ASSURANCE REPORT - MEMBERS & MP ENQUIRIES, FREEDOM OF INFORMATION, SUBJECT ACCESS REQUESTS AND COMPLAINTS

Karen Sullivan (Assistant Director of Residents' Services), Mark Grimley (Director for Corporate Services), and Jane Sheehan (Resident Experience Manager) presented the report.

David Hughes noted that there had been a positive response to the audit and a clear action plan had been put in place. It had also been actively tracked and managed by the senior leadership team.

Karen Sullivan informed the Committee that in the 6 months since the audit all of the medium and high recommendations had been implemented. There was new management delivering the service now and performance had improved substantially. The Council's senior leadership team had also commissioned a wider piece of work looking at the overall operating model. There were pockets of best practice with regards to complaints in Social Care and Children's Services. The service was creating a 'residents commitment' that would be launching soon.

The Chair noted that a large proportion of enquiries from Councillors and MPs were related to housing and, given that the Council was changing the repairs service soon, how were these complaints going to be managed going forward? He had concerns about the complications created by the move - i.e. cases could be lost in the transition. Karen Sullivan said the complaints team had been deeply involved in this project - they had fed into training for H&F Maintenance staff, so they were clear on the processes and there was a dedicated team for complaints and service improvement.

The Chair asked if officers had done an analysis of which departments had the most overdue complaints. Karen Sullivan noted the last graph in the report showed some of this information - there had been a large increase from Housing which coincided with Mitie (the current housing repairs provider) informing the Council of a resource gap. Adult Social Care and Children's Services also had complaints that could be very complex and take time to respond to and resolve. There was a backlog of subject access requests and this included a number of Children's Services requests.

Due to the nature of Children's Services work these requests could cover a child's lifetime and involve a wide range of different contacts and services.

Councillor Jonathan Caleb-Landy noted that he had seen an improvement in response times in recent months and wanted to thank officers for that. He then went on to say that every resident waiting for a response was extremely important. He asked what the target was for responses and what good looked like in this area.

Karen Sullivan said the target for a member enquiry was a response within 3 working days. Previously this had been achieved 61 percent of the time but in recent months it had improved to 73 percent. The aim was to get this to 95 percent, but it would take time to achieve that.

Councillor Asif Siddique asked how enquiries were prioritised if they were very urgent. He also asked that officers ensured that responses had the same subject line as the request, so members could easily match responses. Karen Sullivan said officers would prioritise urgent enquiries. Kim Smith added that there were emergency duty numbers available for urgent issues and asked that they were recirculated to members. Karen Sullivan informed members that she would be writing a brief to all departments to ensure responses were consistent and included the correct subject line etc.

Councillor Jonathan Caleb-Landy asked how the statistics in the report were used. For example, were they used to show which services were under pressure and needed additional support? Karen Sullivan said officers had recently circulated the members enquiries report, including trends and statistics to highlight issues for services. The Council was increasing its use of business intelligence to use data to help services iterate and continually improve. Directors now also got copies of all stage 2 responses to sign off which should flag recurring issues for them.

Councillor Asif Siddique said it would be helpful for the members portal to have threads of requests and responses. The current system separated responses and items were archived early making them hard to find. Karen Sullivan said officers recognised the current system, iCasework, had limited functionality so they were working with members on user stories to ensure members have what they need. The Council was currently implementing a new online system that included a case management system that would be better for residents and members.

Councillor Matt Thorley noted that a number of members enquires were residents asking for information on what was going on in the local area. He asked if officers had assessed what type of enquiries were coming in to see if there were better ways to promote the things people were asking about. Karen Sullivan admitted that the approach had been more reactive, and officers hadn't done that analysis yet. They had started to do this for Freedom of Information requests though. Karen said she would take that away that as action and feedback to members.

Kim Smith addressed the Committee and said Jane Sheehan and Karen Sullivan should be commended for their excellent work improving the complaints and response times. They inherited a significant backlog that took a major effort to turn that around.

10. INTERNAL AUDIT PLAN 2019-20

David Hughes (Director for Audit, Fraud, Risk and Insurance) presented the Internal Audit Plan for 2019-20. The plan had been reviewed to ensure that the Council's audit work addressed key risks during a period of change and general financial constraints. The plan would include sufficient audit coverage to enable officers to provide an overall opinion on the Council's control framework and is sufficiently flexible to allow for additional reviews to be added in areas where support and/or advice might be required.

Members said they supported the Internal Audit Plan for 2019-20.

RESOLVED
That the Committee reviewed and supported the proposed internal audit plan for 2019/20 as set out in Appendix 1 of the report.

Meeting started: 7.00 pm
Meeting ended: 8.25 pm

Chair ....

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

London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee
(Procedural Meeting)

Minutes

Tuesday 9 July 2019

PRESENT

Committee members: Councillors Iain Cassidy (Chair), PJ Murphy and Matt Thorley

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Rebecca Harvey, Jonathan Caleb-Landy and Alex Karmel.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MEMBERSHIP OF THE PENSION FUND SUB-COMMITTEE 2019-20

RESOLVED

The Committee agreed the following membership of the Pension Fund Sub-Committee for the 2019-20 Municipal Year:

- Councillor Iain Cassidy
- Councillor Rebecca Harvey
- Councillor PJ Murphy
- Councillor Matt Thorley
- Michael Adam (co-opted non-voting member)

4. DATES OF FUTURE MEETINGS

The following dates of future meeting were noted:

- 23 July 2019
- 17 September 2019
- 9 December 2019
- 11 March 2020

Meeting started: 7.00 pm
Meeting ended: 7.05 pm

Chair ....

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

Agenda Item 4

London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 23 July 2019	
LONDON BOROUGH OF HAMMERSMITH AND FULHAM STATEMENT OF ACCOUNTS, INCLUDING PENSION FUND ACCOUNTS FOR 2018/19	
Report of the Strategic Director of Finance and Governance	
Open Report	
Classification - For Information **Key Decision: No**	
Wards Affected: All	
Accountable Director: Hitesh Jolapara, Strategic Director of Finance and Governance	
Report Authors: Emily Hill, Assistant Director, Corporate Finance Christopher Harris, Chief Accountant	**Contact Details:** emily.hill@lbhf.gov.uk christopher.harris@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report presents the London Borough of Hammersmith and Fulham's 2018/19 Statement of Accounts, including the Pension Fund Accounts and Annual Governance Statement for approval.

2. RECOMMENDATIONS

2.1. To note the content of the external auditor's 'Audit Findings Report' (ISA260), including the auditor's findings, recommendations and the Council's response to those recommendations (Appendix 2).

2.2. To approve the 2018/19 Annual Governance Statement which is included in the Statement of Accounts (Appendix 1).

2.3. To approve the 2018/19 management representation letter (Appendix 3)

2.4. To approve the Statement of Accounts for 2018/19, including the Pension Fund Accounts (Appendix 1).

2.5. To approve the Pension Fund Annual Report 2018/19 (Appendix 4).

2.6. To note that the accounts remain ‘unaudited’ until final sign-off by the external auditor and to delegate to the Chair of the Audit, Pensions and Standard’s Committee, in consultation with the Strategic Director, Finance and Governance, the authority to approve any further adjustments required as part of the completion of audit work.

3. REASONS FOR DECISION

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

4. INTRODUCTION AND BACKGROUND

Statement of Accounts 2018/19

4.1 The 2018/19 Statement of Accounts, for approval by the Audit, Pensions and Standards Committee, is attached at Appendix 1.

4.2 The Narrative Statement at the beginning of the Statement of Accounts gives an outline of the Council’s financial activity during 2018/19.

4.3 The production and audit of the 2018/19 Statement of Accounts has been undertaken in the context of a number of challenges, in particular the change of financial system in-year, requiring closure of accounts on two systems, and the continuation of earlier closing and audit deadlines. In addition, 2018/19 is the first year of the new Public Sector Audit Appointments (PSAA) arrangements under which the Council has a new external auditor, Grant Thornton UK LLP (GT).

4.4 It should be noted that the accounts remain ‘unaudited’ until the audit opinion is formally signed and dated by GT and the audit remains open until final certification. The accounts are therefore subject to change until that point. In the event of any changes, it is requested that these be approved by the Chair of the Committee, in consultation with the Strategic Director Finance and Governance; any significant changes will be notified to Committee.

Report to those Charged with Governance (ISA260)

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

4.6 This report is attached (at Appendix 2) and will also be presented to the Committee by the auditor.

4.7 The auditor also asks the Committee and management for written representations about the financial statements and governance arrangements. To that end Members are asked to consider and approve the draft letter of representation (Appendix 3).

Pension Fund

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

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

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

5 PROPOSAL AND ISSUES

5.4 Not applicable.

6 OPTIONS AND ANALYSIS OF OPTIONS

6.4 Not applicable.

7 CONSULTATION

7.4 Not applicable.

8 EQUALITY IMPLICATIONS

8.4 Not applicable.

9 LEGAL IMPLICATIONS

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

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

10 FINANCIAL AND RESOURCES IMPLICATIONS

10.4 Not applicable.

11 RISK MANAGEMENT

11.4 Not applicable

12 PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.4 Not applicable.

13 IMPLICATIONS FOR BUSINESS

13.4 Not applicable.

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

None.

LIST OF APPENDICES

Appendix 1 – London Borough of Hammersmith and Fulham Annual Statement of Accounts 2018/19 (including Pension Fund)

Appendix 2 – Grant Thornton Audit Findings Report (ISA260) (Main Financial Statements and LBHF Pension Fund)

Appendix 3 – Draft Letter of Representation 2018/19

Appendix 4 – Pension Fund Annual Report 2018/19

STATEMENT OF ACCOUNTS

(Draft subject to final audit opinion and certification)

2018/19

Hammersmith & Fulham Council

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CONTENTS

The Strategic Director, Finance and Governance’s Narrative Report, the Council's Statement of Accounts for the Year Ended 31 March 2019 and the Council's Annual Governance Statement are set out on the following pages.

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

Audit certificate to follow with final version of the 2018/19 accounts.

CERTIFICATION BY CHAIR OF THE AUDIT PENSIONS AND STANDARDS COMMITTEE

I confirm that these accounts were approved by the Audit, Pensions and Standards Committee on 23 July 2019

Councillor Iain Cassidy
23 July 2019

THE STRATEGIC DIRECTOR, FINANCE AND GOVERNANCE'S NARRATIVE REPORT

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

Hammersmith & Fulham is a dynamic, diverse and exciting place to live and work. Sitting alongside four and a half miles of the River Thames and nestled between one of the world's busiest airports, the City of London and London's West End, the Borough is aiming to be the best place for business in Europe, as well as a thriving hub for the arts, culture, sports and leisure. We are one of London's leading councils and our aim is to be the best.

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

At the beginning of the year we budgeted to balance the books by delivering savings and efficiencies of £15.2m. Throughout a decade of austerity and reductions in government funding of £73m from 2010 to 2019 the Council has continued to successfully deliver savings. The Council recorded an overspend of £1.55m (0.3% of the gross General Fund Budget), the first overspend since the beginning of austerity. The overspend reflects increasing demand and other financial pressures facing the Council including, most significantly, demand for children's services. The Council's 2019/20 budget has recognised the significant budget pressures facing Hammersmith & Fulham and the Council moves into 2019/20 with a balanced budget and planning is now well underway for 2020/21 and beyond.

The Council has a strong balance sheet and a healthy level of one-off reserves, however the financial outlook remains challenging. To meet this challenge Hammersmith & Fulham has recently adopted the 'Ruthlessly Financially Efficient' agenda to drive further savings and financial efficiencies and strengthen financial control. Going forward the Council is investing its reserves as it takes forward its ambitious plans for regeneration and increasing affordable housing in the borough such as the West King Street Renewal scheme and other initiatives. The Council has also set aside a reserve of £13.6m to cover a shortfall in government education funding for pupils with high needs.

Our Vision, Priorities and Performance

In Hammersmith & Fulham we do things differently, challenging old-fashioned thinking. We're radically reforming the Council to modernise the way services are run and to put money back in residents' pockets.

Ruthless financial efficiency allows us to reduce the burden on residents by keeping council tax and charges for services low.

Our philosophy is to enhance civic life by empowering residents to change their own neighbourhoods for the better. That includes giving residents a leading role in developing policy in public, with the public. We believe that, if we do this, residents themselves can often change things for the better, and do it faster than anyone else.

We want to be a Council that acts with compassion so the most vulnerable among us are looked after.

H&F is a connected community that's on the up. There's opportunity here, but the prosperity must be shared by everyone, not just the few. We'll always challenge the unfairness that threatens to leave people behind.

We're ambitious for the borough. We know we'll succeed if we bring people together and work with them to ensure we tackle what holds us back.

The Council has also set out the following key priorities:

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

Our vision and priorities are explored in more detail here:
https://www.lbhf.gov.uk/sites/default/files/section_attachments/260_59_hf_vision_a4_booklet_rev8.pdf

An overview of the Council's priorities and performance is available in the Council's 2018-22 business plan here:
https://www.lbhf.gov.uk/sites/default/files/section_attachments/lbhf-business-plan-2018-22.pdf

Organisational overview and external environment

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

- Education
- Adult social care
- Children's services and social care
- Housing and regeneration
- Transport
- Planning and building control
- Libraries
- Waste management and recycling
- Trading standards
- Environmental health
- Council tax and business rates collection
- Housing Benefit administration.

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

Detailed strategies and plans for many of these areas are available here:
https://www.lbhf.gov.uk/councillors-and-democracy/about-hammersmith-fulham-council/strategies-and-plans

Governance

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

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

www.lbhf.gov.uk/constitution

Organisational model

A list of our main service areas and directors – who together comprised the Strategic Leadership Team (SLT) - as at the end of the 2018/19 financial year was as follows:

Chief executive	**Kim Smith**	kim.smith@lbhf.gov.uk
Strategic director, finance and governance	**Hitesh Jolapara**	hitesh.jolapara@lbhf.gov.uk
Director of corporate services	**Mark Grimley**	mark.grimley@lbhf.gov.uk
Strategic director of growth and place*	**Jo Rowlands**	jo.rowlands@lbhf.gov.uk
Strategic director of social care and public services reform	**Lisa Redfern**	lisa.redfern@lbhf.gov.uk
Director of children's services	**Steve Miley**	steve.miley@lbhf.gov.uk
Director of resident's services**	**Sharon Lea**	sharon.lea@lbhf.gov.uk

*Now the Strategic director of the Economy department
**Now Director of the Environment department

Up to date information concerning the SLT is available here:
https://www.lbhf.gov.uk/councillors-and-democracy/about-hammersmith-fulham-council/our-services

People

The Council employs 1,899 people in full time and part-time contracts (excluding schools). The Council's workforce generally reflects the diversity of residents across the Borough. Below is a detailed breakdown of the Council's employees by gender, age, disability and ethnicity.

Gender	
Female	56.3%
Male	43.7%

Ethnicity	Percentage
Black, Asian or Ethnic Minority (BAME)	34.3%
Non-BAME	41.9%
Unknown / Prefer not to say	23.8%

Age	
24 and under	2.2%
25-29	6.6%
30-34	9.2%
35-39	12.2%
40-44	10.8%
45-49	11.9%
50-54	18.0%
55-59	17.7%
60-64	8.6%
65 and over	2.8%

Disability	
Diasbled	5.6%
No disability reported	94.4%

The Council, like other large employers, publishes its gender pay gap information. Hammersmith & Fulham has reported that the median (or typical) male employee earns 3.7 per cent more than the median female employee across the whole organisation (compared with 3.8% in 2017). The average mean difference is 5.2 per cent (compared with 6.1 per cent in 2017). We want to be the best, and that means not settling for just good enough. We will work hard to improve the parity of pay and progression across every aspect of our work.

To see our gender pay results and those of other organisations you can visit:
https://gender-pay-gap.service.gov.uk/

Risks and opportunities

The Council maintains a comprehensive risk register which is regularly reviewed by the Audit, Pensions and Standards Committee. This register is published as part of the relevant committee papers which can be accessed here:
http://democracy.lbhf.gov.uk/mgCommitteeDetails.aspx?ID=338

The Council's key risks are summarised below:

The Council's highest-level risks	Impact	Mitigation
Continued reductions imposed by national government in local government funding, restricts revenue spending.	Impacts on the Council's ability to run full services and may mean that some services are changed or reduced.	Enhanced Assurance and Risk Monitoring across the Council. A robust Medium-Term Financial Strategy (MTFS) process. Being ruthlessly financially efficient has been adopted as a core priority. Creating a leaner and more responsive management structure. Remodelling public services to ensure they genuinely satisfy residents' needs.
Safeguarding, protecting people from harm.	Potential harm to those most vulnerable in society.	Creating a compassionate Council through policies, training and management controls; lessons learnt reviews, quality assurance; enhanced checks. Regular meetings of the Council's Statutory Officers Accountability Board and maintaining professional standards and safeguarding teams.

The Council's highest-level risks	Impact	Mitigation
Ongoing threat of terrorism and cyber threats.	Threat to our residents, visitors, service users and business community.	Emergency planning and business continuity Planning. Training, guidance, plans, new extranet development outreaching to our local community. Lessons learned and other reviews. Service Resilience Group and supply chain resilience.
Ongoing uncertainty regarding exiting the European Union, Brexit.	Impacts on the Supply Chain, Inflation and demands on existing Council Services following an exit eg. Workforce, Housing, Contracts, Residents, Finances.	Regular reviews of the position, briefings, dialogue with HM Government (Department for exiting the EU) and London Resilience, Brexit preparedness, contingency planning.
Commercial Contract Management and Procurement.	Impact on our Services to our Residents, Visitors and Businesses and the local Environment.	Council core priorities include achieving the best service for our residents from council staff and contractors. Our priority will always be to deliver first class public services for all. We will do this through development of more rigorous corporate contract management guidance, an improved learning and development programme, regular reviews of contracts and their performance.

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

The strategy also includes:

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

The 2018-2022 Business Plan sets out clear priorities around delivering 1,500 new affordable homes, including 500 for affordable home ownership and to review all sites including smaller areas to use every available piece of land for housing. The Council also has London Plan commitments to deliver new housing. To support these policies the Council has been preparing an assets and growth strategy, with the objectives of:

- Increasing the supply of affordable housing in line with the administration's priorities
- Using capital resource to increase the Council's income in line with the long term financial strategy
- Utilising assets to help manage demand and avoid costs, for instance from specialist housing or temporary accommodation.

This will be developed in 2019/20 with a clear commitment from the Council to work closely with its residents to shape the scope and plans for any development.

Fire Safety Reviews

Following the tragic events at Grenfell Tower in 2017, the Council continues to review fire safety across the borough. In July 2017 the Council launched its Fire Safety Plus programme. The programme is detailed in full here: https://www.lbhf.gov.uk/housing/hf-fire-safety-plus. Additional investment of £20m has been committed in this area and this is reflected in the Council's spend to date and spending plans moving forwards. Specifically, within the accounts presented here, an Earmarked Reserve of £12.0m exists to support this programme.

On 3 December 2018 the Cabinet approved the Council's Compliance and Asset Management Strategy which sets out the Council's approach to investing its capital resources in delivering a compliance-based asset management approach across all council housing. The Asset Management Strategy sets out how the Council will adopt a planned approach over the medium term to address the issues identified through a range of surveys including fire risk assessments, asbestos surveys and stock condition and structural surveys. The Council’s number one priority is the safety and welfare of all residents.

The Environment

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

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

- Following the successful switching of streetlights to LED we’ve pledged to do the same across housing estates and grounds in the Borough
- We’ve increased the number of electric vehicle charging point in the Borough, approaching 1,000 points by the end of 2018/19
- We’re planting new trees - completing schemes in Hammersmith and Shepherd’s Bush and have invited residents to nominate more areas
- We are using new powers to fine motorists who pollute the borough by leaving their engines running as part of an experimental traffic order
- We’re working closely with Transport for London (TfL) to make the Borough more attractive to pedestrians and cyclists.

<u>Finance Strategy, Performance and Outlook</u>

Strategy and resource allocation

Local government finances continue to be dominated by the austerity agenda. From 2010/11 to 2018/19 the Council’s government funding to Hammersmith & Fulham was cut by £73m and further cuts will continue until at least 2020/21. Despite this pressure the Council remains well positioned in a demanding environment.

The Council has embedded the **Medium Term Financial Strategy (MTFS)** within its business planning framework. The MTFS has been the vehicle for allocating resources to the Council's priorities, driving through efficiency savings and monitoring their delivery. It provides the Council with a forum for challenging budget and service proposals, identifying and developing savings and efficiencies and dealing with significant financial risks, in particular the continued reduction of Government funding. The Council's funding reduction from government in 2018/19 was £5.9m.

Annually, the Council sets the **revenue budget** – this sets out the Council’s spending plans on day-to-day expenditure which includes everything from staff salaries, building maintenance and the costs of refuse vehicles. It is a legal requirement of the Council to set a balanced budget i.e. expenditure cannot be more than the Council's income. In brief, the 2018/19 budgets included:

- A Council Tax freeze including not levying a 3% adult social care precept as suggested by Central Government - this meant that H&F residents paid council tax at 6% below the level modelled (3% social care precept and 3% for council tax) by the Government in 2018/19
- Growth of £6.5m provided to meet statutory obligations, demographic, service pressures and key resident priorities
- Savings of £15.2 million off-setting cost pressures and grant losses.

This produced a net revenue budget requirement of £138.9 million funded from Council Tax, the local share of business rates and Revenue Support Grant from government within a gross budget of £560 million.

The Council's 2018/19 Budget Strategy recognised the challenge in delivering the scale of budget reductions and recommended that the range for the optimal level of general balances be maintained at £14m - £20m. The actual general balances carried forward at the close of 2018/19 are £19m.

The Council also approves the **capital programme** which captures the spending to purchase or improve the Council’s long-term assets (such as buildings and vehicles). The 2018-22 capital programme included:

- A Housing programme in excess of £200m
- The continuation of the School’s Organisation Strategy (within Children’s Services)
- The continuation of the Council’s rolling programmes for Disabled Facilities Grants, Planned Building Maintenance, Footways and Carriageways and Parks.

Financial Performance

The revenue outturn for 2018/19 shows a year end overspend of £1.55m which has been funded by a drawdown against reserves. The overspend reflects the increasing financial pressures the Council faces including most significantly increased demand for children's services. At the end of the year, the General Fund balance stands at £19m and earmarked reserves at £62.5 million.

The draft 2018/19 Statement of Accounts sets out the Council's spending and funding in line with accounting requirements. The position below explains the same information in the form of the Council's management accounts. The Council's financial position (for example, total usable reserves and final working balance) is the same in both formats. The summary General Fund outturn position is as set out below:

Department	Budget	Actual	Over/ (Under) Spend
	£m	£m	m
Children's Services	53.370	56.679	3.309
Corporate Services	1.260	1.235	(0.025)
Finance and Governance	14.886	13.751	(1.135)
Growth and Place	14.298	13.154	(1.144)
Public Service Reform	2.873	9.915	7.042
Residents' Services	67.615	69.142	1.527
Controlled Parking Account	(23.037)	(25.437)	(2.400)
Adult Social Care	53.764	53.765	0.001
Centrally Managed Budgets (including unallocated contingency)	33.114	27.492	(5.622)
Gross Operating Expenditure	**218.143**	**219.696**	**1.553**
Technical and Financial Accounting Adjustments	(31.952)	(31.952)	-
Capital Grants	(8.274)	(8.274)	-
Non-Ring-fenced Revenue Grants	(15.074)	(15.074)	-
Net Contribution to Earmarked Reserves	(19.418)	(19.418)	-
Total Net Expenditure	**143.425**	**144.978**	**1.533**

Funded by:			
Localised Business Rates	84.909	84.909	-
Council tax	58.516	58.516	-
Total Funding	**143.425**	**143.425**	**-**
Final Position	-	1.553	1.553

Dedicated schools grant (DSG) is paid in support of local authority schools' budgets, being the main source of income for the schools. In common with other London Boroughs, the High Needs Block element has come under increased pressure in supporting children with special educational needs and spend is significantly higher than the funding provided by central government. This has led to a cumulative overspend on the Dedicated Schools Grant of £7 million at 31 March 2018. A 2018/19 DSG overspend of £6.6 million has increased the cumulative deficit to £13.6 million. The Education and Schools Funding Agency now expect local authorities to prepare deficit recovery plans however given the scale of the challenge, the Council has set aside an earmarked reserve equivalent in value to the DSG deficit in 2018/19 as set out below.

Dedicated Schools Grant deficit (Incl. Higher Needs Block) memorandum	***Actual £m***
Prior-year deficit transferred to reserves	*7.000*
In-year deficit transferred to reserves	*6.600*
Contribution to DSG funding reserve	*(13.600)*

The Statement of Accounts also includes the ring-fenced Housing Revenue Account for the provision of social housing. The closing balance on the Housing Revenue Account was £11.890m with associated Earmarked Reserves of £41.836m. Full details are set out in the HRA Statement of Accounts.

The Council's **Balance Sheet** as at 31 March 2019 is summarised below. The overall balance sheet position is substantially stable.

LBHF Summary Balance Sheet	**31-Mar-19 £m**	**31-Mar-18 £m**
Long Term Assets	1,833	1,882
Current Assets	399	377
Current Liabilities	(253)	(190)
Net Pension Liabilities	(631)	(649)
Other Long-Term Liabilities	(234)	(247)
Net Assets	**1,114**	**1,173**
Represented by:		
Usable Reserves	(212)	(250)
Unusable reserves	(902)	(923)
Total Reserves	**(1,114)**	**(1,173)**

The breakdown of the usable reserves is set out below:

LBHF Summary Usable Reserves	**31-Mar-19 £m**	**31-Mar-18 £m**
General Fund Balance	(19)	(19)
General Fund Earmarked Reserves	(63)	(95)
HRA Balance and Earmarked Reserves	(54)	(52)
Schools Reserves	(10)	(11)
Capital Reserves (Receipts and Grants)	(66)	(73)
Total	**(212)**	**(250)**

Capital

In 2018/19, the actual capital expenditure (outturn) totalled £55.7m million. The table below summarises capital expenditure by service area:

Department	**2018/19 £m**	**2017/18 £m**
Adult Social Care	0.215	0.393
Children's Services	2.140	17.409
Residents' Services	11.335	10.704
Finance and Corporate Services	4.003	5.790
Growth and Place - General Fund schemes under Growth and Place management	17.856	1.344
Growth and Place - Housing Revenue Account Programme	12.210	23.766
Growth and Place – Decent Neighbourhoods Programme	7.927	14.148
Total	**55.686**	**73.556**

The 2018/19 capital programme was financed as follows:

Capital Financing	2018/19 £m	2017/18 £m
Capital receipts	5.701	22.345
Increase in Capital Finance Requirement (CFR)	25.712	6.550
Capital Grants and Contributions	14.324	26.644
Major Repairs Reserve (MRR)	8.172	16.261
Council and School reserves	1.777	1.703
Housing Revenue Account	-	0.37
General Fund Revenue Account	-	0.15
Total	**55.686**	**73.556**

During the year the Council used £2m of capital receipts under the 'flexible use of capital receipts' scheme to fund 'invest to save' initiatives. This has enabled the protection revenue reserves to invest in future priorities.

Financial Outlook

Government funding is forecast to reduce further. Funding has reduced by £5.9m in 2018/19 and a further £2.9m cut in 2019/20. A number of major government reviews are anticipated in 2019. The Spending Review will consider the overall level of funding available to local government from central government, the Fair Funding Review will look at how that total funding is then distributed between local authorities.

The 2019/20 revenue budget was approved in February 2019 and included the following:

- Growth of £10.8m has been provided to meet statutory obligations, demographic, service pressures and key resident priorities
- Savings of £10.3 million off-setting cost pressures and grant losses.

Overall this produced a net revenue budget requirement of £136.7 million funded from Council Tax, the local share of business rates and Revenue Support Grant from government.

The 2019-23 capital programme, also approved in February 2019, includes:

- a Housing programme of £220m
- the progression of major schemes including the West King Street Renewal Scheme
- the continuation of the Schools' Organisation Strategy (within Children's Services) and Schools' Maintenance Programme
- the continuation of the Council's rolling programmes for planned building maintenance and footways and carriageways.

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

Structure of the Statement of Accounts and Basis of preparation

The Statement of Accounts sets out the Council's income and expenditure for the financial year 2018/19 and its Balance Sheet at 31 March 2019. This covers the General Fund, Housing Revenue Account, Pension Fund and the Collection Fund. The format of the accounts follows the Code of Practice on Local Authority Accounting in the UK 2018/19, which specifies the principles and practices of accounting required to give a "true and fair" view of the financial position, financial performance and cash flows of a local authority. It primarily comprises the Key Financial Statements (including notes to the accounts) and Additional Statements / Other Notes.

The Statement of Accounts comprises:

Key Financial Statements

The **Movement in Reserves Statement (MiRS)** is a summary of the changes to the Council's reserves during the course of the financial year. The reserves represent the Council's net worth and are analogous to the equity of a private company. Reserves are divided into 'usable' and 'unusable' reserves. Usable reserves can be used to fund expenditure; unusable reserves cannot.

The **Comprehensive Income and Expenditure Statement (CIES)** reports all of the Council's gains and losses during the financial year. The CIES is prepared in accordance with International Financial Reporting Standards and the detail will therefore differ from the Council's management accounts and revenue budgets. However, the Council's financial position i.e. the working balance and usable reserves, will be the same.

The **Balance Sheet** is a 'snapshot' of the Council's assets, liabilities and reserves on 31 March 2019. The reserves are always equal to the Council's assets less the Council's liabilities. Assets represent everything owned by the Council and money owed to it. Liabilities are the sums that the Council owes to others.

The **Cash Flow Statement** shows the changes to the Council's cash and 'cash equivalents' during the financial year. Cash equivalents are assets that can be readily converted into cash and have a low likelihood of a change in value. The statement shows cash flows from: 'operating' activities, which are the cash flows from the Council's services; 'investing' activities, which are the cash flows from the Council's capital investment, investments and asset sales; and 'financing' activities, which are primarily the cash flows relating to the Council's borrowings.

Explanatory Notes

The **Notes** provide more detail about the items contained in the key financial statements, the Council's accounting policies and other information that helps interpretation and understanding of the key financial statements and accounts.

Included in the Notes is the **Expenditure and Funding Analysis (EFA).** This shows how annual expenditure is used and funded from resources by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting principles.

Supplementary Financial Statements

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

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

The **Pension Fund Account** sets out a summary of the transactions during the year (Fund Account) and the overall financial position of the fund at 31 March 2019 (Net Assets Statement).

The **Annual Governance Statement** is a statement by the Leader of the Council and the Chief Executive on the arrangements and systems for internal control across the Council and the governance arrangements of the Council.

Materiality and Group Accounts

Group Accounts have not been included in the 2018/19 Statement of Accounts on the grounds that they do not have a material effect on the overall statements. Their inclusion does not provide any more usefulness to readers. The Council's interests which have been considered for the purposes of group accounting are detailed in Note 33 – Interest in Companies. We will continue to assess these interests for inclusion in future group accounts should they become material.

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

Accounting Policies

The 2018/19 accounts are compliant with International Financial Reporting Standards (IFRS) in that they comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) / Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom 2018 (the Code) which is based on IFRS.

The accounting policies adopted by the Council comply with the Code and are set out in Note 37 to the Statement of Accounts. These are substantially unchanged from 2017/18.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Strategic Director of Finance and Governance.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

Responsibilities of the Strategic Director, Finance and Governance

The Strategic Director of Finance and Governance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

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

The Strategic Director, Finance and Governance has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

CERTIFICATE OF THE STRATEGIC DIRECTOR OF FINANCE AND GOVERNANCE

I confirm that the Accounts present a true and fair view of the financial position of the London Borough of Hammersmith and Fulham and the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2019 and income and expenditure for the year for the financial year 2018/19.

Hitesh Jolapara
Strategic Director, Finance and Governance
23 July 2019

CORE FINANCIAL STATEMENTS

Movement in Reserves Statement

Comprehensive Income and Expenditure Statement

Balance Sheet

Cash Flow Statement

Movement in Reserves Statement

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

	Notes	General Fund (GF) Balance £000	GF Earmarked Reserves £000	Schools Balance £000	Housing Revenue Account (HRA) £000	HRA Earmarked Reserves £000	Capital Grants Unapplied £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Reserves £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2017		**(19,004)**	**(82,986)**	**(9,029)**	**(20,128)**	**(25,325)**	**(41,503)**	**(406)**	**(38,694)**	**(878)**	**(237,953)**	**(870,660)**	**(1,108,613)**
Movement in Reserves during 2017/18													
Total Comprehensive Income and Expenditure		43,151	-	-	18,629	-	-	-	-	-	61,780	(125,975)	(64,195)
Adjustments between accounting basis & funding basis under regulations	3a	(57,459)	-	-	(24,786)	-	3,185	(232)	5,517	-	(73,775)	73,775	-
Transfer to/(from) Earmarked Reserves		14,308	(12,008)	(2,300)	16,339	(16,339)	-	-	-	-	-	-	-
(Increase)/Decrease in 2017/18		**-**	**(12,008)**	**(2,300)**	**10,182**	**(16,339)**	**3,185**	**(232)**	**5,517**	**-**	**(11,995)**	**(52,200)**	**(64,195)**
Balance at 31 March 2018		**(19,004)**	**(94,994)**	**(11,329)**	**(9,946)**	**(41,664)**	**(38,318)**	**(638)**	**(33,177)**	**(878)**	**(249,948)**	**(922,860)**	**(1,172,808)**
Movement in Reserves during 2018/19													
Total Comprehensive Income and Expenditure		82,762	-	-	7,173	-	-	-	-	-	89,935	(30,891)	59,044
Adjustments between accounting basis & funding basis under regulations	3a	(49,137)	-	-	(9,289)	-	2,489	(7,932)	12,344	-	(51,525)	51,525	-
Transfer to/(from) Earmarked Reserves		(33,625)	32,685	940	172	(172)	-	-	-	-	-	-	-
(Increase)/Decrease in 2018/19		**-**	**32,685**	**940**	**(1,944)**	**(172)**	**2,489**	**(7,932)**	**12,344**	**-**	**38,410**	**20,634**	**59,044**
Balance at 31 March 2019		**(19,004)**	**(62,309)**	**(10,389)**	**(11,890)**	**(41,836)**	**(35,829)**	**(8,570)**	**(20,833)**	**(878)**	**(211,538)**	**(902,226)**	**(1,113,764)**

General Fund and HRA Balances as disclosed in Note 1 Expenditure Funding Analysis note:	**General Fund Balances***	**HRA Balances****	**TOTAL GF and HRA Balances**
Balance as at 31 March 2017	(111,019)	(45,453)	(156,472)
Balance as at 31 March 2018	(125,327)	(51,610)	(176,937)
Balance as at 31 March 2019	(91,702)	(53,726)	(145,428)

* General Fund Balances were calculated by adding the General Fund (GF) balance, GF earmarked reserves and schools balance together from the Movement in Reserves Statement.
** HRA Balances were calculated by adding the Housing Revenue Account (HRA) and HRA earmarked reserves together from the Movement in Reserves Statement.

Comprehensive Income and Expenditure Statement

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

		Year Ended 31 March 2019			Year Ended 31 March 2018		
	Notes	Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
		£000	£000	£000	£000	£000	£000
Children's Services		181,347	(115,171)	66,176	169,578	(119,540)	50,038
Social Care		82,514	(33,865)	48,649	82,612	(34,427)	48,185
Growth & Place		39,864	(26,798)	13,066	34,966	(24,797)	10,169
Local Authority Housing (HRA)		75,647	(83,102)	(7,455)	68,502	(83,881)	(15,379)
Local Authority Housing (HRA) - Dwelling Revaluation		13,267	-	13,267	35,780	-	35,780
Residents' Services (including Parking)		96,936	(63,427)	33,509	96,163	(60,805)	35,358
Public Service Reform		39,700	(29,618)	10,082	38,182	(29,081)	9,101
Finance & Governance		45,005	(7,607)	37,398	41,559	(13,746)	27,813
Corporate Services		6,285	(2,132)	4,153	5,294	(2,216)	3,078
Centrally Managed Budgets		121,902	(115,071)	6,831	131,940	(126,141)	5,799
Cost of Services		**702,467**	**(476,791)**	**225,676**	**704,576**	**(494,634)**	**209,942**
Other Operating Expenditure	6	18,455	(4,615)	13,840	6,244	(7,329)	(1,085)
Financing and investment income and expenditure	7	28,664	(9,968)	18,696	30,251	(7,370)	22,881
Taxation and non-specific grant income and expenditure	8	77,454	(245,731)	(168,277)	18,059	(188,017)	(169,958)
(Surplus) or Deficit on Provision of Services				**89,935**			**61,780**
(Surplus) or deficit on revaluation of non-current assets				14,801			(54,213)
(Surplus) or deficit on revaluation of available for sale financial assets				(5)			(2,820)
Remeasurements of the net defined benefit liability	27			(45,687)			(68,942)
Other Comprehensive Income and Expenditure				**(30,891)**			**(125,975)**
Total Comprehensive Income and Expenditure				**59,044**			**(64,195)**

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves, unusable reserves, are those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

	Note No.	31 March 2019 £000	31 March 2018 £000
Property, Plant and Equipment	9	1,731,662	1,770,412
Heritage Assets	11	8,023	8,023
Investment Property	10	84,256	83,899
Intangible Assets		418	413
Long Term Investments	21	7,211	17,695
Long Term Debtors	21	1,330	1,330
Long Term Assets		**1,832,900**	**1,881,772**
Short Term Investments	21	260,982	238,429
Short Term Debtors	16	65,299	56,055
Inventories		88	70
Cash and Cash Equivalents	17	67,043	82,874
Current Assets		**393,412**	**377,428**
Short Term Borrowing	21	(12,096)	(7,040)
Short Term Creditors	18	(201,280)	(172,167)
Provisions	20	(27,831)	(9,894)
Grants and Contributions Receipts in Advance	30	(6,173)	(490)
Current Liabilities		**(247,380)**	**(189,591)**
Long Term Borrowing	21	(203,406)	(213,101)
Long Term Creditors	21	(100)	(100)
Provisions	20	(441)	(184)
Other Long Term Liabilities	19	(631,048)	(656,706)
Grants and Contributions Receipts in Advance	30	(30,173)	(26,710)
Long Term Liabilities		**(865,168)**	**(896,801)**
NET ASSETS		**1,113,764**	**1,172,808**
Usable Reserves	3b	(211,538)	(249,948)
Unusable Reserves	3c	(902,226)	(922,860)
TOTAL RESERVES		**(1,113,764)**	**(1,172,808)**

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority. The Cashflow Statement has been prepared using the indirect method.

	Notes	**2018/19 £000**	**2017/18 £000**
Net surplus or (deficit) on the provision of services		(89,935)	(61,780)
Adjustments to net surplus or deficit on the provision of services for non-cash movements	22a	141,151	101,753
Adjust for items in the net deficit on the provision of services that are investing or financing activities		(12,890)	(19,129)
Net cash flows from Operating Activities		**38,326**	**20,844**
Investing Activities			
Purchase of property, plant and equipment, investment property and intangible assets		(49,891)	(50,948)
Net purchase of short-term and long-term investments		(12,069)	-
Proceeds from sale of property, plant and equipment, investment property and intangible assets		12,890	19,129
Net proceeds from short-term and long-term investments		-	23,549
Other receipts from investing activities		13,668	33,321
Net cash flows from Investing Activities		**(35,402)**	**25,051**
Financing Activities			
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts		(376)	(335)
Repayments of short and long term borrowing		(4,564)	(7,206)
Other payments for financing activities		(13,815)	(8,163)
Net cash flows from Financing Activities		**(18,755)**	**(15,704)**
Net increase or (decrease) in cash and cash equivalents		**(15,831)**	**30,191**
Cash and cash equivalents at the beginning of the reporting period		82,874	52,683
Cash and cash equivalents at the end of the reporting period	17	**67,043**	**82,874**

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Expenditure and Funding Analysis

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

	Total			General Fund			HRA		
2018/19	**Comprehensive Income and Expenditure Statement (CIES)**	**Adjustments between Accounting and Funding Basis**	**Net Expenditure chargeable to GF and HRA Balances**	**CIES**	**Adjustments between Accounting and Funding Basis**	**Net Expenditure chargeable to GF and HRA Balances**	**CIES**	**Adjustments between Accounting and Funding Basis**	**Net Expenditure chargeable to GF and HRA Balances**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Children's Services	66,176	(14,254)	51,922	66,176	(14,254)	51,922	-	-	-
Social Care	48,649	(1,197)	47,452	48,649	(1,197)	47,452	-	-	-
Growth & Place	13,066	(1,081)	11,985	13,066	(1,081)	11,985	-	-	-
Local Authority Housing (HRA)	5,812	(19,479)	(13,667)	-	-	-	5,812	(19,479)	(13,667)
Residents' Services (including Parking)	33,509	(15,055)	18,454	33,509	(15,055)	18,454	-	-	-
Public Service Reform	10,082	(648)	9,434	10,082	(648)	9,434	-	-	-
Finance & Governance	37,398	(6,305)	31,093	37,398	(6,305)	31,093	-	-	-
Corporate Services	4,153	(176)	3,977	4,153	(176)	3,977	-	-	-
Centrally Managed Budgets	6,831	3,243	10,074	6,831	3,243	10,074	-	-	-
	225,676	**(54,952)**	**170,724**	**219,864**	**(35,473)**	**184,391**	**5,812**	**(19,479)**	**(13,667)**
Other income and expenditure not charged to services	(135,741)	(3,474)	(139,215)	(137,102)	(13,664)	(150,766)	1,361	10,190	11,551
(Surplus) or Deficit on Provision of Services	**89,935**	**(58,426)**	**31,509**	**82,762**	**(49,137)**	**33,625**	**7,173**	**(9,289)**	**(2,116)**
Opening Balance of General Fund/ HRA Balances			(176,937)			(125,327)			(51,610)
add: (Surplus) or Deficit on Provision of Services			31,509			33,625			(2,116)
Closing Balance of General Fund/ HRA Balances			(145,428)			(91,702)			(53,726)

2017/18	Total			General Fund			HRA		
	Comprehensive Income and Expenditure Statement (CIES)	**Adjustments between Accounting and Funding Basis**	**Net Expenditure chargeable to GF and HRA Balances**	**CIES**	**Adjustments between Accounting and Funding Basis**	**Net Expenditure chargeable to GF and HRA Balances**	**CIES**	**Adjustments between Accounting and Funding Basis**	**Net Expenditure chargeable to GF and HRA Balances**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Children's Services	50,038	(6,253)	43,785	50,038	(6,253)	43,785	-	-	-
Social Care	48,185	(1,232)	46,953	48,185	(1,232)	46,953	-	-	-
Growth & Place	10,169	(1,214)	8,955	10,169	(1,214)	8,955	-	-	-
Local Authority Housing (HRA)	20,401	(38,620)	(18,219)	-	-	-	20,401	(38,620)	(18,219)
Residents' Services (including Parking)	35,358	(15,333)	20,025	35,358	(15,333)	20,025	-	-	-
Public Service Reform	9,101	(258)	8,843	9,101	(258)	8,843	-	-	-
Finance & Governance	27,813	(5,467)	22,346	27,813	(5,467)	22,346	-	-	-
Corporate Services	3,078	(183)	2,895	3,078	(183)	2,895	-	-	-
Centrally Managed Budgets	5,799	4,432	10,231	5,799	4,432	10,231	-	-	-
	209,942	**(64,128)**	**145,814**	**189,541**	**(25,509)**	**164,032**	**20,401**	**(38,620)**	**(18,219)**
Other income and expenditure not charged to services	(148,162)	(18,116)	(166,278)	(146,389)	(31,951)	(178,340)	(1,773)	13,835	12,062
(Surplus) or Deficit on Provision of Services	**61,780**	**(82,245)**	**(20,465)**	**43,152**	**(57,460)**	**(14,308)**	**18,628**	**(24,785)**	**(6,157)**
Opening Balance of General Fund/ HRA Balances			(156,472)			(111,019)			(45,453)
add: (Surplus) or Deficit on Provision of Services			(20,465)			(14,308)			(6,157)
Closing Balance of General Fund/ HRA Balances			(176,937)			(125,327)			(51,610)

* The format of the 2017/18 table was amended from the 2017/18 audited accounts to follow the recommended layout in the CIPFA Code of Practice.

The Cost of Service per the Comprehensive Income and Expenditure Statement is substantially similar to the position as reported to decision makers (per the management accounts as summarised in Narrative Report, page 12). This is because the Council's management accounts include technical items such as capital charges and pension adjustments where these are chargeable to services. The differences which do arise are attributable to items which are included within the departmental analysis in the Council's management accounts but are reported below the cost of services line in the statements of accounts. These items primarily consist of financing income and expenditure, levies, and a small number of technical accounting entries.

1a. Note to the Expenditure and Funding Analysis

The note overleaf refers to the Expenditure and Funding Analysis statement and explains the adjustments between the Comprehensive Income and Expenditure Statement and net expenditure chargeable to General Fund and HRA balances for the following:

Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non-specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

Other Statutory Adjustments

Other statutory adjustments between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For Financing and investment income and expenditure the other statutory adjustments column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future surpluses or deficits on the Collection Fund.

1a. Note to the Expenditure and Funding Analysis (cont'd)

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

	2018/19				2017/18			
	Adjustments for Capital Purposes	**Net Change for Pension Adjustments**	**Other Differences**	**Total Adjustments**	**Adjustments for Capital Purposes**	**Net Change for Pension Adjustments**	**Other Differences**	**Total Adjustments**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Children's Services	(11,849)	(2,405)	-	**(14,254)**	(2,873)	(3,380)	-	**(6,253)**
Social Care	(1,032)	(437)	272	**(1,197)**	(790)	(681)	239	**(1,232)**
Growth & Place	(701)	(380)	-	**(1,081)**	(724)	(490)	-	**(1,214)**
Local Authority Housing (HRA)	(17,633)	(1,846)	-	**(19,479)**	(37,942)	(678)	-	**(38,620)**
Residents' Services (including Parking)	(13,981)	(1,183)	109	**(15,055)**	(13,861)	(1,582)	110	**(15,333)**
Public Service Reform	(441)	(207)	-	**(648)**	(48)	(210)	-	**(258)**
Finance & Governance	(5,764)	(541)	-	**(6,305)**	(1,436)	(4,031)	-	**(5,467)**
Corporate Services	-	(176)	-	**(176)**	-	(183)	-	**(183)**
Centrally Managed Budgets	1,490	1,471	282	**3,243**	(201)	4,047	586	**4,432**
Net Cost of Services	**(49,911)**	**(5,704)**	**663**	**(54,952)**	**(57,875)**	**(7,188)**	**935**	**(64,128)**
Other income and expenditure not charged to services - General Fund	(8,987)	(14,739)	10,062	**(13,664)**	(2,062)	(16,594)	(13,295)	**(31,951)**
Other income and expenditure not charged to services - HRA	3,336	-	6,854	**10,190**	15,570	(1,670)	(65)	**13,835**
(Surplus) or Deficit on Provision of Services	**(55,562)**	**(20,443)**	**17,579**	**(58,426)**	**(44,367)**	**(25,452)**	**(12,425)**	**(82,245)**

2. Expenditure and Income Analysed by Nature

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

	2018/19 £000	2017/18 £000
Expenditure		
Employee Benefits	183,868	177,266
Other Services Expenses	449,481	434,978
Support Service Recharges	(558)	(738)
Capital Charges	69,906	93,973
Interest Payments	11,653	11,987
Levies	2,648	2,791
Business rates tariff	77,454	18,059
Payments to the Government Housing Capital Receipts Pool	16,242	2,664
Net interest on the net defined benefit liability (asset)	16,198	18,264
Total Expenditure	**826,892**	**759,244**
Income		
Fees, Charges and other Service Income	(234,125)	(240,332)
Grants and Contributions	(275,386)	(323,631)
Income from Council Tax and NDR	(220,879)	(125,115)
Interest and Investment Income	(1,952)	(1,060)
(Gains)/losses on the disposal of non-current assets	(4,615)	(7,326)
Total Income	**(736,957)**	**(697,464)**
(Suplus) or Deficit on the Provision of Services	**89,935**	**61,780**

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

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

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

School Balances - This balance is comprised of unspent balances of schools and other educational establishments at the year end, which may be applied in the following year. The balances can only be used by the schools or establishments and are not available to the Council for general use.

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

Capital Grants Unapplied - These are capital grants with no payback conditions and have had no associated expenditure in 2018/19 or prior years.

Housing Revenue Account - This reserve provides a working balance for the Housing Revenue Account, for which transactions are ring-fenced under the provisions of the Local Government and Housing Act 1989.

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

Capital Receipts Reserve - This reserve relates to the capital receipts from the sale of assets, such as Right-To-Buy properties and other general receipts.

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

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

2018/19	General Fund Balance £000	School Balances £000	Earmarked Reserves £000	Capital Grants Unapplied £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Reserves £000	Total Usable Reserves £000
Adjustments to the Revenue Resources									
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:									
Pensions costs (transferred to (or from) the Pensions Reserve)	(18,596)	-	-	-	(1,846)	-	-	-	(20,442)
Financial instruments (transferred to the Financial Instruments Adjustments Account)	74	-	-	-	-	-	-	-	74
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	14,879	-	-	-	-	-	-	-	14,879
Holiday pay (transferred to the Accumulated Absences Reserve)	145	-	-	-	-	-	-	-	145
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(38,895)	-	-	-	(40,106)	(254)	-	-	(79,255)
Total Adjustments to Revenue Resources	(42,393)	-	-	-	(41,952)	(254)	-	-	(84,599)
Adjustments between Revenue and Capital Resources									
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	5,033	-	-	-	8,804	-	(13,837)	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	(11)	-	-	-	(130)	-	141	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(16,242)	-	-	-	-	-	16,242	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	-	-	-	15,850	(15,850)	-	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	909	-	-	-	-	-	-	-	909
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	879	-	-	-	1,090	-	-	-	1,969
Total Adjustments between Revenue and Capital Resources	(9,432)	-	-	-	25,614	(15,850)	2,546	-	2,878
Adjustments to Capital Resources									
Use of the Capital Receipts Reserve to finance capital expenditure	(3,540)	-	-	(3,313)	6,853	-	9,798	-	9,798
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	-	-	8,172	-	-	8,172
Application of capital grants to finance capital expenditure	8,137	-	-	5,802	196	-	-	-	14,135
Movements in the market value of investment properties	(1,909)	-	-	-	-	-	-	-	(1,909)
Total Adjustments to Capital Resources	2,688	-	-	2,489	7,049	8,172	9,798	-	30,196
Total Adjustments	(49,137)	-	-	2,489	(9,289)	(7,932)	12,344	-	(51,525)

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

2017/18	General Fund Balance £000	School Balances £000	Earmarked Reserves £000	Capital Grants Unapplied £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Reserves £000	Total Usable Reserves £000
Adjustments to the Revenue Resources									
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:									
Pensions costs (transferred to (or from) the Pensions Reserve)	(23,103)	-	-	-	(2,349)	-	-	-	(25,452)
Financial instruments (transferred to the Financial Instruments Adjustments Account)	111	-	-	-	(38)	-	-	-	73
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	(10,674)	-	-	-	-	-	-	-	(10,674)
Holiday pay (transferred to the Accumulated Absences Reserve)	424	-	-	-	-	-	-	-	424
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(47,026)	-	-	-	(58,318)	(232)	-	-	(105,576)
Total Adjustments to Revenue Resources	(80,268)	-	-	-	(60,705)	(232)	-	-	(141,205)
Adjustments between Revenue and Capital Resources									
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	7,000	-	-	-	12,839	-	(19,839)	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	-	-	-	-	(121)	-	121	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(2,664)	-	-	-	-	-	2,664	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	-	-	-	16,261	(16,261)	-	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	605	-	-	-	-	-	-	-	605
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	1,719	-	-	-	37	-	-	-	1,756
Total Adjustments between Revenue and Capital Resources	6,660	-	-	-	29,016	(16,261)	(17,054)	-	2,361
Adjustments to Capital Resources									
Use of the Capital Receipts Reserve to finance capital expenditure	868	-	-	(3,517)	2,649	-	22,345	-	22,345
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	-	-	16,261	-	-	16,261
Application of capital grants to finance capital expenditure	15,689	-	-	6,702	4,254	-	-	-	26,645
Movements in the market value of investment properties	(408)	-	-	-	-	-	-	-	(408)
Cash payments in relation to deferred capital receipts	-	-	-	-	-	-	226	-	226
Total Adjustments to Capital Resources	16,149	-	-	3,185	6,903	16,261	22,571	-	65,069
Total Adjustments	(57,459)	-	-	3,185	(24,786)	(232)	5,517	-	(73,775)

3b. Usable Reserves

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

3c Unusable Reserves

	31 March 2019 £000	31 March 2018 £000
Revaluation Reserve	(234,695)	(256,451)
Capital Adjustment Account	(1,283,599)	(1,322,825)
Deferred Capital Receipts Reserve	-	-
Pensions Reserve	623,676	648,921
Financial Instruments Adjustment Account	1,052	1,126
Available for Sale Financial Instruments Reserve	-	5
Collection Fund Adjustment Account	(11,691)	3,188
Accumulated Absences Account	3,031	3,176
Total Unusable Reserves	**(902,226)**	**(922,860)**

Revaluation Reserve

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

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

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

	2018/19 £000	2017/18 £000
Balance as 1 April	(256,451)	(206,286)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	14,801	(54,213)
Difference between current value depreciation and historical cost depreciation	2,620	2,183
Accumulated gains on assets sold or scrapped	4,335	1,865
Amount written off to the Capital Adjustment Account	6,955	4,048
Balance at 31 March	**(234,695)**	**(256,451)**

Capital Adjustment Account

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

The Account contains accumulated gains and losses on Investment Properties. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

	2018/19 £000	2017/18 £000
Balance as 1 April	(1,322,825)	(1,356,870)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
• Charges for depreciation non-current assets	19,264	19,667
• Revaluation losses on property, plant and equipment	29,684	38,044
• Amortisation of intangible assets	181	195
• Revenue expenditure funded from capital under statute	4,927	19,806
• Reversal of Major Repairs Allowance credited to the HRA	15,850	16,261
• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	9,349	11,602
	79,255	105,575
Adjusting amounts written out of the Revaluation Reserve	(6,955)	(4,048)
Net written out amount of the cost of non-current assets consumed in the year	72,300	101,527
Capital financing applied in the year:		
• Use of the Capital Receipts Reserve to finance new capital expenditure	(9,798)	(22,345)
• Use of the Major Repairs Reserve to finance new capital expenditure	(8,172)	(16,261)
• Capital grants and contributions applied	(14,135)	(26,644)
• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(909)	(605)
• Capital expenditure charged against the General Fund and HRA balances	(1,969)	(1,755)
	(34,983)	(67,610)
Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement	1,909	408
Release of deferred costs from Capital Adjustment Account to Capital Receipts Reserve upon receipt of cash	-	(280)
Balance at 31 March	**(1,283,599)**	**(1,322,825)**

Deferred Capital Receipts Reserve

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

	2018/19 £000	2017/18 £000
Balance as 1 April	-	(52)
Transfer to the Capital Receipts Reserve upon receipt of cash	-	52
Balance at 31 March	**-**	**-**

Pensions Reserve

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

	2018/19 £000	2017/18 £000
Balance as 1 April	648,921	692,410
Remeasurements of the net defined benefit liability/(asset)	(45,687)	(68,942)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	40,311	44,572
Employer's pensions contributions and direct payments to pensioners payable in the year	(19,869)	(19,119)
Balance as 31 March	**623,676**	**648,921**

Financial Instruments Adjustment Account

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

	2018/19 £000	2017/18 £000
Balance as 1 April	1,126	1,199
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(74)	(73)
Balance as 31 March	**1,052**	**1,126**

Available for Sale Financial Instruments Reserve

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

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

	2018/19 £000	2017/18 £000
Balance as 1 April	5	2,825
Upward / (Downward) revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(5)	(2,820)
Balance as 31 March	**-**	**5**

Collection Fund Adjustment Account

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

	2018/19 £000	2017/18 £000
Balance as 1 April	3,188	(7,486)
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(14,879)	10,674
Balance as 31 March	**(11,691)**	**3,188**

Accumulated Absences Account

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

	2018/19 £000	2017/18 £000
Balance as 1 April	3,176	3,600
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(145)	(424)
Balance as 31 March	**3,031**	**3,176**

4. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2018/19. A number of reserves have been consolidated in 2018/19 and these have been reflected in the table below. In 2019/20, the reserves will be realigned to reflect planned investments.

		Balance at 31 March 2017 £000	Transfers Out 2017/18 £000	Transfers In 2017/18 £000	Movement Between Reserves 2017/18 £000	Balance at 31 March 2018 £000	Transfers Out 2018/19 £000	Transfers In 2018/19 £000	Movement Between Reserves 2018/19 £000	Balance at 31 March 2019 £000
	General Fund									
1	Insurance Fund	(6,342)	665	(635)	-	**(6,312)**	-	-	-	**(6,312)**
2	Controlled Parking Fund	(1,054)	228	(520)	-	**(1,346)**	643	(521)	-	**(1,224)**
3	Computer Replacement Fund	(1,182)	-	-	1,182	**-**	-	-	-	**-**
4	IT Infrastructure	(2,388)	-	(800)	3,188	**-**	-	-	-	**-**
5	Efficiency Projects Reserve	(15,749)	-	(3,783)	1,897	**(17,635)**	3,935	(2,646)	13,616	**(2,730)**
6	Corporate Demand Pressures	(7,531)	570	-	(4,483)	**(11,444)**	905	-	7,738	**(2,801)**
7	Dilapidations/Office Moves	(3,327)	552	(138)	2,913	**-**	-	-	-	**-**
8	Housing Benefit	(2,248)	-	-	2,248	**-**	-	-	-	**-**
9	LPFA Sub Fund	(1,272)	-	(128)	-	**(1,400)**	158	-	-	**(1,242)**
10	Temporary Accommodation	(3,506)	582	(286)	-	**(3,210)**	600	-	-	**(2,610)**
11	ASC Pressures & Demands	(1,878)	-	-	-	**(1,878)**	-	-	-	**(1,878)**
12	Human Resources Reserve	(920)	-	-	920	**-**	-	-	-	**-**
13	Capital Reserves	(1,946)	1,009	-	-	**(937)**	671	(1,422)	-	**(1,688)**
14	Supporting People Programme	(1,509)	300	-	-	**(1,209)**	300	-	-	**(909)**
15	MTFS Delivery Risk	(5,625)	-	-	5,470	**(155)**	106	-	(796)	**(845)**
16	VAT Reserve	(2,500)	-	-	2,500	**-**	-	-	-	**-**
17	Business Board Reserve	(1,080)	-	-	1,080	**-**	-	-	-	**-**
18	TFM Reserve	(853)	500	(1,154)	-	**(1,507)**	642	(1,500)	-	**(2,365)**
19	3SIF Grant Reserve	(1,008)	280	-	8	**(720)**	292	-	-	**(428)**
20	Troubled Families	(817)	-	(258)	-	**(1,075)**	138	-	-	**(937)**
21	NDR Deficit Support	(3,208)	-	(5,256)	3,209	**(5,255)**	10,397	-	(5,142)	**-**
22	Stock Options Appraisal	(1,009)	-	-	1,009	**-**	-	-	-	**-**
23	Partners in Practice	(852)	-	(695)	-	**(1,547)**	420	-	-	**(1,127)**
24	Redundancy Reserves	(3,747)	-	-	3,747	**-**	-	-	-	**-**
25	King Street West	(516)	154	-	(994)	**(1,356)**	2,155	(49)	(2,596)	**(1,846)**
26	Managed Services	(279)	2,714	(3,891)	(7,835)	**(9,291)**	5,230	-	-	**(4,061)**
27	Corporate People Reserve	-	364	-	(4,000)	**(3,636)**	37	(97)	-	**(3,696)**
28	Corporate Technology & IT	-	-	-	(6,950)	**(6,950)**	85	(800)	-	**(7,665)**
29	Corporate Financial Resilience Reserve	-	-	-	(3,000)	**(3,000)**	3,715	(4,106)	-	**(3,391)**
30	Corporate Property Reserve	-	280	-	(4,076)	**(3,796)**	136	-	-	**(3,660)**
31	DSG Reserve	-	-	-	-	**-**	14,166	(550)	(13,616)	**-**
32	Other Funds	(6,234)	404	(859)	1,642	**(5,047)**	2,019	(1,702)	796	**(3,934)**
	General Fund Reserves	**(78,580)**	**8,602**	**(18,403)**	**(325)**	**(88,706)**	**46,750**	**(13,393)**	**-**	**(55,349)**

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

		Balance at 31 March 2017 £000	Transfers Out 2017/18 £000	Transfers In 2017/18 £000	Movement Between Reserves 2017/18 £000	Balance at 31 March 2018 £000	Transfers Out 2018/19 £000	Transfers In 2018/19 £000	Movement Between Reserves 2018/19 £000	Balance at 31 March 2019 £000
	General Fund Revenue Grants									
33	S106 - Revenue Schemes	(3,784)	606	(2,158)	-	**(5,336)**	217	(1,683)	-	**(6,802)**
34	Other Revenue Grants	(622)	-	(655)	324	**(953)**	795	-	-	**(158)**
	Revenue Grants Sub-Total	**(4,406)**	**606**	**(2,813)**	**324**	**(6,289)**	**1,012**	**(1,683)**	**-**	**(6,960)**
	General Fund Total	**(82,986)**	**9,210**	**(21,216)**	**-**	**(94,994)**	**47,761**	**(15,076)**	**-**	**(62,309)**
	HRA Reserves									
35	HRA Efficiency Reserve	(500)	-	-	(792)	**(1,292)**	536	(500)	-	**(1,256)**
36	HRA Non-dwellings Impairment Reserve	(7,262)	-	72	-	**(7,190)**	-	(1,795)	-	**(8,985)**
37	HRA Strategic Regeneration and Housing Development	(4,208)	1,197	(3,402)	-	**(6,413)**	1,606	(1,545)	-	**(6,352)**
38	HRA Utilities Reserve	(9,382)	-	(1,368)	-	**(10,750)**	-	(250)	-	**(11,000)**
39	Welfare Reform Reserve	(1,500)	-	-	-	**(1,500)**	-	-	-	**(1,500)**
40	Parking Charges Review Reserve	(606)	-	-	-	**(606)**	500	-	-	**(106)**
41	Fire Safety Plus	-	-	(12,845)	-	**(12,845)**	4,862	(3,990)	-	**(11,973)**
42	Other HRA Funds	(1,867)	125	(118)	792	**(1,068)**	448	(44)	-	**(664)**
	HRA Sub-Total	**(25,325)**	**1,322**	**(17,661)**	**-**	**(41,664)**	**7,952**	**(8,124)**	**-**	**(41,836)**
	Total	**(108,311)**	**10,532**	**(38,879)**	**-**	**(136,658)**	**55,713**	**(23,200)**	**-**	**(104,145)**

4. Earmarked Reserves Description

1	Insurance Fund	this was established to underwrite a proportion of the Council's insurable risks.
2	Controlled Parking Fund	the surplus from the running of the Controlled Parking operations within the Borough is accumulated in this Fund. In the past, this reserve had to be used to meet expenditure on transport and highways related activities.
3	Computer Replacement Fund	this was for the enhancement to the Council's IT systems required to meet existing commitments and future demands now met from the Corporate Technology and IT Reserve.
4	IT Infrastructure	this reserve has been set up for future IT improvement programmes now met from the Corporate Technology and IT Reserve.
5	Efficiency Projects Reserve	this reserve will fund future revenue expenditure and capital investment that will provide future revenue savings.
6	Corporate Demand Pressures	To meet unbudgeted demands and pressures.
7	Dilapidations/Office Moves	this reserve was been set up to fund potential office moves and the repair of office accommodation dilapidations now met from Corporate Property Reserve.
8	Housing Benefit	the completion of the audit of the housing benefit subsidy claim often results in a reduction in subsidy paid for the previous financial year. This reserve was used to meet the cost of any adjustments.
9	LPFA Sub Fund	this reserve has been set aside to cover a potential pensions liability to the London Pension Fund Authority (LPFA).
10	Temporary Accommodation	this reserve has been set up to deal with possible shortfalls arising out of the introduction of a cap on rental income received for temporary accommodation.
11	ASC Pressures & Demands	this reserve is to address non-recurring new financial pressures within Adult Social Care.
12	Human Resources Reserve	this was a reserve to fund any requirements in relation to Human Resources now met by the Corporate People Reserve.
13	Capital Reserves	this is a revenue-backed reserve to support capital expenditure and to provide bridging finance pending receipts of grants, etc.
14	Supporting People Programme	this reserve has been set up to enable the Supporting People programme to be managed over a rolling 3 year cycle in line with the contracts let with service suppliers.
15	MTFS Delivery Risk	this reserve is to mitigate the risks associated with the implementation of new MTFS projects.
16	VAT Reserve	this reserve was to cover costs incurred as a result of VAT related changes.
17	Business Board Reserve	this reserve was to fund projects approved by the then HF Business Board.
18	TFM Reserve	this reserve is used to fund additional costs on the TFM contract including changes in the apportionment of costs across the three boroughs. The reserve also represents elective variable works, removals costs and ad hoc security costs that are not included in the fixed contract price.
19	3SIF Grant Reserve	this reserve is to support the Third Sector Investment Fund medium term allocation plan.
20	Troubled Families	this reserve has been created to carry forward funding that has already been earnt, but not spent, into Year 3 of the project in order to fund the costs associated with running the programme.
21	NDR Deficit Support	this is a reserve to smooth the impact of statutory timing differences between funding and impact business rates deficits.
22	Stock Options Appraisal	this was a reserve to address the potential outcomes of the Stock Options Appraisal.
23	Partners in Practice	this is a reserve for Children's Services social care practice improvement as part of DFE innovation programme.
24	Redundancy Reserves	these reserves were set up to cover any redundancy costs.
25	King Street West	this is held to fund the costs of implementing the King Street West redevelopment.
26	Managed Services	this reserve is used to fund the cost of supporting the Managed Services project and for the implementation of the new Hampshire system.
27	Corporate People Reserve	this is the consolidation of various Human Resource related reserves.
28	Corporate Technology & IT	this reserve is used to finance council IT projects.
29	Corporate Financial Resilience Reserve	this reserve is to cover the costs of providing financial resilience across the Council.
30	Corporate Property Reserve	this is to be used to cover the one-off costs related to LBHF property management.
31	DSG Reserve	*31a. DSG Deficit* this reserve records the cumulative overspend on Dedicated Schools Grant (DSG) due to the significant pressures and shortfall of funding on the High Needs Block. This reserve reflects the expectation by the Education and Skills funding Agency

		that DSG funding is ringfenced and that deficit recovery plans should be put in place to ensure spending is contained within the resources available. *31b. DSG Reserve – Deficit Set-Aside* this reserve offsets the DSG Reserve – Deficit to ensure that the expenditure incurred to date can be fully funded in light of continuing pressures and in the event that the deficit recovery plan is unable to recover the current cumulative position. Overall the DSG reserve (deficit and deficit set-aside) is nil as the cumulative deficit is matched by reserves.
32	Other Funds	this comprises a number of smaller reserves, generally not exceeding £500,000.
33	S106 - Revenue Schemes	these reserves exist to fund various projects and potential future commitments.
34	Other Revenue Grants	these are grants which have been transferred as an earmarked reserve due to the implementation of International Financial Reporting Standards (IFRS).
35	HRA Efficiency Reserve	this reserve is to provide funding for the one-off costs associated with implementing MTFS savings.
36	HRA Non-Dwellings Impairment Reserve	this reserve is to smooth the future impact of non-dwellings impairments on the HRA following the introduction of HRA self-financing.
37	HRA Strategic Regeneration and Housing Development	this reserve is to provide for the risk associated the council's strategy and regeneration and housing development initiatives.
38	HRA Utilities Reserve	this reserve is to cover the potential impact of applying OFWAT "Water resale order" under which water charges to tenants must be set to equal expenditure incurred by LBHF on a property by property basis.
39	Welfare Reform Reserve	this is a reserve to provide for the further and continuing impact of Welfare Reform.
40	Parking Charges Review Reserve	this reserve is to cover the potential need to refund parking charges on HRA properties.
41	Fire Safety Plus	this reserve was created for reviewing fire safety across the borough.
42	Other HRA Funds	this reserve is to fund various smaller projects specific to the HRA.

5. Material Items of Income and Expense

Transactions in 2018/19
Revaluations: HRA Dwellings have been revalued downwards in year. The downward revaluation is approximately 1% however the size of the asset base means that this revaluation is a material amount. The gross revaluation decrease, recognised across CIES and Revaluation Reserve is £14.253m.

Similarly, Other Land and Buildings (OLB) have decreased in value in year. This is substantially due to a refinement in the estimation techniques in particular aged and obsolescence factors. The revaluation decrease of OLB recognised across CIES and Revaluation Reserve is £13.290m.

Surplus Assets (SA) in- year revaluation resulted in a decrease of £16.942m, recognised across CIES and Revaluation Reserve, due to changes in planning factors and updated cost requirements which have led to an update in the underlying valuation assumptions.

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

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

6. Other Operating Expenditure

	2018/19 £000	2017/18 £000
Levies	2,648	2,791
Payments to the Government Housing Capital Receipts Pool	16,242	2,664
(Gains)/losses on the disposal of non-current assets	(4,615)	(7,327)
Other Operating Income and Expenditure	(435)	787
Total	**13,840**	**(1,085)**

7. Financing and Investment Income and Expenditure

	2018/19 £000	2017/18 £000 (Restated)
Interest payable and similar charges	11,653	11,987
Net interest on the net defined benefit liability (asset)	16,198	18,264
Interest receivable and similar income	(2,214)	(1,540)
Income and expenditure in relation to investment properties*	(7,202)	(6,310)
Net (gains)/losses from fair value adjustments on investment properties	114	480
Losses on derecognition of investments	147	-
Total	**18,696**	**22,881**

* The 2017/18 income and expenditure in relation to investment properties was restated from the 2017/18 audited accounts due to review of the accounts and cross referencing to note 10.

8. Taxation and non-specific grant income and expenditure

	2018/19 £000	2017/18 £000
Non-domestic rates income	(162,363)	(64,382)
NDR safety net	-	(5,295)
Business rates tariff	77,454	18,059
Non-domestic rates income and expenditure	**(84,909)**	**(51,618)**
Council Tax Income	(58,516)	(55,438)
Non-ringfenced government grants	(15,074)	(49,534)
Capital grants and contributions	(9,778)	(13,368)
Total	**(168,277)**	**(169,958)**

9. Property, Plant and Equipment

(i) Movements on Balances

Movements in 2018/19	**Council Dwellings £000**	**Other Land and Buildings £000**	**Infrastructure Assets £000**	**Vehicles, Plant, Furniture & Equipment £000**	**Community Assets £000**	**Surplus Assets £000**	**Assets Under Construction £000**	**Total Property, Plant and Equipment £000**	**PFI Assets Included in Property, Plant and Equipment £000**
Cost or Valuation									
At 1 April 2018	1,272,098	356,912	218,869	14,242	26,521	34,289	2,007	**1,924,938**	24,792
Additions	19,008	1,820	9,461	2,594	783	16,547	180	**50,393**	-
Donations	-	-	-	-	-	-	-	**-**	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(5,465)	(11,222)	-	-	-	(7,738)	-	**(24,425)**	673
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(24,619)	(7,156)	-	-	-	(9,261)	-	**(41,036)**	-
Derecognition – disposals	(1,545)	(1,631)	-	-	-	-	-	**(3,176)**	-
Derecognition – other	-	(3,274)	-	-	-	(2,018)	(915)	**(6,207)**	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	**-**	-
Assets reclassified (to)/from Investment Properties	-	(289)	-	-	-	-	-	**(289)**	-
Other reclassifications	-	(1,275)	-	-	-	1,275	-	**-**	-
Other movements in cost or valuation	-	-	-	-	-	-	-	**-**	-
At 31 March 2019	**1,259,477**	**333,885**	**228,330**	**16,836**	**27,304**	**33,094**	**1,272**	**1,900,198**	**25,465**
Accumulated Depreciation and Impairment									
At 1 April 2018	-	(756)	(129,773)	(11,460)	(12,537)	-	-	**(154,526)**	-
Depreciation charge	(15,850)	(5,295)	(11,185)	(687)	(2,028)	(68)	-	**(35,113)**	(459)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	4,479	5,088	-	-	-	57	-	**9,624**	459
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	11,352	-	-	-	-	-	-	**11,352**	-
Derecognition – disposals	19	78	-	-	-	30	-	**127**	-
Derecognition – other	-	-	-	-	-	-	-	**-**	-
Other movements in depreciation and impairment	-	19	-	-	-	(19)	-	**-**	-
At 31 March 2019	**-**	**(866)**	**(140,958)**	**(12,147)**	**(14,565)**	**-**	**-**	**(168,536)**	**-**
Net Book Value									
at 31 March 2019	**1,259,477**	**333,019**	**87,372**	**4,689**	**12,739**	**33,094**	**1,272**	**1,731,662**	**25,465**

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

Movements in 2017/18

	Council Dwellings £000	Other Land and Buildings £000	Infrastructure Assets £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation									
At 1 April 2017	1,304,063	294,427	210,774	13,539	25,744	34,585	3,419	**1,886,551**	18,225
Additions	35,007	6,074	8,095	703	777	2,532	546	**53,734**	-
Donations	-	-	-	-	-	-	-	**-**	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(10,754)	57,326	-	-	-	(2,175)	-	**44,397**	6,567
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(46,926)	(202)	-	-	-	(2,137)	-	**(49,265)**	-
Derecognition – disposals	(2,924)	(1,885)	-	-	-	(5,880)	-	**(10,689)**	-
Derecognition – other	(335)	-	-	-	-	-	(253)	**(588)**	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	389	-	**389**	-
Assets reclassified (to)/from Investment Properties	-	409	-	-	-	-	-	**409**	-
Other reclassifications	(6,033)	763	-	-	-	6,975	(1,705)	**-**	-
Other movements in cost or valuation	-	-	-	-	-	-	-	**-**	-
At 31 March 2018	**1,272,098**	**356,912**	**218,869**	**14,242**	**26,521**	**34,289**	**2,007**	**1,924,938**	**24,792**
Accumulated Depreciation and Impairment									
At 1 April 2017	-	(449)	(118,040)	(10,787)	(10,548)	-	-	**(139,824)**	-
Depreciation charge	(16,261)	(5,125)	(11,733)	(673)	(1,989)	(147)	-	**(35,928)**	(343)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	4,984	4,772	-	-	-	60	-	**9,816**	343
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	11,146	-	-	-	-	74	-	**11,220**	-
Derecognition – disposals	41	46	-	-	-	103	-	**190**	-
Derecognition – other	-	-	-	-	-	-	-	**-**	-
Other movements in depreciation and impairment	90	-	-	-	-	(90)	-	**-**	-
At 31 March 2018	**-**	**(756)**	**(129,773)**	**(11,460)**	**(12,537)**	**-**	**-**	**(154,526)**	**-**
Net Book Value									
at 31 March 2018	**1,272,098**	**356,156**	**89,096**	**2,782**	**13,984**	**34,289**	**2,007**	**1,770,412**	**24,792**

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

(ii) Depreciation and Useful life

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

Council Dwellings	46 - 53 years
Other Land and Buildings (Building element only - land not depreciated)	38 - 50 years
Infrastructure Assets	3 - 40 years
Vehicles, Plant, Furniture & Equipment	4 - 25 years
Community Assets	5 - 73 years
Surplus Assets (Building element only - land not depreciated)	41 – 46 years

(iii) Effect of Changes in Estimates

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

(iv) Revaluation and Impairments

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued through full inspection at least every four years. The Authority has used the external valuation contractor Wilks Head & Eve to carry out the valuations under instruction from the authority's internal Valuation and Property Services. Rolling programme values are reviewed internally to ensure they are not materially misstated at balance sheet date. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations have an effective date of 31 March 2019.

The significant assumptions applied in estimating the current values are:
• Valuations of owner occupied properties reflect special adaptations or particular suitability of the premises for the existing use, but specifically exclude, so far as possible value attributable to goodwill and alternative uses.
• No allowance has been made for any national or local tax whether existing or which may arise in the future.
• All properties except Housing Dwellings have been valued on an individual basis, thus envisaging that they will be marketed individually or in groups over an appropriate period of time.
• Except where specific information is available, properties have been properly maintained and are in good repair and condition.

	Council Dwellings £000	Other Land and Buildings £000	Infrastructure Assets £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
Carrying value under Cost Model	1,435,589	233,272	87,372	4,689	12,739	21,174	1,272	**1,796,107**
Carried at Historical Cost	-	-	87,372	4,689	12,739	-	1,272	**106,072**
Valued at current value as at:								
31 March 2019	1,259,477	309,572	-	-	-	33,093	-	**1,602,142**
31 March 2018	-	5,830	-	-	-	-	-	**5,830**
31 March 2017	-	9,836	-	-	-	-	-	**9,836**
31 March 2016	-	7,782	-	-	-	-	-	**7,782**
	1,259,477	**333,020**	**87,372**	**4,689**	**12,739**	**33,093**	**1,272**	**1,731,662**

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

(iv) Revaluation and Impairments continued.

The Council values its dwellings in accordance with the proper practice set out in the Government guidance *"Stock Valuation for Resource Accounting: Guidance for Valuers - 2016"*. Under the requirements of the "beacon system" of valuation and 75 per cent discount applied to the open market valuation of the dwellings using the "Existing Use Valuation - Social Housing" methodology, the Council's capital expenditure on its dwelling stock does not increase the value of the assets on a pound-for-pound basis; at best the value of a dwelling will be increased by only 25 per cent of the capital expenditure incurred upon it.

Desk-top revaluation of housing dwellings stock as at 31 March 2019 was commissioned by the Council and completed by the external valuer Wilks, Head and Eve. A revaluation based on full inspection of housing dwellings stock is scheduled for 2020/21.

Where assets are revalued downwards and revaluation losses are in excess of the available Revaluation Reserve, balances are debited to the Surplus or Deficit on the Provision of Services. A review of property, plant and equipment was carried out for 2018/19 and there were no cases of impairment of assets to report.

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

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

(v) Capital Commitments

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

Service Department	31 March 2019 £000	31 March 2018 £000
Housing Revenue Account	-	8,245
Children's Services	-	1,801
	-	**10,046**

10. Investment Properties

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

	2018/19 £000	2017/18 £000
Rental income from investment property	(7,869)	(6,425)
Direct operating expenses (including repairs and maintenance) arising from investment properties	667	115
Net (gain)/loss	**(7,202)**	**(6,310)**

(i) Revaluation

In 2018/19 the Council commissioned a full revaluation of its investment properties including an inspection of each property where appropriate as at the balance sheet date of 31st March 2019. The work was undertaken by our independent external valuers - Wilks, Head & Eve, whose staff are qualified surveyors with the Royal Institution of Chartered Surveyors (RICS). The valuation bases are in accordance with the Statement of Asset Valuation Practices and Guidance Notes of RICS.

10. Investment Properties (cont'd)

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

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

	31 March 2019 £000	31 March 2018 £000
Balance at start of the year	83,899	81,744
Additions:		
• Subsequent expenditure	182	15
Disposals	-	(471)
Net gains/(losses) from fair value adjustments	(114)	(480)
Transfers:		
• (to)/from Property, Plant and Equipment	289	(409)
• (to)/from Assets Held for Sale	-	3,500
Balance at end of the year	**84,256**	**83,899**

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

11. Heritage Assets

(i) Movement on Balances

	Art Collections £000	Books & Printed Materials £000	Ceramics & Glass £000	Other Heritage Assets £000	Total Assets £000
Cost or Valuation					
At 1 April 2018	7,688	131	118	86	8,023
Movement on balance	-	-	-	-	-
At 31 March 2019	**7,688**	**131**	**118**	**86**	**8,023**

There have been no movements on Heritage Assets in 2018/19. Further information concerning heritage assets and their valuation can be found in previous Statement of Accounts as published on the Council's website:

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

12. Assets Held for Sale

All Assets Held for Sale have been classified as Current as sales are expected within 12 months from balance sheet date.

	Current Assets	
	31 March2019 £000	31 March2018 £000
Balance outstanding at start of year	-	4,435
Additions:		
Assets newly classified as held for sale:		
• Investment Properties	-	-
Assets declassified as held for sale:		
• Property, Plant and Equipment	-	(389)
• Investment Properties	-	(3,500)
Assets sold	-	(546)
Balance outstanding at year-end	**-**	**-**

13. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2018/19	2017/18
	£000	£000
Opening Capital Financing Requirement	277,707	272,544
Capital Investment		
Property, Plant and Equipment	50,393	53,734
Investment Properties	182	15
Intangible Assets	186	-
Revenue Expenditure Funded from Capital under Statute	4,927	19,806
Sources of Finance		
Capital receipts - used to fund Capital Expenditure	(5,700)	(22,345)
Government grants and other contributions	(22,306)	(42,905)
Sums set aside from revenue:	-	-
Direct revenue contributions	(1,969)	(1,755)
MRP/loans fund principal	(915)	(605)
Voluntary Application of Capital Receipts	(4,098)	-
Deferred costs of capital disposals	92	(783)
Closing Capital Financing Requirement	**298,499**	**277,706**
Explanation of movements in year		
Increase in underlying need to borrow	24,861	6,008
(Decrease) in underlying need to borrow	(63)	(63)
Voluntary application of Capital Receipts to repay debt	(4,097)	-
Increase/(Decrease) in Deferred costs of capital disposals	92	(783)
Increase/(decrease) in Capital Financing Requirement	**20,793**	**5,162**

14. Leases (Finance and Operating)

Council as Lessee

Finance Leases

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

Operating Leases

The Council has acquired some office accommodation, hostels, depot facilities and a range of vehicles and office equipment by entering into operating leases.

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

	31 March 2019 £000	31 March 2018 £000
Not later than one year	1,845	1,810
Later than one year and not later than five years	6,620	6,692
Later than five years	11,534	12,645
	19,999	**21,147**

The Council has sub-let some of the accommodation held under these leases. At 31st of March 2019 the minimum income expected to be received under sub-leases was £2,714k.

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

	31 March 2019 £000	31 March 2018 £000
Minimum lease payments	1,807	1,775
Contingent rents	-	-
Sublease payments receivable	(222)	(222)
	1,585	**1,553**

Council as Lessor

Finance Leases

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

Operating Leases

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

• for the provision of community services, such as sports facilities, day centres and community centres

• for economic development purposes providing suitable affordable accommodation for local businesses

• as an investment to make the use of the Council's assets

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

	31 March 2019 £000	31 March 2018 £000
Not later than one year	4,666	4,612
Later than one year and not later than five years	15,763	15,387
Later than five years	15,811	16,481
	36,240	**36,480**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. No material contingent rents were receivable by the Council.

15. Private Finance Initiative

2018/19 was the fourteenth year of a 25-year Private Finance Initiative (PFI) to provide new services for vulnerable older people in the borough. The PFI has created three new nursing homes (one of which was completed one year later than the other two). Hammersmith & Fulham Clinical Commissioning Group also share the services provided at these sites through a back-to-back agreement with the Council.

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

Property Plant and Equipment

The assets used to provide services at the residential care and nursing homes and sheltered accommodation are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 9.

Payments

The Council makes an agreed payment each year (Unitary Charge) which is adjusted each year by inflation, and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. The annual Unitary Charge has been split into service charge, liability and interest.

Payments remaining to be made under the PFI contract at 31 March 2019 (excluding the effect of changes in market conditions and availability/performance deductions) are as follows:

	Payment for Services £000	Liability £000	Interest £000	Total £000
Payable in 2019/20	5,614	309	1,107	7,030
Payable within two to five years	17,994	1,206	3,042	22,242
Payable within six to ten years	34,146	3,442	3,639	41,227
Payable within eleven to fifteen years	18,079	2,704	754	21,537
	75,833	**7,661**	**8,542**	**92,036**

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

	2018/19 £000	2017/18 £000
Balance outstanding at start of year	7,933	8,173
Payments during the year	(272)	(240)
Capital expenditure incurred in the year	-	-
Balance outstanding at year-end	**7,661**	**7,933**

16. Debtors

	31 March 2019 £000	31 March 2018 £000
Council Tax Receivable from Taxpayers	9,522	9,152
Non Domestic Rates Receivable from Taxpayers	17,053	6,484
Business Rates Supplement Debtor	415	837
Trade Debtors	31,314	28,407
Other Debtors	42,986	45,547
Prepayments and Accrued Income	22,589	14,897
Impairment Allowance for Doubtful Debts	(58,580)	(49,269)
Total	**65,299**	**56,055**

The debtors note was restated from the 2017/18 audited accounts due to changes in the 2018/19 CIPFA Code of Practice.

17. Cash and Cash Equivalents

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

	31 March 2019 £000	31 March 2018 £000
Cash held by the Council	236	306
Bank current accounts	1,156	48
School bank accounts	9,824	12,020
Short-term deposits	58,954	83,875
Total	**70,170**	**96,249**
Bank overdraft*	(3,127)	(13,375)
	(3,127)	**(13,375)**
Net Cash and Cash Equivalents	**67,043**	**82,874**

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

18. Creditors

	31 March 2019 £000	31 March 2018 £000
Council Tax Creditor	(3,757)	(3,767)
NDR Retained Income Creditor	(37,084)	(23,259)
Business Rate Supplement Creditor	(31)	-
NDR Taxpayers Receipts not yet Paid to Government	(56)	(56)
Council Tax Refundable to Taxpayers	(9,504)	(8,976)
Non Domestic Rates Refundable to Taxpayers	(15,053)	(9,819)
Other Tax and Social Security Payable	(1,954)	(187)
Trade Creditors	(2,214)	(8,528)
Other Creditors	(131,213)	(117,203)
Short Term PFI Lease Liability	(309)	(272)
Short Term Finance Lease Lease Liability	(105)	(100)
Total	**(201,280)**	**(172,167)**

The creditors note was restated from the 2017/18 audited accounts due to changes in the 2018/19 CIPFA Code of Practice.

19. Other Long Term Liabilities

	31 March 2019 £000	31 March 2018 £000
Net Pensions Liability	(623,676)	(648,921)
Finance Lease Liability	(20)	(124)
Private Finance Initiative (PFI) Liability	(7,352)	(7,661)
TOTAL	**(631,048)**	**(656,706)**

20. Provisions

	Insurance	NDR - Losses on Appeals	Other Provisions	Total
	£000	£000	£000	£000
Balance at 1 April 2017	**(2,656)**	**(4,717)**	**(747)**	**(8,120)**
Additional provisions	-	(12,259)	(226)	**(12,485)**
Amounts used	-	9,892	-	**9,892**
Unused amounts reversed	626	-	9	**635**
Balance at 31 March 2018	**(2,030)**	**(7,084)**	**(964)**	**(10,078)**
Additional provisions	-	(23,258)	(2,163)	**(25,421)**
Amounts used	256	6,833	138	**7,227**
Unused amounts reversed	-	-	-	**-**
Balance at 31 March 2019	**(1,774)**	**(23,509)**	**(2,989)**	**(28,272)**
Of which:				
Next twelve months	(1,774)	(23,509)	(2,548)	**(27,831)**
Over twelve months	-	-	(441)	**(441)**
Balance at 31 March 2019	**(1,774)**	**(23,509)**	**(2,989)**	**(28,272)**

Following the introduction of the new Business Rates Retention Scheme by Central Government on 1 April 2013, the Council must account for its share of Non-Domestic Rates assets and liabilities. As a result of this, the Council has been exposed to a significant number of outstanding ratings appeals, the estimated liability for this has been included in the table above.

The Council's insurance provision (held for known future insurance claims resulting from the Council's self-insurance of liability risks and fire damage) received a full actuarial assessment of the Insurance Fund position as at 31 March 2017. The most recent actuarial review was undertaken in 2017/18. The provision is based upon updated professional estimates of continuing open claims identified in that year's assessment. It also reflects claims they have currently received for which they expect payment in the next 12 months.

During 1992/93, the then Council’s insurers, Municipal Mutual Insurance (MMI), ceased accepting new business. The Council is a member of a scheme of arrangement that has been put into place to try to ensure an orderly settlement of the run-off of MMI. The scheme of arrangement was triggered in 2012/13 and the Council was required to pay a levy of £426k in 2013/14, for which a provision was made in 2012/13 accounts; representing 15% of claims payments made to date. MMI in setting this 15% levy chose a mid-point based upon on actuarial analysis of potential future losses with the aim of ensuring a solvent run off of current losses and those yet to emerge. This means the Council will be required to fund 25% of all payments for any newly reported losses during the period of MMI policy coverage prior to 1993. The Council has sufficient funds in its Insurance reserve to cover this exposure.

Other provisions include amounts to cover HRA disputed invoices and disrepair cases, capital repairs and maintenance works, and smaller provisions.

21. Financial Instruments

(i) Financial Instruments - Balances

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

	Long Term		Current	
	31 March 2019 £000	**31 March 2018 £000**	**31 March 2019 £000**	**31 March 2018 £000**
Financial Assets:				
Loans and receivables				
Long Term Debtors	1,330	1,330	-	-
Trade Debtors	-	-	31,314	28,407
Available for sale financial assets				
Investments	-	-	-	30,156
Financial assets at amortised cost				
Investments	7,211	17,695	260,982	208,273
Cash and Cash Equivalents	-	-	58,954	83,875
Total	**8,541**	**19,025**	**351,250**	**350,711**
Financial Liabilities : Measured at amortised cost				
Borrowings	(203,406)	(213,101)	(12,096)	(7,040)
Long Term Creditors	(100)	(100)	-	-
Trade Creditors	-	-	(2,214)	(8,528)
Total	**(203,506)**	**(213,201)**	**(14,310)**	**(15,568)**
Other Liabilities:				
PFI & Finance Lease liabilities	**(7,372)**	**(7,785)**	**(414)**	**(372)**

Note 1 – To meet new code requirements the Council's investments are now classified as amortised cost. Financial assets are held at amortised cost. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The Council does not currently hold assets that would be classified as Fair Value Through Other Comprehensive Income (FVOCI) or Fair Value Through Profit and Loss (FVTPL).

The amounts for trade debtors and creditors are the values identified in Notes 16 and 18 to the accounts gross of any impairment allowance for doubtful debts, see paragraph on Credit Risk below, but excluding outstanding balances to/from Government Departments, debts arising from taxation demands and monies received or paid in advance. Further analysis of PFI and Finance Lease liabilities is given in Notes 14 and 15.

21. Financial Instruments (cont'd)

(iii) Income, Expense, Gains and Losses

	2018/19				2017/18			
	Financial Liabilities at amortised cost £000	Financial Assets as amortised costs £000	Financial Assets: Available for Sale Assets £000	Total £000	Financial Liabilities at amortised cost £000	Financial Assets as amortised costs £000	Financial Assets: Available for Sale Assets £000	Total £000
Interest expense	11,653	-	-	11,653	11,987	-	-	11,987
Losses on derecognition	-	-	147	147	-	-	-	-
Total expense in Surplus or Deficit on the Provision of Services	**11,653**	**-**	**147**	**11,800**	**11,987**	**-**	**-**	**11,987**
Interest income	-	(2,213)	-	(2,213)	-	(1,028)	(512)	(1,540)
Total income in Surplus or Deficit on the Provision of Services	**-**	**(2,213)**	**-**	**(2,213)**	**-**	**(1,028)**	**(512)**	**(1,540)**
Net gain/(loss) for the year	**11,653**	**(2,213)**	**147**	**9,587**	**11,987**	**(1,028)**	**(512)**	**10,447**

21. Financial Instruments (cont'd)

(iv) Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term investments are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Public Works Loan Board (PWLB) loans have been valued using the standard new loan rates published by the Debt Management Office (DMO) on 31 March 2019.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months the carrying amount is assumed to approximate to fair value.
- The fair value of trade debtors and creditors are taken to be the invoiced amounts.
- The fair value of cash, overdrafts and other cash equivalents is taken to be the carrying value.

£0.1m of the long term investment at 31 March 2019 (£0.1m at 31 March 2018) shown in section (i) relates to the Council's investment in the GLE Group matched by the long term creditor of the same amount. Again as any difference in values would be insignificant the fair value is taken to be the carrying value for both the investment and the liability.

The fair values calculated for the remaining instruments which consist of the Council's borrowings and investments (excluding any Cash or Cash Equivalents) are as follows:

	31 March 2019		31 March 2018	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities				
Borrowings				
PWLB Debt	(215,502)	(289,376)	(217,405)	(290,629)
Total	**(215,502)**	**(289,376)**	**(217,405)**	**(290,629)**
Financial Assets				
Loans and receivables				
Money market loans less than one year	260,998	260,998	208,273	208,273
Money market loans greater than one year	7,000	7,037	17,500	17,500
Available for Sale less than one year	-	-	30,156	30,156
Available for Sale greater than one year	-	-	-	-
Total	**267,998**	**268,035**	**255,929**	**255,929**

The fair value for financial liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. The commitment to pay interest above current market rates increases the amount that the authority would have to pay if the lender requested or agreed to early repayment of the loans. The calculation above uses the PWLB certainty rate as the discount factor, if the premature repayment rate were to be used the fair value would be **£332.351m** as at 31 March 2019 (£334.197m at 31 March 2018.)

The fair value for financial liabilities have been determined by reference to the PWLB redemption rules and prevailing PWLB standard new loan rates at each Balance Sheet date. They include accrued interest.

At 31 March 2019, all money market loans and receivables are repayable within two years. Therefore, the carrying amount is assumed to be approximate fair value; the figure for both years includes accrued interest. The prevailing comparator market rates have been taken from indicative investment rates at the Balance Sheet date. In practice rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures and the difference is not likely to be material.

21. Financial Instruments (cont'd)

Nature and Extent of Risks Arising from Financial Instruments

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

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

Overall Procedures for Managing Risk

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

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

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

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

Credit Risk

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

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

The Council's maximum exposure to credit risk in relation to its investments in banks cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2019 that this was likely to crystallise.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any counterparty in relation to outstanding deposits or non investment activity related financial instrument.

Liquidity Risk

The Council manages its liquidity position through the risk management procedures set out above and through cash flow management procedures required by the Code of Practice on Treasury Management in the Public Services. This seeks to ensure that cash is available when needed.

21. Financial Instruments (cont'd)

The Council has ready access to borrowings from the money markets to cover any day-to-day cash flow needs, while the PWLB provides access to longer term funds, it also acts as a lender of last resort to local authorities (although it will not provide funding to an authority whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. Thus there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments.

Exposure to customers is assessed by reference to past experience, age of debt, and stage of recovery process. Details of these debts are reported in **Note 16**. The sums shown are net of a prudent allowance for their impairment amounting to **£3.83 million** at 31 March 2019 (£3.23 million at 31 March 2018). The council does not normally allow credit for its customers.

The past due but not impaired amount can be analysed by age as follows:

	31 March 2019 £000	31 March 2018 £000
Less than one month	29,895	13,761
One to three months	152	3,460
Three months to one year	637	4,362
More than one year	630	6,824
	31,314	**28,407**

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. While the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments for greater than one year in duration are the key parameters used to address this risk. The Council's treasury and investment strategies address the main risks and the treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs and spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

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

	31 March 2019 £000	31 March 2018 £000
Less than one year	(9,699)	(7,040)
Between one and two years	(11,410)	(9,699)
Between two and five years	(4,279)	(11,410)
Between five and ten years	(37,084)	(29,952)
More than ten years	(150,369)	(161,779)
Total	**(212,841)**	**(219,880)**

21 Financial Instruments (cont'd)

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

	31 March 2019 £000	31 March 2018 £000
Less than one year	260,500	238,429
Between one and two years	7,000	17,500
Between two and three years	-	-
More than three years	-	1,525
Total	**267,500**	**257,454**

The above tables exclude trade payables and receivables and cash and cash equivalents all of which are due to be paid/received within one year.

Market risk

Interest Rate Risk: The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument durations. For instance, a rise in variable and fixed interest rates would have the following effects:

- *Borrowing at variable rates*: the interest expense charged to the Comprehensive Income and Expenditure Statement will rise.
- *Borrowing at fixed rates*: the fair value of the borrowing liability will fall (no impact on revenue balances)
- *Investments at variable rates*: the interest income credited to the Comprehensive Income and Expenditure Statement will rise.
- *Investments at fixed rates*: the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings do not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments is posted to the Surplus or Deficit on the Provision of Services and affects the General Fund balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. The Strategy sets a treasury indicator that provides maximum and minimum limits for fixed and variable interest rate exposure. The treasury team monitors market and forecast interest rates within the year and adjusts exposure appropriately. For instance, during periods of falling interest rates and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rate borrowing would be postponed.

Price risk: the Council, excluding the Pension Fund, does not generally invest in equities or marketable bonds.

Foreign exchange risk: the Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movement in exchange rates.

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

	2018/19 £000	2017/18 £000
Adjustment for items included elsewhere in the Cash Flow Statement:		
Capital Grants	(13,668)	(33,321)
Adjustment for 'non-cash' items included in the Income and Expenditure Statement:		
Depreciation and Amortisation of non-current assets	35,295	36,123
Impairments and revaluations	29,798	38,524
Value of non-current assets derecognised on disposal	9,255	11,560
Value of 'Assets Held for Sale' derecognised on disposal	-	546
Assets transferred to/(from) Assets Held for Sale	-	(3,889)
Net adjustment made in respect of IAS 19 (Pensions)	20,442	25,452
Revaluations of Available for Sale Financial Assets	5	2,820
Amortisation of Premia and Discounts	4	4
Movement in non-cash assets and liabilities:		
(Increase)/decrease in short-term Debtors*	(9,272)	(2,986)
add/less: (Increase)/decrease in Capital Debtors	(65)	(481)
(Increase)/decrease in Long-term Debtors	-	54
Increase/(decrease) in short-term Creditors*	42,840	17,767
add/less: Increase/(decrease) in Capital Creditors	(805)	(2,321)
Assets transferred to 'Assets Held for Sale'	-	3,889
(Increase)/decrease in Inventories	(18)	(1)
Increase/(decrease) in Provisions	18,194	1,958
Increase/(decrease) in Grants and Contributions Receipts in Advance	9,146	6,055
Adjustments to net surplus or deficit on the provision of services for non-cash movements	**141,151**	**101,753**

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

22b. Cash Flow Statement - Operating Activities

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

	2018/19 £000	2017/18 £000
Interest Received	1,970	1,420
Interest Paid	(11,705)	(10,918)

22c. Reconciliation of Liabilities Arising from Financing Activities

2018/19	Opening Balance	Cash (Inflow)/ Outflow	Transfers between ST and LT	Other Non-Cash changes	Closing Balance
	£000	£000	£000	£000	£000
Long-Term Borrowing	(213,101)	-	9,699	(4)	**(203,406)**
Short-Term Borrowing	(7,040)	4,564	(9,699)	79	**(12,096)**
Lease Liabilities	(225)	100	-	-	**(125)**
PFI	(7,932)	272	-	-	**(7,660)**
Total	**(228,298)**	**4,936**	**-**	**75**	**(223,287)**

23. Agency Services

The Council acts as agent under agreements with various bodies and receives financial reimbursement for the costs of such services from the bodies concerned. In some cases the council makes a small surplus or deficit on these agreements through commission or reimbursement of costs. These surpluses or deficits are included within the relative service lines in the CIES. Bodies with whom we have these agency agreements include Thames Water, Transport for London, West London Housing and Business Improvement districts.

24. Members' Allowances

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

	2018/19	2017/18
	£000	£000
Members' Allowances	820	775

25. Officers' Remuneration

This note shows the remuneration as paid through the Council's payroll to the Council’s Chief Executive, Statutory Chief Officers, members of the Strategic Leadership Team (i.e. those reporting to the Chief Executive) and employees with salaries over £150,000.

Role	In Post	Notes	FY	Salary, Fees and Allowances	Bonuses*	Expenses Allowances	Compensation for Loss of Office	Pension Contribution	Total
				£	£	£	£	£	£
Chief Executive	Kim Smith		**2018/19**	**179,000**	**8,950**	**-**	**-**	**28,756**	**216,706**
			2017/18	179,000	-	-	-	27,387	206,387
Lead Director Regeneration, Planning & Housing	Joanne Rowlands		**2018/19**	**154,000**	**7,700**	**-**	**-**	**24,740**	**186,440**
			2017/18	129,820	-	-	-	19,862	149,682
Director of Adult Social Care	Lisa Redfern	1	**2018/19**	**142,007**	**7,100**	**1,240**	**-**	**22,813**	**173,160**
			2017/18	80,679	-	-	-	12,344	93,023
Director of Public Service Reform	Rachael Wright-Turner	1	**2018/19**	**42,578**	**-**	**-**	**-**	**6,375**	**48,953**
			2017/18	48,683	-	-	-	7,449	56,132
Shared Services Executive Director of Adult Social Care for LBHF, RBKC and WCC	Sue Redmond	2	**2018/19**	**-**	**-**	**-**	**-**	**-**	**-**
			2017/18	103,157	-	-	-	14,280	117,437
Strategic Director, Finance and Governance (Section 151 Officer)	Hitesh Jolapara		**2018/19**	**147,000**	**7,350**	**310**	**-**	**23,616**	**178,276**
			2017/18	135,568	-	250	-	20,742	156,560
Commercial Director	Michael Hainge		**2018/19**	**-**	**-**	**-**	**-**	**-**	**-**
			2017/18	107,060	5,353	239	52,654	17,199	182,506
Director of Delivery and Value	Sarah Thomas	3	**2018/19**	**-**	**-**	**-**	**-**	**-**	**-**
			2017/18	96,094	4,969	-	-	15,463	116,526
Director of Resident's Services	Nicholas Austin	4	**2018/19**	**58,094**	**-**	**-**	**42,609**	**8,888**	**109,591**
			2017/18	112,874	-	-	-	17,270	130,144
Director of Corporate Services	Mark Grimley	5	**2018/19**	**127,000**	**-**	**-**	**-**	**19,431**	**146,431**
			2017/18	10,417	-	-	-	1,594	12,010
Director of Human Resources	Debbie Morris	6	**2018/19**	**-**	**-**	**-**	**-**	**-**	**-**
			2017/18	29,005	-	-	-	4,438	33,443
Director of Childrens Services	Stephen Miley	7	**2018/19**	**133,300**	**6,665**	**-**	**-**	**21,415**	**161,380**
			2017/18	120,182	-	-	-	18,388	138,570

2017/18 disclosures have been restated where elements of remuneration relating to that year were finalised in 2018/19.

*The bonuses as disclosed for senior officers eligible under the contractual Performance Related Pay (PRP) scheme for 2018/19 are based on estimates only and will be subject to the completion of the PRP process. This may result in eventual payments being less or greater than those disclosed.

Notes

1	The Director of Adult Social Care post was created during 2017/18 as a result of the decision to exit the Tri-borough arrangement for Adult Social Care. The post was filled from 1 August 2017. The role of Director of Public Service Reform was absorbed under the Director of Social Care, Lisa Redfern, from July 2018. Rachael Wright-Turner left the council in July 2018.
2	This post was deleted on 31 October 2017 due to the decision to exit the Tri-borough arrangement for Adult Social Care. It was replaced by the Director of Adult Social Care - a post solely responsible for LBHF operations.
3	The Director of Delivery and Value was covered on an interim basis between 8 May 2017 to 15 February 2019. The post was deleted after 15 February 2019.
4	Nicholas Austin left the council in September 2018, and the role of Director of Resident's Services was occupied on an interim basis.
5	This post was created as a result of the decision to exit the Bi-borough arrangement for Human Resources. The post was a permanent appointment from 1 March 2018.
6	This post was deleted during 2018/19 as a result of the decision to exit the Bi-borough arrangement for Human Resources. It was replaced by the Director of Corporate Services - a post solely responsible for LBHF operations.
7	This post was created during 2018/19 as a result of the decision to exit The Tri-borough arrangement for Children's Services. It has been filled since 7 August 2017.

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions and including redundancy payments) were paid the following amounts. These numbers do not include senior employees shown in the previous table:

Remuneration Band	2018/19 Number of Employees	2017/18 Number of Employees
£175,000 - £179,999	0	1
£170,000 - £174,999	0	0
£165,000 - £169,999	0	0
£160,000 - £164,999	0	0
£155,000 - £159,999	0	0
£150,000 - £154,999	0	0
£145,000 - £149,999	0	0
£140,000 - £144,999	0	0
£135,000 - £139,999	0	0
£130,000 - £134,999	0	0
£125,000 - £129,999	0	1
£120,000 - £124,999	1	0
£115,000 - £119,999	0	2
£110,000 - £114,999	1	4
£105,000 - £109,999	3	1
£100,000 - £104,999	4	1
£95,000 - £99,999	4	7
£90,000 - £94,999	8	4
£85,000 - £89,999	6	9
£80,000 - £84,999	16	14
£75,000 - £79,999	24	28
£70,000 - £74,999	22	7
£65,000 - £69,999	19	23
£60,000 - £64,999	31	30
£55,000 - £59,999	68	60
£50,000 - £54,999	140	118
Total	**347**	**310**

Of the 347 employees listed above in 2018/19, 102 (29%) were employees where pay decisions rest with the School Governing Body and not the Council. The corresponding figure for 2017/18 was 92 (30%).

25. Officers' Remuneration (cont'd)

Exit Packages

The number of exit packages with total cost per band and total cost of the compulsory and other departures are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of packages by cost band		Total cost of exit packages in each band	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
£0 - £20,000	15	30	-	2	15	32	99,044	288,135
£20,001 - £40,000	3	14	-	-	3	14	85,101	397,142
£40,001 - £60,000	2	3	-	-	2	3	141,502	138,988
£60,001 - £80,000	2	2	-	-	2	2	143,606	126,772
£80,001 - £100,000	2	1	-	-	2	1	188,238	89,779
Over £100,001	-	-	-	-	-	-	-	-
Total	**24**	**50**	**-**	**2**	**24**	**52**	**657,491**	**1,040,816**

This includes exit packages agreed by School Governing Bodies. Exit packages include the accrued cost of added years (the pension strain). These costs are not paid to individuals but reflect the cost to the council of the employee retiring early, without actuarial reduction of their pension.

26. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Teachers' Pensions on behalf of the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2018/19, the Council paid £3.74 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.51% of pensionable pay. The figures for 2017/18 were £3.75 million and 16.48%. There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. During 2018/19 the costs arising from additional benefits amounted to £320.1k (2017/18: £300.9k).

27. Defined Benefit Schemes

Participation in Pension Schemes

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

The Council participates in the following post employment schemes:
• The Local Government Pension Scheme administered locally by London Borough of Hammersmith and Fulham (LBHF LGPS).
• The Local Government Pension Scheme administered by London Pensions Fund Authority (LPFA LGPS).

The schemes are funded defined benefit salary schemes, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. The scheme to 31 March 2014 provided benefits based on final salary and length of service on retirement. Changes to the LGPS came into effect on 1 April 2014 and any benefits accrued from this date will be based on career average revalued salary, with various protections in place for those members in the scheme before the changes took effect.

In general, participating in a defined benefit pension scheme means that the Council is exposed to a number of risks:
• Investment risk. The Fund holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
• Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.
• Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
• Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the Pension Funds, there is an orphan risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Council e.g. higher than expected investment returns.

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments when they eventually fall due.

27. Defined Benefit Schemes (cont'd)

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

	LBHF Local Government		LPFA Local Government	
	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
• current service costs	28,781	30,610	132	151
• past service costs including curtailments	149	1,268	-	-
• (gain)/ loss from settlements	(2,898)	(3,683)	-	-
• administration expenses	278	344	59	59
• unfunded pension payments	(2,355)	(2,355)	(33)	(33)
• employer's pension contributions adjustment	-	(40)	-	(13)
Financing and Investment Income and Expenditure:				
• net interest expense / (income)	16,205	18,217	(7)	47
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**40,160**	**44,361**	**151**	**211**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined benefit liability				
• Return on plan assets (excluding the amount included in the net interest expense)	(25,165)	3,272	(3,613)	(815)
• Actuarial gains and losses arising on changes in demographic assumptions	(86,281)	-	(1,513)	-
• Actuarial gains and losses arising on changes in financial assumptions	66,335	(69,691)	2,144	(1,708)
• Experience loss/ (gain) on defined benefit obligation		-	-	-
• Other actuarial gains/ (losses)	-	-	-	-
• Impact of asset ceiling	-	-	2,406	-
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure	**(4,951)**	**(22,058)**	**(425)**	**(2,312)**
Movement in Reserves Statement				
• reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(40,160)	(44,361)	(151)	(211)
Actual amount charged against the General Fund Balance for pensions in the year:				
• employers' contributions payable to scheme	19,866	19,112	3	7

27. Defined Benefit Schemes (cont'd)

Assets and Liabilities in Relation to Post-Employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	LBHF Local Government		LPFA Local Government	
	2018/19	**2017/18**	**2018/19**	**2017/18**
	£000	**£000**	**£000**	**£000**
Opening balance 1 April	**1,507,470**	**1,544,495**	**45,367**	**47,458**
Current service cost	28,781	30,610	132	151
Interest cost	37,797	41,073	1,128	1,073
Remeasurement (gains) and losses:				
- Change in financial assumptions	66,335	(69,691)	2,144	(1,708)
- Change in demographic assumptions	(86,281)	-	(1,513)	-
- Experience loss/(gain) on defined benefit	-	-	-	-
Liabilities assumed/ (extinguished) on	(6,174)	(6,504)	-	-
Estimated benefits paid net of transfers in	(42,284)	(36,798)	(2,237)	(1,599)
Past service costs, including curtailments	149	1,268	-	-
Contributions by Scheme participants	5,461	5,372	24	25
Unfunded pension payments	(2,355)	(2,355)	(33)	(33)
Closing balance at 31 March	**1,508,899**	**1,507,470**	**45,012**	**45,367**

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

	LBHF Local Government		LPFA Local Government	
	2018/19	**2017/18**	**2018/19**	**2017/18**
	£000	**£000**	**£000**	**£000**
Opening balance 1 April	**858,300**	**854,154**	**45,616**	**45,388**
Interest on assets	21,592	22,856	1,135	1,026
Remeasurement gain/ (loss):				
- Return on assets less interest	25,165	(3,272)	3,613	815
- Other actual gains/ (losses)	-	-	-	-
Administration expenses	(278)	(344)	(59)	(59)
Contributions by employer including unfunded	22,221	21,507	36	53
Contributions by scheme participants	5,461	5,372	24	25
Estimated benefits paid plus unfunded net of	(44,639)	(39,153)	(2,270)	(1,632)
Settlement prices received/ (paid)	(3,276)	(2,820)	-	-
Closing balance at 31 March	**884,546**	**858,300**	**48,095**	**45,616**

Pension Assets and Liabilities Recognised in the Balance Sheet

	31 March 2019	**31 March 2018**
	£000	**£000**
Present Value of Liabilities		
LBHF Local Government Pension Scheme (Funded)	1,476,709	1,472,728
LBHF Local Government Pension Scheme (Unfunded)	32,190	34,742
LPFA Local Government Pension Scheme (Funded)	44,817	45,146
LPFA Local Government Pension Scheme (Unfunded)	195	221
Fair Value of Assets		
LBHF Local Government Pension Scheme	(884,546)	(858,300)
LPFA Local Government Pension Scheme	(48,095)	(45,616)
Impact of Asset Ceiling		
LBHF Local Government Pension Scheme	-	-
LPFA Local Government Pension Scheme	2,406	-
Net liability arising from defined benefit obligation		
LBHF Local Government Pension Scheme	624,353	649,170
LPFA Local Government Pension Scheme	(677)	(249)
Total	**623,676**	**648,921**

27. Defined Benefit Schemes (cont'd)

The liabilities show the underlying commitments that the council has in the long run to pay post employment (retirement) benefits. The total net liability of £623.7m has a substantial impact on the net worth of the council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- the deficits on both local government schemes will be made good by increased contributions over the remaining working life of employees (ie before payments fall due), as assessed by the scheme actuary.
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

Local Government Pension Scheme Assets

The return on the Funds (on a bid value to bid value basis) for the year 31 March 2019 is estimated to be 6% for LBHF Local Government Pension Scheme and 11% for LPFA Local Government Pension Scheme. The actual return on Fund assets over the year may be different. The asset allocations are set out below:

	LBHF Local Government Pension Scheme			
	31 March 2019		31 March 2018	
	£000	%	£000	%
Equities	446,161	50%	433,176	50%
Cash Plus Funds	168,252	19%	270,964	32%
Cash	92,455	10%	19,614	2%
Property	86,884	10%	50,127	6%
Inflation Opportunity Funds	90,794	10%	84,419	10%
Total	**884,546**	**100%**	**858,300**	**100%**

	LPFA Local Government Pensions Scheme			
	31 March 2019		31 March 2018	
	£000	%	£000	%
Equities	26,165	54%	27,893	61%
Target Return Portfolio	12,826	27%	10,223	22%
Infrastructure	2,898	6%	1,995	4%
Property	4,523	9%	3,283	7%
Cash	1,683	4%	2,222	5%
Total	**48,095**	**100%**	**45,616**	**100%**

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The LBHF Local Government Pension Scheme and LPFA Local Government Pension Scheme have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates being based on the latest full valuation of the scheme as at 31 March 2016.

27. Defined Benefit Schemes (cont'd)

The principal assumptions used by the actuary have been:

	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme	
	2018/19	**2017/18**	**2018/19**	**2017/18**
Mortality Assumptions				
Life expectancy from age 65 - retiring today				
Men	23.4	24.5	19.9	20.9
Women	24.8	26.1	23.0	24.1
Life expectancy from age 65 - retiring in 20 years				
Men	25.0	26.8	21.7	23.2
Women	26.6	28.4	24.7	26.3
Financial Assumptions				
Rate of Inflation - RPI	3.4%	3.3%	3.5%	3.4%
Rate of Inflation - CPI	2.4%	2.3%	2.5%	2.4%
Rate of Increase in Salaries	3.9%	3.8%	4.0%	3.9%
Rate of Increase in Pensions	2.4%	2.3%	2.5%	2.4%
Discount Rate	2.4%	2.6%	2.3%	2.6%

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

These assumptions are set with reference to market conditions at 31 March 2019.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The projected service costs for 2019/20 are £28.608m (LBHF) and £0.134m (LPFA).

	Impact on the Projected Service Cost of the Scheme			
	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme	
	Increase in Assumption	Decrease in Assumption	Increase in Assumption	Decrease in Assumption
	£000	£000	£000	£000
Adjustment to:				
Discount Rate (+/- 0.1%)	27,946	29,286	132	136
Long term salary increase (+/- 0.1%)	28,608	28,608	134	134
Pension increases and deferred revaluation* (+/- 0.1%)	29,285	27,946	136	132
Mortality age rating assumption (+/- 1 year)	29,520	27,724	139	130

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

Impact on the Council's Cash Flows

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by Regulations. The actuarial valuation of the fund was carried out as at 31 March 2016 and will set contributions for the period from 1 April 2017 to 31 March 2020. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a level of funding of 100% using the actuarial valuation assumptions. LBHF have agreed a strategy with the scheme's actuary to achieve a funding level of 100% over a 22 year period.

The total contributions expected to be made by the council in the year to 31 March 2020 are £20.223m to the LBHF Local Government Pension Scheme. The LPFA Local Government Pension Scheme was certified to pay a minimum of nil employer pension contributions to the fund due to overpayment in previous years.

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

28. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections provided by the Council's external auditors:

	2018/19 £000	2017/18 £000
Fees payable to the External Auditor with regard to external audit services carried out by the appointed auditor for the year	126	164
Fees payable to External Audit for the certification of grant claims and returns for the year	20	31
Non-Audit Services	-	-
Total	**146**	**195**

29. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the council's area. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the schools budget funded by DSG receivable for 2018/19 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total 2018/19 £000	Total 2017/18 £000
Final DSG for 2018/19 before Academy Recoupment			139,832	138,665
Academy figure recouped for 2018/19			(62,780)	(62,222)
Total DSG after Academy recoupment for 2018/19			77,052	76,443
Plus: Brought forward from 2017/18			(7,033)	(2,165)
Less: Carry-forward to 2018/19 agreed in advance			7,033	2,165
Agreed initial budgeted distribution in 2018/19	8,646	68,406	77,052	76,443
In year adjustments	(452)	-	(452)	(1,676)
Final budgeted distribution for 2018/19	8,194	68,406	76,600	74,767
Less: Actual central expenditure	(8,607)		(8,607)	(7,593)
Less: Actual ISB deployed to schools		(74,577)	(74,577)	(72,041)
Plus Local authority contribution for 2018/19				-
(Drawdown from)/Contribution to DSG Reserve	**(413)**	**(6,172)**	**(6,584)**	**(4,868)**
Early Years Funding Reserve				655
Carry Forward to 2019/20			**(13,616)**	**(7,033)**

The DSG deficit in 2017/18 was accounted as a receipt in advance and in 2018/19 as an earmarked reserve. The transfer was not made as a prior year adjustment as it was immaterial.

The DSG has a cumulative deficit of £13.6 million. The Education and Schools Funding Agency now expect local authorities to prepare deficit recovery plans to recover any cumulative deficits, however the Council has set aside an earmarked reserve equivalent in value to the DSG deficit carried forward. This is shown in note 4.

30. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2018/19:

	2018/19 £000	2017/18 £000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	-	(29,499)
New Homes Bonus	(7,200)	(8,022)
S31 Grant - Business Rates Retention Scheme Relief	(1,068)	(2,493)
Housing Benefit and Council Tax Support Admin Subsidy	(1,459)	(1,433)
Winter Pressures Grant	(918)	-
Section 106 Non-ringfenced	(2,387)	(4,414)
Independent Living Grant	(796)	(822)
Adult Social Care Support Grant	(574)	(922)
Prison Social Care	(210)	(203)
Preventing Homelessness Grant	-	(546)
Education Services	-	(286)
Other Non-ringfenced government grants	(462)	(894)
Capital grants and contributions	(9,778)	(13,368)
Total	**(24,852)**	**(62,902)**

	2018/19 £000	2017/18 £000
Credited to Services		
Housing & Council Tax Benefit Subsidy	(106,301)	(116,510)
Dedicated Schools Grant	(83,184)	(79,634)
Public Health Grant	(22,924)	(23,601)
Improved Better Care Fund	(7,051)	(5,128)
Sixth Form Grant	(5,905)	(6,098)
Pupil Premium Grant	(3,879)	(3,989)
Flexible Homelessness Grant	(3,271)	(3,417)
Adult Learning	(2,846)	(2,488)
Section 106	(2,516)	(5,104)
Transport for London / Surface Transport	(2,183)	(1,022)
PFI Grants	(1,429)	(1,429)
Infant Free School Meals	(999)	(1,037)
Step Up to Social Work Grant	(747)	-
Disabled Facilities Grant	(694)	(897)
Unaccompanied Asylum Seeking Children	(691)	-
Troubled Families	(622)	(774)
Preventing Homelessness Grant	(414)	-
DfE Capital Grants	(384)	(3,419)
Children’s Social Care Innovation Grant	(185)	(1,037)
NDR and BRS Cost of Collection Allowance	(595)	(597)
Other grants and contributions	(4,307)	(4,548)
Total	**(251,127)**	**(260,729)**

30. Grant Income (cont'd)

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are:

	2018/19 £000	2017/18 £000
Grants and Contributions Receipts in Advance (Current)		
Public Health Grant	(2,025)	(3,185)
Levy Account Surplus Grant	(933)	-
Learning & Skills Council - revenue	(777)	(851)
New Homes Bonus Grant	(475)	(928)
Step Up to Social Work Grant	(330)	(304)
Flexible Homelessness Support Grant	(220)	(110)
Out of School-Settings Project Grant	(146)	-
Supporting Families Against Crime	(144)	-
National Assessment and Accreditation System Grant	(139)	-
Dedicated Schools Grant	-	5,384
Other grants - revenue	(984)	(496)
Total	**(6,173)**	**(490)**

	2018/19 £000	2017/18 £000
Grants and Contributions Receipts in Advance (Non-Current)		
Developer contributions (inc. section 106)	(26,110)	(23,914)
TfL	(2,161)	(2,064)
Social Care Grant	(638)	-
Winterbourne Grant	(300)	(300)
Other capital grants	(964)	(432)
Total	**(30,173)**	**(26,710)**

31. Related Parties

The Council is required to disclose material transactions with related parties. These are bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council.

Central Government

Central government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding.

Grants received from government departments are set out in Note 30.

Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2018/19 is shown in Note 24.

Information regarding reportable transactions has been collated by requiring all Members and Chief Officers to declare any related party transactions. A review was also carried out of the Council's Register of Declarations of Interests and of the Register of Pecuniary and Non-Pecuniary Interests of Councillors drawn up from declarations made at Committee and other meetings.

During 2018/19, the Council engaged in various transactions with related parties - per information provided by Councillors and Chief Officers to the value of £1,319k. The most significant transactions are to charitable organisations.

Name of body	2018/19 £000	2017/18 £000
H&F Citizen advice Bureau	663	626
Old Oak Housing Association	249	573
Groundwork London	194	489
H&F Law centre	(12)	-
H&F Volunteer Centre	122	-
Hammesmith & Fulham Community Law centre	102	205
Flame Charity	5	-
Lygon Alm House	(4)	-
Hammersmith United Charities	-	45
Hammersmith and Fulham Association for Mental Health T/a Hammersmith and Fulham Mind	-	19
Hammersmith & Fulham Mencap	-	547
Fulham Palace Trust	-	68
Total	**1,319**	**2,572**

In addition to the above, many Members have relationships or hold positions with other public bodies and voluntary organisations with which the Council does not have a financially material relationship, but with which the Council has a financial or influential relationship. These include the Western Riverside Waste Authority and schools.

Pension Fund

The Council is the administering authority of the Pension Fund. The Council owed the Pension Fund a net amount of £941k at the year end. The Council incurred costs of £334k expenses in relation to administering the fund. A detailed summary of the Pension Fund Accounts is included within this Statement of Accounts in the Supplementary Financial Statements section.

Other Public Bodies

The Council has a pooled budget arrangement with Central London Clinical Commissioning Group for the provision of community equipment. This is now included in Note 32.

Shared Services

The Council is engaged in joint working arrangements with the City of Westminster and the Royal Borough of Kensington and Chelsea in a limited number of areas. The nature of these arrangements does mean that each borough influences the others however, each borough remains sovereign.

32. Better Care Fund Pooled Budget

The Authority has entered into a pooled budget arrangement with The Hammersmith and Fulham Clinical Commissioning Group for the provision of Adult Social Care services to older people, people with physical or learning disabilities, people with mental health problems and services to safeguard adults.
The aim is to meet the needs of people living in the area of the London Borough of Hammersmith & Fulham. Expenditure funded from this budget includes the provision of care in residential settings, community services enabling people to remain in their own homes and a community independence service which supports the reablement of residents.

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

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

It is hosted by the London Borough of Hammersmith and Fulham, however, not all transactions pass through the Borough's accounting system.
The pooled budget for Joint Equipment has now been absorbed within the Better Care Fund.
Since 2017-18, the Better Care Fund has been widened to encompass funding known as the Improved Better Care Fund (IBCF). This funding is received direct from the Department for Communities and Local Government (DCLG). One of its key purposes is to manage the level of delayed transfers of care from acute settings to those in the community.

The following table summarises the position for 2018/19:

	2018/19 £000's	2017/18 £000's
Contributions to the Pooled Budget:		
London Borough of Hammersmith & Fulham	(15,514)	(13,294)
Hammersmith and Fulham Clinical Commissioning Group	(32,447)	(31,781)
Total Contributions	**(47,961)**	**(45,075)**
Expenditure Met by the Pooled Budget:		
Costs relating to the reablement of residents	6,863	6,298
Costs relating to supporting residents to remain in their own homes	0	0
Costs relating to care provided in residential settings or in community settings	38,934	36,819
Support Services and programme management relating to the BCF	1,457	1,721
Total Expenditure	**47,254**	**44,838**
Net (surplus)/deficit arising on the pooled budget in the year	(706)	(237)
Net (surplus)/deficit split by:		
Share of the net (surplus)/deficit due to the London Borough of Hammersmith & Fulham (Includes capital resources)	(84)	(10)
Share of the net (surplus)/deficit due to the Hammersmith & Fulham Clinical Commissioning Group	(622)	(227)

33. Interest in Companies

The Council has an involvement with a number of associated companies which are set out below. The assets and liabilities of these companies are not included in the Council's accounts as the materiality of the relationship does not justify such consolidation. Information is provided as to the general purpose of the company, its financial position, and any other material financial issues affecting the Council.

(i) Lyric Theatre Hammersmith Limited

This is a company limited by guarantee and a registered charity. Its main business is the promotion and encouragement of lively arts and theatre management. The Council supplies funding under a funding agreement to enable the company to carry out its charitable objectives. The revenue contributions by the Council were £230k in 2018/19. The latest audited accounts available, those relating to 2017/18, show net assets of £9,979k (£10,190k in 2016/17) and net income/(deficit) on its activities in that year of (£212k) (deficit £132k in 2016/17). The Funding agreement also provides the financial arrangements and responsibilities of the Council and Theatre respectively as a consequence of the Company occupying its premises on the basis of a sub under lease from the Council. Copies of the accounts may be obtained from the Executive Director, Lyric Theatre, King Street, London W6 0QL.

(ii) Urbanwise.London Limited

This charity is a charitable company limited by guarantee and was set up in 1983. Its objectives are the advancement of environmental education at all levels, particularly in the London Borough of Hammersmith and Fulham. The Council is the main source of grant funding for the charity. The contributions by the Council were £12k in 2018/19. The charity's latest audited accounts available, those relating to 2017/18 show net assets worth £68k, (£64k in 2016/17). A net gain of £4k has been reported for 2017/18 (net gain £3k in 2016/17). Copies of the accounts may be obtained from the Company Secretary, Urbanwise.London Ltd, The Lilla Huset, 191 Talgarth Road, London, W6 8BJ.

(iii) Housing Joint Ventures

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

New Company HFS Development 2 LLP is a Joint venture between the Council (50%) and Stanhope Plc (50%) which was incorporated on 19 July 2016. This offers unique opportunities to the public and private sector to work together to deliver appropriate forms of housing. The latest audited accounts available, those relating to 2017/18 show loss for the period amounted to £1,226,136k (loss £390k in 2016/17).

(iv) LBHF Ventures Limited

LBHF Ventures Limited is a company wholly owned by the Council which was incorporated 9 June 2016. The Council invested £95,000, by way of share capital in LBHF Ventures Limited. The latest unaudited accounts available, those relating to 2017/18 show net assets worth £27k (£76k in 2016/17). A net loss for the period reported amounted to (£68k), (loss £19k in 2016/17).

(v) LBHF Joint Ventures Limited

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

(vi) LBHF Family Support Services Limited

LBHF Family Support Services Limited is a Limited Company wholly owned by the Council, which was incorporated on 18 August 2017. The latest Accounts available relating to period 18th of August to February 2018, the company received no income and incurred no expenditure therefore made neither profit or loss.

34. Contingent Assets and Contingent Liabilities

Contingent Assets

Discounted Market Sale Units

The Council has historically negotiated various Section 106 agreements which deliver affordable housing. These agreements allow the Council to retain an equity share of 30% or more on properties that are being sold at a discount at various sites in the borough. The total number of such properties currently stands at 524 units with an estimated valuation of £260m. This represents a potential asset to the Council of £143m based on the its equity share, however, this is subject to market fluctuations. The owners of such properties can request to buy the retained equity share from the Council, such a purchase would realise additional capital resources for the Council which can be invested in affordable housing projects, but the level and timing of such resources is uncertain.

Contingent Liabilities

Litigations and claims

The council is involved in a number of litigations and claims that were ongoing as at the 31st March 2019 but their outcome is not yet determined.

	2018/19 £'000 (Est)
Total litigations and claims	**14,200**

The council is involved in a number of claims. These cases remain as Contingent Liabilities. If the council is unsuccessful in these claims, then the council may be liable to pay damages, interest and costs. All the above litigations are prudent estimates of the potential cost to the council. It is not possible, due to considerations of legal privilege to either provide further information or to give an assessment of the likelihood of success of any of the litigations.

35. Trust Funds

The Mayor and Burgesses of the Council are the Trustees of the Wormwood Scrubs Charitable Trust. The Trust's objective is to hold Wormwood Scrubs Open Space "upon trust for the perpetual use thereof the inhabitants of the Metropolis for exercise and recreation" as defined by the Wormwood Scrubs Act of 1879. The table below shows the operating costs and income of the Trust:

	2018/19 £000	2017/18 £000
Balance at 1st April	**(5,515)**	**(5,217)**
Income	(1,060)	(1,072)
Sub total	**(6,575)**	**(6,289)**
Less:		
Expenditure and Transfers	828	774
Balance at 31 March	**(5,747)**	**(5,515)**

36. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Non-current Assets / Investment Properties	Asset valuations are periodically reviewed to ensure that the Council does not materially misstate its non-current assets and investment properties. However, the valuation of property will inevitably be an estimate and property values can be volatile. Should evidence emerge in 2019/20 that causes the Council to amend these estimates, the estimated fair value of its property and dwellings could change.	A reduction in estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement (CIES). For example, a 10 per cent reduction in the net book value of Council Dwellings (£125.9 million) would result in a reduction of the Revaluation Reserve of £19 million and a £106.9 million charge to the CIES. Conversely, an increase in value would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the CIES and / or gains being recorded as appropriate in the CIES. Depreciation charges for operational buildings will change in direct proportion to the change in estimated fair value. The net book value of non-current assets subject to potential revaluation is £1.626 billion**.**
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	If the useful life of assets is reduced, depreciation charges would increase. For example it is estimated that the annual depreciation charge for Council dwellings would increase by £0.3m for every year that useful lives had to be reduced.
Fair value measurements	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities. Where Level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the authority's chief valuation officer and external valuer). Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in Note 38.	The Council uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties and financial assets. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets). Significant changes in any of the unobservable inputs could result in a significantly lower or higher fair value measurement for the investment properties and financial assets. Any significant change would however largely be between asset values and the corresponding adjustment accounts - as such this would be unlikely to significantly affect the Council's revenue position or usable reserves.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. No allowance has been made in respect of the recent McCloud age discrimination ruling as it is deemed not material to the Council's accounts.	The effects on the net pensions liability of changes in individual assumptions are considered in detail in Note 27. The ruling may increase the Council's share of Pension Fund liabilities if the Government decides to implement full final salary protection for all those impacted, however, depending on future pay growth and government actions there may little to no impact at all. The worst-case scenario which would be full protections and CPI plus 1.5% pay growth would be £6.6m.

37. Events after the Reporting Period

The Statement of Accounts have been prepared up to 31 March 2019.

There are no material adjusting events after the balance sheet date to report.

38. Statement of Accounting Policies

i. GENERAL PRINCIPLES

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

iii. ACCRUALS OF INCOME AND EXPENDITURE

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

• Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
• Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
• Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
• Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
• Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
• Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where the exact amount of a debtor or creditor was not known at the time of closing the accounts then an estimated amount has been used.

Any known uncollectable debts are written off and where there is uncertainty over debt recovery an allowance for doubtful debt is made. In both instances a charge is made to revenue.

iv. OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to services as agreed in the annual budget.

v. GOVERNMENT GRANTS AND CONTRIBUTIONS

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

38. Statement of Accounting Policies (cont'd)

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income & Expenditure (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Community Infrastructure Levy

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

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

vi. CHARGES TO REVENUE FOR NON-CURRENT ASSETS

Services, support services and trading accounts are debited with the following amounts to record the cost of holding property, plant and equipment during the year:

- depreciation attributable to the assets used by the relevant service.
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vii. COUNCIL TAX AND NON-DOMESTIC RATES

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

Accounting for Council Tax and NDR

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

38. Statement of Accounting Policies (cont'd)

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

viii. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions, but that does not result in the creation of a non-current asset, has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

ix. PROPERTY, PLANT AND EQUIPMENT

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits, or service potential associated with the item, will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

The threshold for capital expenditure has been set at £10,000.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price.
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:
- infrastructure, community assets and assets under construction - depreciated historical cost.
- dwellings - current value, determined using the basis of existing use value for social housing (EUV-SH).
- council offices - current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV), except for a few offices that are situated close to the council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value.
- school buildings, sports centres and libraries – are deemed specialist nature and are measured at depreciated replacement cost which is used as an estimate of current value.
- surplus assets - the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.
- all other assets - current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

Depreciated Replacement Cost is used as an estimate of current value where there is no market-based evidence of current value because of the specialist nature of an asset, for example schools.

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

38. Statement of Accounting Policies (cont'd)

All items of property, plant and equipment, except Council Dwellings, are revalued on a four year rolling programme. Council Dwellings are revalued annually.

Where decreases in value are identified, they are accounted for by:

• where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
• where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:
• where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
• where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted, where material, for depreciation that would have been charged if the loss had not been recognised.

Depreciation

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

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

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, leading to a significantly different depreciation profile, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is assessed immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

38. Statement of Accounting Policies (cont'd)

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. 75% of receipts relating to Right to Buy disposals (net of statutory deductions and allowances) is payable to the Government, except where receipts have been retained under the 1-4-1 replacement scheme.

The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

x. HERITAGE ASSETS

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

Valuation Policy

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

Depreciation, amortisation and impairment policy

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

The Council has reported four categories of heritage assets:

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

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

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

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

38. Statement of Accounting Policies (cont'd)

xi. INVESTMENT PROPERTY

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xii. LEASES

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

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

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

The Council as Lessee

Finance Leases

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

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

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

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

Operating Leases

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

38. Statement of Accounting Policies (cont'd)

The Council as Lessor

Finance Leases

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

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

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

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

Operating Leases

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

xiii. PRIVATE FINANCE INITIATIVE (PFI) AND SIMILAR CONTRACTS

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

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

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

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

The amounts payable to the PFI operators each year are analysed into the following elements:
• fair value of the services received during the year - debited to Adult Social Care service in the Comprehensive Income and Expenditure Statement
• finance cost - an interest charge between 8-17% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

38. Statement of Accounting Policies (cont’d)

• contingent rent - increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
• payment towards liability - applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).

xiv. INTANGIBLE ASSETS

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

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

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

The depreciable amount of an intangible asset is amortised over its useful life, usually 4 years but ranging between 3 to 10 years, to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xv. INVENTORIES

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the 'First-in, First-out' (FIFO) costing formula.

xvi. CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Cash equivalents are investments that, having originally been invested for no longer than three months, are repayable on demand or readily convertible to known amounts of cash with an insignificant risk of change in value. Fixed Deposits are not considered to be readily convertible since they are only repayable at the point of maturity and cannot be traded or redeemed without penalty.

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

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

xvii. FINANCIAL INSTRUMENTS

Financial Liabilities

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

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

38. Statement of Accounting Policies (cont'd)

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

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

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The council's business model is to hold investments to collect contractual cash flows.

Financial assets are therefore classified as amortised cost, except for those whose contractual payments are nnot solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

However, the council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Loans and Receivables

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

38. Statement of Accounting Policies (cont'd)

Where assets are identified as impaired because of a past event and there is a likelihood that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available for Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:
- Instruments with quoted market prices – the market price;
- Other instruments with fixed and determinable payments – discounted cash flow analysis;
- Equity shares with no quoted market prices – professional estimate.

The inputs to the measurement techniques are categorised in accordance with the following three levels:
Level 1 inputs - quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date.
Level 2 inputs - inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
Level 3 inputs - unobservable inputs for the asset.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/ loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Financial Instruments Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

xviii. EMPLOYEE BENEFITS

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

38. Statement of Accounting Policies (cont'd)

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.

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

Post-Employment Benefits

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

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

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

However, the arrangements for the Teachers' Pension Scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The

Children's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

Pension funds under the Local Government Scheme are accounted for as defined benefits schemes:
• The liabilities of the Funds attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
• Liabilities are discounted to their value at current prices, using a discount rate of 2.55% (2.7% in 2016/17). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the Merrill Lynch AA-rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). The approach has changed from the 'spot rate' approach adopted at the previous accounting date.
• The assets of the Funds attributable to the Council are included in the Balance Sheet at their fair value:
- quoted securities and pooled investment vehicles - current bid price
- fixed interest securities net market value based on current yields at the balance sheet date
- unquoted securities - professional estimate
- unitised securities - current bid price
- property - market value.
• The change in the net pensions liability is analysed into the following components:

Service Cost comprising:

- **current service cost**: the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- **past service cost**: the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier year - debited to the Surplus or Deficit on the Provision of Services line in the Comprehensive Income and Expenditure Statement as part of Centrally Managed Budgets.
- **net interest on the net defined benefit liability (asset)**: i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the

38. Statement of Accounting Policies (cont'd)

period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurement comprising:

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

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

Discretionary Benefits

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

xix. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions

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

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

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

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

Contingent Liabilities

A contingent liability arises where:

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

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

38. Statement of Accounting Policies (cont'd)

Contingent Assets

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

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

xx. RESERVES

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

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

xxi. INTERESTS IN COMPANIES AND OTHER ENTITIES

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

The Council has interests in a number of companies and other entities however, based on consideration of criteria to determine what constitutes a material interest, the Council has determined that a full set of Group Accounts is not required for 2018/19. Companies in which the Council has an interest are detailed in Note 36 to the Core Financial Statements.

xxii. EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:
• those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events
• those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

xxiii. FOREIGN CURRENCY TRANSLATION

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in a foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xxiv. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

xxv. EXCEPTIONAL ITEMS

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial position.

xxvi. FAIR VALUE MEASUREMENT

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

38. Statement of Accounting Policies (cont'd)

The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:
a) in the principal market for the asset or liability, or
b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council uses external Valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant. Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:
• Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.
• Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
• Level 3 – unobservable inputs for the asset or liability.

39. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 38, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.
The critical judgements made in the Statement of Accounts are:

Funding
There continues to be a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

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

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

Accounting for Schools - Transfer of Schools to Academy Status
When a school that is held on the Council's balance sheet transfers to Academy status the Council accounts for this as a disposal of land and building for nil consideration, on the date that the school converts to Academy status, rather than as an impairment on the date that approval to transfer to Academy status is announced.

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

Capital Charges associated with HRA Non-Dwelling Assets
In 2012/13, as part of transitional funding arrangements in the Housing Revenue Account (HRA), the Department for Local Government and Communities (DCLG) determined that the depreciation of non-dwelling assets should impact on the HRA balance. This determination was later extended to cover revaluation losses. Previously, such costs were neutralised to the Capital Adjustment Account (CAA). The Council, in complying with this determination, has taken a view that, in order to apply it consistently, it should also apply to revaluation gains. Gains incurred on investment properties have been reserved in an earmarked reserve - seeing that no revaluation reserve is available - which will be held to mitigate against future potential losses. The Council has taken a view that the DCLG determination does not extend gains and losses incurred on disposal. The Council has not adjusted the CAA to remove any funding associated with non-dwellings which has been reserved there. The DCLG issued a new determination in 2017 which substantially addressed the above issue, however the previous determination still applies to the period to which it pertained.

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

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

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

40. Accounting Standards not yet adopted

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

• IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities. CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2020.

• IAS 40 Investment Property: Transfers of Investment Property provides further explanation of the instances in which a property can be reclassified as investment property. This is not anticipated to have a material impact on the Council.

• IFRIC 22 Foreign Currency Transactions and Advance Consideration clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. The Council does not have any material transactions within the scope of the amendment.

• IFRIC 23 Uncertainty over Income Tax Treatments provides additional guidance on income tax treatment where there is uncertainty. This will have no material impact on the Council's accounts.

• IFRS 9 Financial instruments: prepayment features with negative compensation amends IFRS9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. This is not anticipated to have a material impact on the Council.

SUPPLEMENTARY FINANCIAL STATEMENTS

Collection Fund Account

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

	2018/19			2017/18			
	Business Rates £000	**Council Tax £000**	**Total £000**	**Business Rates £000**	**Council Tax £000**	**Total £000**	Notes
Income							
Council Tax Collectable	-	(82,584)	(82,584)	-	(79,580)	(79,580)	1
Business Rates Collectable	(242,304)	-	(242,304)	(202,336)	-	(202,336)	2
Business Rate Supplement Collectable	(7,758)	-	(7,758)	(7,473)	-	(7,473)	
Transitional Protection Payment	(9,520)	-	(9,520)	(23,822)	-	(23,822)	
Total Income	**(259,582)**	**(82,584)**	**(342,166)**	**(233,631)**	**(79,580)**	**(313,211)**	
Expenditure							
Precepts and Demands:							
Central Government (CLG)	-	-	-	77,027	-	77,027	
LB Hammersmith & Fulham	148,968	56,664	205,632	70,024	55,268	125,292	
Greater London Authority	83,794	22,908	106,702	86,363	21,290	107,653	
Business Rate Supplement							
Payment to the Greater London Authority	7,745	-	7,745	7,461	-	7,461	2
Cost of collection	13	-	13	13	-	13	
Charges to Collection Fund							
Write-offs of uncollectable amounts	856	711	1,567	3,018	557	3,575	
Increase/ (Decrease) in Allowance for Doubtful Debts	1,210	(282)	928	58	2,179	2,236	
Increase/ (Decrease) in Provision for Appeals	13,117	-	13,117	7,890	-	7,890	
Distribution/(Recovery) of prior year surplus/(deficit)	(42,657)	2,603	(40,054)	13,948	1,403	15,350	
Cost of collection	582	-	582	584	-	584	
Total Expenditure	**213,628**	**82,604**	**296,232**	**266,385**	**80,697**	**347,083**	
Movement on Fund balance	**(45,954)**	**20**	**(45,934)**	**32,755**	**1,117**	**33,872**	
(Surplus)/Deficit as at 1 April	17,517	(2,914)	14,603	(15,238)	(4,031)	(19,269)	
(Surplus)/Deficit as at 31 March	**(28,437)**	**(2,894)**	**(31,331)**	**17,517**	**(2,914)**	**14,603**	

Notes to the Collection Fund Account

1. Income from Council Tax

Council Tax Income is the amount payable by council tax payers, inclusive of changes arising during the year for successful appeals against valuation banding, new properties, disabled relief and exempt properties. The Council's tax base is based on the number of chargeable dwellings in each valuation band, adjusted for dwellings where discounts apply, converted to an equivalent number of Band D dwellings. For 2018/19 it was calculated as follows:

Band	Number of Dwellings 2018/19	Total after Exemptions, Disregards and Disabled Relief	Ratio to Band D	Band D Equivalent Properties	Adjustments for New Properties, other exemptions etc.	Adjustments for Council Tax Support	Total Band D equivalents 2018/19	Band D equivalents 2017/18
A	3,800	2,900	6/9	1,933	(5)	(528)	1,400	1,349
B	6,402	4,873	7/9	3,790	29	(1,150)	2,669	2,619
C	14,301	12,173	8/9	10,820	(9)	(2,606)	8,205	8,042
D	24,687	21,866	1	21,866	(80)	(3,427)	18,359	18,209
E	15,782	14,356	11/9	17,546	169	(2,066)	15,649	14,955
F	9,501	8,765	13/9	12,661	67	(912)	11,816	11,381
G	11,108	10,482	15/9	17,470	130	(486)	17,114	16,793
H	2,405	2,329	18/9	4,658	(1)	(17)	4,640	4,538
Total	**87,986**	**77,744**		**90,744**	**300**	**(11,192)**	**79,852**	**77,886**

The 2018/19 Council Tax Base after allowing for adjustments for non collection was 77,856

The Council set a 2018/19 Band D charge of £727.81 (no change from 2017/18), the GLA's Band D charge for 2018/19 was £294.23 making a total Band D Council Tax charge for 2018/19 of £1,022.04.

2. National Non-Domestic Rates

NNDR is organised and administered on a national basis, however for 2018/19 the Council has entered into a pooled arrangement with all other London Authorities. The council collects non-domestic rates for its area that are based on local rateable values muliplied by a uniform rate (set by the Government). The National Non Domestic Rateable Value at 31 March 2019 was £591.210m (£567.853m as at 31 March 2018). The standard NNDR multiplier for 2018/19 was 49.3 pence (47.9. pence in 2017/18). The Small Business Rate Relief multiplier for 2018/19 was 48.0 pence (46.6 pence in 2017/18).

In 2018/19 H&F participated in a 100% business rates retention pilot for London. Through this pilot business rates have been pooled across the 33 London Boroughs and Greater London Authority (GLA). Under such an arrangement London will keep 100% of any growth in business rates, though business rates valuations and levels would still be set by Government.

The council is also required to collect a Business Rate Supplement (BRS) from NNDR taxpayers. This BRS is then paid over to Greater London Authority (GLA) who have responsibility for applying it to the Crossrail project across London.

3. Collection Fund Balance

A proportion of the Collection Fund balance above is properly attributable to the GLA or the CLG and thus should not be wholly taken to the net worth component of the Council's Balance Sheet. Only an element calculated pro rata to the precepts above therefore appears as a balance in the net worth section of the Council's Balance Sheet with the remainder treated as an accrual to the other Authorities. The balance accruing to Central Government is in respect of previous years prior to the adoption of the London Pool Pilot.

	2018/19			2017/18		
	Business Rates	Council Tax	Total	Business Rates	Council Tax	Total
	£000	£000	£000	£000	£000	£000
London Borough of Hammersmith and Fulham	(9,652)	(2,040)	(11,692)	5,255	(2,068)	3,187
Greater London Authority	(10,489)	(854)	(11,343)	6,481	(846)	5,635
Central Government (CLG)	(8,296)	-	(8,296)	5,781	-	5,781
	(28,437)	**(2,894)**	**(31,331)**	**17,517**	**(2,914)**	**14,603**

Housing Revenue Account (HRA)

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

	Notes	2018/19 £000	2017/18 £000
Income			
Dwelling Rents		(67,133)	(68,481)
Non-dwelling rents		(105)	-
Charges for services and facilities		(16,297)	(13,950)
Contributions towards expenditure		(1,344)	(2,301)
Reimbursement of Costs		-	-
		(84,879)	**(84,732)**
Expenditure			
Repairs and maintenance and management			
Repairs and maintenance		16,345	16,164
Supervision and management		37,857	33,158
Rents, rates, taxes and other charges		463	397
Depreciation and impairment of non-current assets	6	21,127	18,655
Depreciation and impairment of non-current assets - dwelling revaluation	6	13,267	35,780
Debt management costs		114	118
Movement in the allowance for bad debts		1,728	957
		90,901	**105,229**
Net Cost of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement		**6,022**	**20,497**
HRA services’ share of Corporate and Democratic Core		-	312
HRA services' share of Non Distributed Costs		(210)	(406)
Net (Income)/Cost for HRA Services		**5,812**	**20,403**
HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:			
(Gain)/loss on sale of HRA non-current assets		(3,206)	(8,168)
Income and expenditure in relation to investment properties and changes in their fair value		(1,795)	72
Interest payable and similar charges		(3,322)	(2,584)
Interest and investment income		8,761	8,944
Net interest on the net defined benefit liability (asset)		(340)	(153)
Capital grants and contributions		1,459	1,670
Other Operating Income		(196)	(1,555)
(Surplus)/deficit for the year on HRA services		**7,173**	**18,629**
Movement on the HRA Statement			
Balance on the HRA at the end of the previous year		**(9,946)**	**(20,128)**
(Surplus)/deficit for the year on the HRA Income and Expenditure Statement		7,173	18,629
Adjustments between accounting basis and funding basis under statute	1	(9,289)	(24,786)
Net (increase)/decrease before transfers to/(from) reserves		(2,116)	(6,157)
Transfers to/(from) reserves			
Major Repairs Reserve		-	-
Earmarked Reserves*		172	16,339
(Increase)/decrease in year on the HRA		**(1,944)**	**10,182**
Balance on the HRA at the end of the current year		**(11,890)**	**(9,946)**

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

Notes to the Housing Revenue Account

1. Adjustments between accounting basis and funding basis under statute

	2018/19 £000	2017/18 £000
Charges for depreciation of non-dwellings	(254)	(232)
Charges for depreciation of dwellings	15,850	16,261
Reversal of Major Repairs Allowance credited to the HRA	(15,596)	(16,028)
Impairment/Revaluation gains, losses (charged to the I&E)	(18,289)	(37,942)
Revenue expenditure funded from capital under statute (REFCUS)	(623)	(266)
Movements in the market value of investment properties	-	-
Capital Funding	8,138	6,939
Gain or loss on sale of HRA non-current assets	3,331	8,870
Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	-	-
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	-	(38)
HRA share of contributions (to)/from the Pensions Reserve	(1,846)	(2,350)
Total	**(9,289)**	**(24,786)**

2. Housing Stock

The Council has overall responsibility for managing the housing stock. The average number of dwellings during 2018/19 was 12,143. The stock movement during the year was as shown in the table below. The figure for hostels is based on dwelling equivalents.

	Dwellings Number	Hostels Number	Equity Share Number	Total Number
Number at 1 April 2018	12,147	67	13	12,227
Adjustment to opening balance	-	-	-	-
Additions	10	-	-	10
Transfers	-	-	-	-
Disposals	(19)	-	-	(19)
Number at 31 March 2019	**12,138**	**67**	**13**	**12,218**

3. Stock Valuation

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

	31 March 2019 £000	31 March 2018 £000
Operational Assets		
Housing Dwellings	1,259,477	1,272,098
Other Land and Buildings	8,532	11,333
Vehicles, Plant, Equipment	217	-
Intangible Assets	15	33
Non Operational Assets		
Surplus Assets	-	6,788
Investment Properties	55,429	53,186
	1,323,670	**1,343,438**

The open market, vacant possession fair value of houses and flats within the HRA as at 31 March 2019 was £5.02 billion. This compares to the balance sheet value of £1.27 billion for the Council's dwelling stock and hostels as at 31 March 2019. This is an indication of the economic and social cost of providing Council housing at less than full market rents.

4. Capital Expenditure Financing

	2018/19 £000	2017/18 £000
Borrowing	4,098	-
Major Repairs Reserve	8,172	16,261
Other Grants and Contributions	4,330	5,135
Capital Receipts	3,672	16,087
Total	**20,272**	**37,483**

5. Capital Receipts

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

	2018/19 £000	2017/18 £000
Dwelling & Hostels	(4,603)	(8,380)
Non-Dwellings	(4,071)	(4,353)
Total	**(8,674)**	**(12,733)**

6. Depreciation and Impairment

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

	2018/19 £000	2017/18 £000
Operational Assets		
Depreciation		
Dwellings	15,850	16,261
Other Land and Buildings	206	188
Vehicles, Plant, Equipment and Intangible Assets	18	32
Surplus Assets	31	13
Impairment	-	-
Revaluation (Gain) / Loss - non-dwellings	5,022	2,161
Sub-total depreciation and impairment of non-current assets	21,127	18,655
Revaluation (Gain) / Loss - dwellings	13,267	35,780
Total	**34,394**	**54,435**

7. Rent Arrears and Allowance for Doubtful Debts

Gross rent arrears were as follows:

	2018/19 £000	2017/18 £000
Main Council Stock	5,708	6,523
Hostels	672	652
Total	**6,380**	**7,175**

Impairment Allowances for Doubtful Debts at 31 March were:

	2018/19 £000	2017/18 £000
Main Council Stock	(4,875)	(5,071)
Hostels	(661)	(618)
Total	**(5,536)**	**(5,689)**

Pension Fund Accounts

Fund Account

	Note	2018/19		2017/18	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the scheme					
Contributions					
From Employers	7	25,074		24,268	
From Members	7	7,157	32,231	6,781	31,049
Transfers In from other Pension Funds			2,934		3,012
Other Income			1,221		(607)
Benefits					
Pensions	8	(32,912)		(31,465)	
Commutation & Lump Sum Retirement Benefits	8	(8,167)	(41,079)	(7,256)	(38,721)
Payments to and on account of leavers					
Transfers Out to other Pension Funds			(7,726)		(4,086)
Refunds to members leaving service			(41)		(20)
Net Additions (Withdrawals) from dealings with members			**(12,460)**		**(9,373)**
Management expenses	9		**(6,199)**		**(4,503)**
Net Additions (Withdrawals) including fund management expenses			**(18,659)**		**(13,876)**
Returns on Investments					
Investment Income	10		**11,967**		10,283
Profit and losses on disposal of investments and changes in value of investments	12		49,142		10,384
Net Return on Investments			**61,109**		**20,667**
Net Increase (Decrease) in the net assets available for benefits during the year			**42,450**		**6,791**
Opening Net Assets of the Scheme			**1,009,623**		**1,002,832**
Closing Net Assets of the Scheme			**1,052,073**		**1,009,623**

Net Assets Statement

	Note	31 March 2019 £000	31 March 2018 *restated £000
Investment Assets			
Equities	12	150	150
Pooled Property Vehicles	12	55,558	51,933
Pooled Investment Vehicles	12	902,851	890,947
Private Equity / Infrastructure	12	76,442	55,261
Cash Deposits	12	12,843	6,168
Other Investment Balances			
Investment Income Due	12	34	35
Investment Liabilities			
Net Investment Assets	12	**1,047,878**	**1,004,494**
Current Assets	20	5,396	6,420
Current Liabilities	21	(1,201)	(1,291)
Net assets of the Fund available to fund benefits at the period end		**1,052,073**	**1,009,623**

* The 31 March 2018 Net Asset Statement has been restated to show the £150k equity holding in the London CIV which had been included with Pooled Investment Vehicles. The £150k relates to the initial set up costs for the London CIV and represents the fund’s shareholding in the pool therefore it is disclosed separately as it is classed as a direct equity investment.

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

Notes to the Pension Fund Accounts

NOTE 1. DESCRIPTION OF HAMMERSMITH AND FULHAM PENSION FUND

a) General

The Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Hammersmith and Fulham Council. It is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of Hammersmith and Fulham Council and the admitted and scheduled bodies in the Fund. These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. Teachers are excluded from this scheme as they are administered under the Teachers' Pension Scheme.

The benefits payable in respect of service from 1 April 2014 are based on an employee's career average revalued earnings (CARE) and the number of years of eligible service. The benefits payable in respect of service prior to 1 April 2014 are based on an employee's final salary and the number of years eligible service. Pensions are increased each year in line with the Consumer Price Index.

The Fund is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

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

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from investment returns on the Fund's investment assets. Contributions from employees are made in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employer contributions are set based on the triennial actuarial funding valuation, as detailed in Note 19.

b) Pensions Sub Committee

The Council has delegated the investment arrangements of the scheme to the Audit, Pensions and Standards Committee, who in December 2014 formed a Pensions Sub-committee and delegated all pensions responsibilities to it. The sub-committee decides on the investment strategy most suitable to meet the liabilities of the Fund and has responsibility for the investment strategy. The sub-committee is made up of 5 members, 4 of whom are elected representatives of the Council and one co-opted member, each having voting rights. Members of the admitted bodies and representatives of the Trade Unions may attend the sub-committee meetings but have no voting rights.

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

c) Pension Board

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

d) Investment Principles

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Sub-Committee approved an Investment Strategy on 23 July 2018 (available on the Council's website). The Statement shows the Authority's compliance with the Myner's principles of investment management.

The Sub-committee has delegated the management of the Fund's investments to regulated investment managers (see note 11), appointed in accordance with the regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

e) Membership

Membership of the LGPS is voluntary and employees, whilst auto-enrolled into the scheme, are free to choose whether to stay in or leave the scheme, or make their own personal arrangements outside the scheme.
Organisations participating in the Hammersmith & Fulham Pension Fund include:

- Scheduled bodies, which are local academies and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies and private contractors undertaking a local authority function following outsourcing to the private sector.

The Deferred member numbers include 1,204 undecided leavers, who are no longer paying contributions or in receipt of benefits.

	31 March 2019	31 March 2018
Number of Active Employers	50	45
Contributing employees	4,332	4,166
Pensioners receiving benefit	5,111	4,920
Deferred Pensioners	6,840	6,603
Total members	**16,283**	**15,689**

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

NOTE 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Statement of Accounts summarise the Fund’s transactions for 2018/19 and its position at year end as at 31 March 2019. The accounts been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts have been prepared on an accruals basis, apart from transfer values which have been accounted for on a cash basis.

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they consider the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Asset Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Authority has opted to disclose this information in a note to the accounts (Note 19). The Pension Fund Accounts have been prepared on a going concern basis.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account - Revenue Recognition

a) Contribution Income

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

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

c) Investment Income

Investment income arising from the underlying investments of the Pooled Investment Vehicles is either reinvested within the Pooled Investment Vehicles and reflected in the unit price or taken as a cash dividend to support the Fund’s outgoing cash flow requirements.

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

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

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

Fund Account - Expense Items

d) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. As the Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) VSP, MSP and life time allowance

Members are entitled to request that the Pension Fund pays their tax liabilities due in respect of annual allowance and life time allowance in exchange for a reduction in pension. Where the Fund pays member tax liabilities direct to HMRC, it is treated as an expense in the year in which the payment occurs.

g) Management Expenses

The fund discloses its pension fund management expenses in accordance with the CIPFA guidance "Accounting for Local Government Pension Scheme Management Expenses 2016".

Administrative expenses – All staff costs of the pension administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Oversight and governance – All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.

Investment management expenses – The Sub-Committee has appointed external investment managers to manage the investments of the Fund. Managers are paid a fee based on the market value of the investments they manage, and/or a fee based on performance.

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

Net Assets Statement

h) Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the value of the asset are recognised in the Fund account.

The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 14a).

i) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see Note 14a).

j) Foreign Currency Transactions

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

k) Cash and Cash Equivalents

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

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Financial Liabilities

A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. The Fund recognises liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised costs are carried at amortised cost i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

m) Actuarial present value of promised retirement benefits

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

n) Additional Voluntary Contributions (AVCs)

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed for information in Note 22. There are also some residual policies with Equitable Life, which are disclosed in Note 22, but it is not open for new members.

o) Recharges from the General Fund

The LGPS (Management and Investment of Funds) Regulations 2016 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs have been charged to the Fund based on actual time spent on Pension Fund business. Costs incurred in the administration and the oversight and governance of the Fund are set out separately in Note 9.

NOTE 4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The accounts contain certain estimated figures that are based on assumptions made by the Council and other bodies about the future or that are otherwise uncertain. Estimates are made because they are required to satisfy relevant standards or regulations and are based on best judgement at the time, derived from historical experience, current trends and other relevant factors. As a result, actual results may differ materially from those assumptions.

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

a) Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary with annual updates in the intervening years. The methodology used follows generally agreed guidelines and is in accordance with IAS 19. These assumptions are summarised in Note 19a. The estimates of the net liability to pay pensions depends on several judgements and assumptions. In particular, those relating to the discount rate, the rate at which salaries are projected to increase, change in retirement ages, mortality rates and expected returns on the Fund's assets.

b) Private equity investments

The fair value of private equity investments is unavoidably subjective. The valuations are based on forward-looking estimates and judgements involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards. The value of private equity investments at the balance sheet date was £3.5m.

c) Private debt/Infrastructure investments

The fair value of the Partners Group Multi Asset Credit fund and Infrastructure fund is also to some extent subjective. Several of the underlying assets are traded in private markets only and therefore judgement needs to be made about value, using factors such as the enterprise value and net debt. As at 31 March 2019, the assets invested with Partners Group were value at £42.3m.

The same applies to the Aviva Infrastructure which is has a quarterly valuation cycle. As at 31 March 2019, the value of the investment was £30.6m.

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

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

Description of asset	Uncertainties	Basis of valuation
Actuarial present value of promised retirement benefits (Note 19a)	Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on fund assets. Barnet-Waddingham are engaged to provide the fund with expert advice about the assumptions to be applied.	For instance: • 0.1% increase in the discount rate assumption would result in a decrease in pension liability of £30m • 0.1% increase in assumed earnings would increase the value of the liabilities by approximated £2m • 0.1% increase in pension increases would increase the liability by about £28m • A one-year increase in life expectancy would increase the liability by about £62m

Management has agreed a reasonable set of actuarial assumptions in consultation with the actuary which derives the total pension fund liability. No allowance has been made in respect of the recent McCloud age discrimination ruling as it is not material to the Pension Fund. The ruling may increase Pension Fund liabilities if the Government decides to implement full final salary protection for all those impacted, however, depending on future pay growth and government actions there may little to no impact at all. The worst-case scenario which would be full protections and CPI plus 1.5% pay growth would be £9.5m.

NOTE 6. EVENTS AFTER THE BALANCE SHEET

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

NOTE 7. CONTRIBUTIONS RECEIVABLE

Employees' contributions are calculated on a sliding scale based on a percentage of their gross pay. The administering body, scheduled bodies and admitted bodies are required to make contributions determined by the Fund's actuary to maintain the solvency of the fund.

The table below shows a breakdown of the total amount of employers' and employees' contributions.

	Employers' Contributions				Employees'	
	Normal		Deficit Recovery		Contributions	
				*restated		
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
	£000	£000	£000	£000	£000	£000
Administering Authority	11,560	11,251	8,302	7,900	5,460	5,139
Scheduled Bodies	1,912	987	857	1,422	814	836
Admitted Bodies	2,268	2,623	175	85	883	806
Total	**15,740**	**14,861**	**9,334**	**9,407**	**7,157**	**6,781**
Total Contributions			**25,074**	**24,268**	**7,157**	**6,781**

NOTE 8. BENEFITS PAYABLE

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

	Pensions		Lump sum retirement benefits		Lump sum death benefits	
	2018/19	**2017/18**	**2018/19**	**2017/18**	**2018/19**	**2017/18**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Administering Authority	(30,710)	(29,647)	(6,454)	(5,442)	(476)	(825)
Scheduled Bodies	(332)	(1,574)	(124)	(782)	(71)	(71)
Admitted Bodies	(1,870)	(244)	(719)	(136)	(323)	-
Total	**(32,912)**	**(31,465)**	**(7,297)**	**(6,360)**	**(870)**	**(896)**
Total Lump Sum Benefits					**(8,167)**	**(7,256)**

NOTE 9. MANAGEMENT EXPENSES

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

	2018/19	**2017/18**
	£000	**£000**
Administrative costs	(334)	(403)
Investment management expenses	(5,298)	(3,648)
Oversight and governance costs	(567)	(452)
	(6,199)	**(4,503)**

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

	2018/19	**2017/18**
	£000	**£000**
Management fees	(4,763)	(3,223)
Performance fees	(244)	(343)
Transaction costs	(185)	(38)
Custody fees	(106)	(44)
	(5,298)	**(3,648)**

The Fund reported higher management fees in 18/19 due to improved information from fund managers in relation to the fees deducted at source. The Fund pays its management fees through invoices or deductions made at source by the individual fund managers. Of the £4.7m, £4.4m was deducted at source. The Fund requests and monitors this information from fund managers and accounts for it in its accounts to recognise the net return on investments. Information from the alternative investments such as infrastructure and private debt was not made available in prior years but has been provided for 2018/19. This accounted for about £1.2m of all management fees.

NOTE 10. INVESTMENT INCOME

The table below shows a breakdown of investment income.

	2018/19 £000	2017/18 £000
Pooled investments - unit trusts and other managed funds	8,874	5,331
Income from Bonds	-	47
Interest on Cash Deposits	98	17
Private Equity/Other	2,995	4,888
Total	**11,967**	**10,283**

NOTE 11. INVESTMENT STRATEGY

During 2018/19, the Fund's strategy had the following developments:

- The Fund invested its full £30m commitment in Aviva Infrastructure in two capital calls. The first was in May 2018 and the last was in November 2018. As at 31 March 2019, the investment was valued at £30.6m.
- In December 2018, the Fund transitioned its entire passive equities portfolio to the MSCI Low Carbon tracker fund under the management of the Legal & General Investment Management team. As at 31 March 2019, this was valued at £374.0m.
- The Fund liquidated its positions in both the Insight Bonds strategy (£85m) and the Majedie Focus and Tortoise strategies which were outside of the London CIV (£35m).
- The proceeds from the sale of the Majedie assets were reinvested into the equity passive strategy.
- On 26 March 2019, the Pensions Sub-Committee agreed to reinvest the proceeds from the Insight sale into the London CIV's Buy & Maintain strategy in Q1 2018/19. In the interim period, the assets have been invested into the LGIM Sterling Liquidity Fund which was valued at £96.0m on 31 March 2019.

As part of the Fund's ongoing investment strategy, pooled investments are used as the primary investment vehicle and these are in the form of unit trusts. A breakdown of all the Fund's investments is included in the table on the following page.

In August 2015, the Funded made a commitment to the Partners Group Direct Infrastructure fund in August. As at 31 March 2019 €33.8m still remained unfunded.

The private equity investments made some years ago are now in the redistribution phase of the cycle, which will be completed in late 2019. As at 31 March 2019, £3.5m remained to be redistributed back into the Fund.

As shareholders of London LGPS CIV Ltd, (the organisation set up to run pooled LGPS investments in London), the Fund has funded £150,000 of regulatory capital. This is in the form of unlisted UK equity shares. The London CIV is one of eight LGPS investment pools in the UK and is responsible for the selection of managers on behalf of its shareholders. However, the London Borough of Hammersmith & Fulham Pension Fund maintains the overall responsibility of its investment strategy. The Fund has been active in the transfer of assets under management to the London Collective Investment Vehicle (CIV) to gain efficiencies and fee reductions. As at 31 March 2019, the Fund had £721.8m invested with the London CIV, which accounts for 68.9% of the fund's total assets.

The market value and proportion of investments managed by each fund manager at 31 March 2019 was as follows:

	31 March 2019		31 March 2018	
	Market Value	Total	Market Value	Total
	£000	%	£000	%
Investments managed by the London CIV asset pool				
LGIM - MSCI Low Carbon (Passive)	374,028	35.7%	-	-
LGIM - World Equity (Passive)	-	-	302,920	30.1%
Ruffer - Absolute Return (Active)	126,636	12.1%	157,480	15.7%
Majedie - UK Equity	125,154	11.9%	125,194	12.5%
	625,818	**59.7%**	**596,462**	**59.3%**
Investments managed outside of London CIV asset pool				
M & G - Inflation Opportunities	107,834	10.3%	99,302	9.9%
LGIM - Sterling Liquidity Fund	96,007	9.2%	10,868	1.1%
Oak Hill Advisers - Secured Income (Active)	73,203	7.0%	72,371	7.2%
Standard Life - Long Lease Property	55,558	5.3%	51,933	5.2%
Aviva - Private Infrastructure	30,644	2.9%	-	-
Partners Group - Multi Asset Private Credit	25,318	2.4%	41,711	4.2%
Partners Group - Infrastructure	16,987	1.6%	7,031	0.8%
Invesco - Private Equity	2,199	0.2%	3,757	0.4%
Unigestion - Private Equity	1,293	0.1%	1,871	0.2%
Insight - Bonds	-	-	88,885	8.8%
Majedie - UK Equity (Active)	-	-	33,946	3.4%
Inhouse Cash - Cash	12,867	1.3%	7,075	0.6%
London CIV Ltd	150	0.0%	150	0.0%
	422,060	**40.3%**	**408,032**	**40.6%**
Total Investments	**1,047,878**	**100.0%**	**1,004,494**	**100.0%**

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

	31 March 2019		31 March 2018	
	Market Value	Total	Market Value	Total
	£000	%	£000	%
LGIM - MSCI Low Carbon (Passive)	374,027	35.7%	-	-
LGIM - World Equity (Passive)	-	-	302,920	30.1%
Ruffer - Absolute Return (Active)	126,636	12.1%	157,480	15.7%
Majedie - UK Equity	125,154	11.9%	125,194	12.5%
LGIM - Sterling Liquidity Fund	96,007	9.2%	10,868	1.1%
M & G - Inflation Opportunities	107,834	10.3%	99,302	9.9%
Oak Hill Advisers - Secured Income (Active)	73,203	7.0%	72,371	7.2%
Standard Life - Long Lease Property	55,558	5.3%	51,933	5.2%
Insight - Bonds	-	-	88,885	8.8%

NOTE 12. RECONCILIATION OF MOVEMENT IN INVESTMENTS

The table below shows a reconciliation of the movement in the total investment assets of the Fund by asset class during 2018/19.

Fund Manager	Value at 1 April 2018 *restated £000	Purchases during the year and derivative payments £000	Sales during the year and deriative receipts £000	Change in market value during the year £000	Value at 31 March 2019 £000
Equities	150	-	(10)	10	**150**
Pooled equity investments	890,947	836,089	(867,391)	43,206	**902,851**
Pooled property investments	51,933	33	-	3,592	**55,558**
Private equity/infrastructure	55,261	38,866	(20,023)	2,338	**76,442**
Sub-total	**998,291**	**874,988**	**(887,424)**	**49,146**	**1,035,001**
Cash Deposits	6,168			22	**12,843**
Investment income due	35			-	**34**
Spot FX contracts	-			(26)	**-**
Totals	**1,004,494**	**874,988**	**(887,424)**	**49,142**	**1,047,878**

The equivalent analysis for 2017/18 is provided below:

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

NOTE 13. FAIR VALUE BASIS OF VALUATION

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Investments - Equity funds UK and Overseas Managed Funds	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets	Evaluated price feeds	Not required
Unquoted bonds and unit trusts	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services	Evaluated price feeds	Not required
Pooled Long Lease Property Fund	Level 2	The Standard Life Long Lease Property Fund is priced on a Single Swinging Price	In house evaluation of market data	Not required
Private equity	Level 3	Comparable valuation of similar companies in accordance with International Private and Venture Capital Valuation Guidelines 2012	Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple Revenue multiple	Valuations could be affected by changes to expected cashflows, cost of replacing key business assets, or by any differences between the audited and unaudited accounts
Infrastructure funds	Level 3	Valued by Fund Managers at the lower of cost and fair value.	Managers use their judgement having regard to the Equity and Venture Capital Valuation Guidelines 2012 guidelines noted above	Upward valuations are only considered where there is validation of the investment objectives and such progress can be demonstrated Downward valuations are enacted where the manager considers there is an impairment to the underlying investment

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

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

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

Level 2 – Quoted prices are not available for financial instruments at this level. The valuation techniques used to determine fair value use inputs that are based significantly on observable market data.

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

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

	31 March 2019			31 March 2018		
	Quoted Market Price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Quoted Market Price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3
	£000	£000	£000	£000	£000	£000
Financial Assets						
Designated at fair value through profit and loss	-	958,409	76,592	33,940	908,939	55,412
Total Financial Assets	**-**	**958,409**	**76,592**	**33,940**	**908,939**	**55,412**
Financial Liabilities						
Designated at fair value through profit and loss	-	-	-	-	-	-
Total Financial Liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Net Financial Assets	**-**	**958,409**	**76,592**	**33,940**	**908,939**	**55,412**
			1,035,001			**998,291**

NOTE 14b. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

2018/19	**Market Value as at 31/03/2018**	**Purchases**	**Sales**	**Unrealised gains / (losses)**	**Realised gains / (losses)**	**Market Value as at 31/03/2019**
Overseas Infrastructure	13,551	8,866	(3,536)	(940)	2,539	20,480
Private Credit	41,710	-	(16,487)	95	-	25,318
London LGPS CIV	150	-	-	-	-	150
UK Infrastructure	-	30,000	-	644	-	30,644
Total	**55,411**	**38,866**	**(20,023)**	**(201)**	**2,539**	**76,592**

NOTE 15a. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

	31 March 2019			31 March 2018		
	Designated at fair value through profit & loss	Financial assets at amortised cost	Financial Liabilities at amortised cost	Designated at fair value through profit & loss	Loans and receivables	Financial Liabilities at amortised cost
	£000	£000	£000	£000	£000	£000
FINANCIAL ASSETS						
Pooled Investment Vehicles:						
UK equity funds	806,844			791,194	-	-
UK cash funds	96,007			10,867	-	-
UK property funds	55,558			51,933	-	-
Overseas fixed income fund	-			88,885	-	-
London LGPS CIV	150			150	-	-
UK venture capital	72,950			41,711	-	-
Overseas venture capital	3,492			13,551	-	-
Investment income due	35			35	-	-
Pending trade sales				-	-	-
Cash deposits with managers		12,843		-	6,168	-
Debtors		2,679		-	2,059	-
Cash balances (held by fund)		2,673		-	4,361	-
	1,035,036	18,195	-	998,326	12,588	-
FINANCIAL LIABILITIES						
Pending Trade Purchases				-	-	-
Creditors			(1,185)	-	-	(620)
	-	-	(1,185)	-	-	(620)
GRAND TOTALS	**1,035,036**	**18,195**	**(1,185)**	**998,326**	**12,588**	**(620)**
			1,052,046			**1,010,294**

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

NOTE 15b. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

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

	2018/19	2017/18
	£000	£000
Financial Assets		
Fair value through profit and loss	49,146	10,235
Loans and receivables	23	149
Financial Liabilities		
Fair value through profit and loss	(27)	-
	49,142	**10,384**

NOTE 16. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

a) Market Risk
In order to meet the Fund’s objective of being fully funded within 22 years of the 2016 actuarial valuation, the fund managers have been set differing targets appropriate to the types of assets they manage. The Fund’s assets are invested in a broad range of asset classes in terms of geographical and industry sectors and individual securities which are expected to produce returns above their benchmarks over the long term, albeit with greater volatility. This diversification reduces exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level.

The aim of the investment strategy is to maximise the opportunity for gains across the whole Fund’s portfolio within a tolerable level of risk of an overall reduction in the value of the Fund. Responsibility for the Fund's investment strategy rests with the Pensions sub-committee and is reviewed on a regular basis.

Price Risk
Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all such instruments in the market.

The Fund is exposed to price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments (with the exception of the derivatives where the risk is currency related) is determined by the fair value of the financial instruments. The Fund’s investment managers aim to mitigate this price risk through diversification and the selection of securities and other financial instruments.

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

Assets exposed to price risk

	Value	+ 10%	- 10%
	£000	£000	£000
At 31st March 2019	1,035,001	1,138,501	931,501
At 31st March 2018	998,291	1,098,120	898,462

Interest Rate Risk
The Fund invests in financial assets for the primary purpose of obtaining a return on its investments. Fixed Interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

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

Assets exposed to interest rate risk

	Value	+ 1%	- 1%
	£000	£000	£000
At 31st March 2019	225,147	226,318	230,307
At 31st March 2018	220,753	222,779	218,367

Currency Risk
Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than pounds sterling.

The Fund recognises that a strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

In order to mitigate the risk, one of the Fund's investment managers enters into forward foreign exchange contracts (accounted for as derivatives) to hedge the currency risk which arises from undertaking non-sterling transactions. In addition, several of the pooled investment vehicles partially or fully hedge the currency back into sterling. These actions reduce the overall currency risk the Fund is exposed to.

Assets exposed to currency risk

	Value	+ 10%	- 10%
	£000	£000	£000
At 31st March 2019	400,113	440,124	360,101
At 31st March 2018	418,816	460,698	376,934

b) Credit Risk
Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high-quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner

c) Liquidity Risk
Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments. This will particularly be the case for cash to meet the pensioner payroll costs; and cash to meet investment commitments. The Fund has immediate access to its cash holdings.

The only assets in the Fund which cannot be liquidated within a month are detailed in the table below. These amounted to 9.67% of the Fund's Net Assets at 31 March 2019 (10.20% at 31 March 2018). The remaining can all be liquidated within days.

Manager	Portfolio	31 March 2019	31 March 2018
		£000	£000
Partners Group	Multi Asset Credit	25,319	41,711
Partners Group	Infrastructure	16,987	7,924
Standard Life	Property	55,558	51,933
Invesco	Private Equity	2,199	3,757
Unigestion	Private Equity	1,293	1,871
		101,356	**107,196**

NOTE 17. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

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

	31 March 2019	31 March 2018
	£000	£000
Aviva Infrastructure Fund	-	30,000
Partners Group Direct Infrastructure Fund 2015	29,098	40,198
	29,098	**70,198**

The Aviva infrastructure commitment was fulfilled on 9 November 2019. The Partners infrastructure commitment is expected to be paid by December 2020.

On 26 March 2019, the Pensions Sub-committed appointed PIMCO under the London CIV LGPS Pool as the Fund's new fixed income manager. The Fund expects to subscribe £85m worth of assets to PIMCO in Q1 2019/20.

NOTE 18. STOCK LENDING AGREEMENTS

The Fund did not participate in stock lending or underwriting.

NOTE 19. FUNDING ARRANGEMENTS

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Hammersmith & Fulham Pension Fund is able to meet its liabilities to past and present contributors and to review employer contribution rates.

The latest full triennial valuation of the London Borough of Hammersmith and Fulham Pension Fund was carried out by Barnett Waddingham, the Fund's actuary, as at 31 March 2016 in accordance with the Funding Strategy Statement of the Fund and the Local Government Pension Scheme Regulations 2013. The results were published in the triennial valuation report dated 30 March 2017. This valuation set the employer contribution rates from 1 April 2017.

The 2016 valuation certified a common contribution rate of 15.5% of pensionable pay (13.6% as at March 2013) to be paid by each employing body participating in the Fund, based on a funding level of 88% (83% as at March 2013). In addition, each employing body must pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

The actuary's smoothed market value of the scheme's assets at 31 March 2016 was £851m and the actuary assessed the present value of the funded obligation at £965m indicating a net liability of £114m (£147m 2013).

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

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

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

The next actuarial valuation of the Fund will be as at 31 March 2019 and will be published in 2020.

NOTE 19a. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The table below shows the total net liability of the Fund as at 31 March 2019. The figures have been prepared by Barnett Waddingham, the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

In calculating the required numbers, the actuary adopted methods and assumptions that are consistent with IAS19.

	31 March 2019	31 March 2018
	£000	£000
Present Value of Promised Retirement Benefits*	(1,651,279)	(1,630,601)
Fair Value of Scheme Assets (bid value)	1,052,073	1,009,620
Net Liability	**(599,206)**	**(620,981)**

* Present Value of Promised Retirement Benefits comprises of £1,617.1m (£1,592.5m at 31 March 2018) and £34.1m (£37.3m at 31 March 2018) in respect of vested benefits and non-vested benefits respectively as at 31 March 2019.

The assumptions applied by the actuary are set out below:

Financial Assumptions

	31 March 2019	31 March 2018
RPI Increases	3.4%	3.3%
CPI Increases	2.4%	2.3%
Salary increases	3.9%	3.8%
Pension increases	2.4%	2.3%
Discount Rate	2.4%	2.6%

Demographic Assumptions

The post mortality tables adopted are the S2PA tables. The base tables are projected using the CMI 2012 Model, allowing for a long-term rate of improvement of 1.5% p.a. The assumed life expectancies from age 65 are:

Life Expectancy from age 65

		31 March 2019	31 March 2018
Retiring today	Males	23.4	24.5
	Females	24.8	26.1
Retiring in 20 years	Males	25.0	26.8
	Females	26.6	28.4

Other Assumptions:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age;
- 5% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

NOTE 20. CURRENT ASSETS

	31 March 2019	31 March 2018
Short term debtors	**£000**	**£000**
Contributions due - employers	1,971	964
Contributions due - employees	453	197
	2,424	**1,161**
Sundry debtors	299	898
Total	**2,723**	**2,059**
Cash at bank	**2,673**	**4,361**
	5,396	**6,420**

	31 March 2019	31 March 2018
Analysis of debtors	**£000**	**£000**
Local authorities	941	228
Other entities and individuals	1,782	1,831
	2,723	**2,059**

NOTE 21. CURRENT LIABILITIES

Creditors	31 March 2019 £000	31 March 2018 £000
Unpaid Benefits	(527)	(75)
Management Expenses	(461)	(369)
HM Revenue and Customs	-	(672)
Sundry creditors	(213)	(175)
	(1,201)	**(1,291)**

Analysis of creditors	31 March 2019 £000	31 March 2018 £000
Local authorities	-	(158)
Central government bodies	-	(672)
Other entities and individuals	(1,201)	(461)
	(1,201)	**(1,291)**

NOTE 22. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

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

Zurich Assurance	31 March 2019 £000s	31 March 2018 £000s
Market Value at 31st March	908	824
Contributions during the year	25	35
Number of members at 31st March	51	40
Equitable Life Assurance		
Market Value at 31st March	203	203
Contributions during the year	-	-
Number of members at 31st March	29	29

In accordance with Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid and the investments are not included in the Pension Fund Accounts.

The AVC providers secure benefits on a money purchase basis for those members electing to pay AVCs. Members of the AVC schemes each receive an annual statement confirming the amounts held in their account and the movements in the year. The Fund relies on individual contributors to check that deductions are accurately reflected in the statements provided by the AVC provider.

NOTE 23. RELATED PARTIES

Third Party Relationships
The Pension Fund has several third-party relations for the administration of this fund. This includes the finance and human resources teams. Each counterparty incurred the following costs on behalf of the Pension Fund and were reimbursed by the Fund:

- £0.167m – for costs incurred by Westminster City Council in relation to the finance team

- £0.089m – for costs incurred by the London Borough of Hammersmith & Fulham in relation to the finance and human resources teams
- £0.082m – for costs incurred by the Royal Borough of Kensington & Chelsea in relation to the human resources team

Governance Arrangements

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

Key management personnel

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

	31 March 2019	31 March 2018
	£000	**£000**
Short-term benefits	29	26
Post-employment benefits	42	(3)
Other long-terms benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
	71	**23**

NOTE 24. AGENCY SERVICES

The Hammersmith and Fulham Pension Fund pays discretionary awards to the former employees of London Borough of Hammersmith and Fulham Council. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the Council. In 2018/19 the pension fund paid discretionary awards of £2.300m (£2.342m in 2017/18).

	2018/19	2017/18
	£000	**£000**
Payments on behalf of London Borough of Hammersmith and Fulham	2,300	2,342
	2,300	**2,342**

NOTE 25. EXTERNAL AUDIT COSTS

The external audit fee payable to Fund’s external auditors, Grant Thornton LLP, was £16,170 (£21,000 in 2017/18).

OTHER INFORMATION

Annual Governance Statement

Glossary of Terms

DRAFT ANNUAL GOVERNANCE STATEMENT

Introduction
Our Vision is to be the Best Council. This is the Council's stated purpose, which also sets out what we will do to achieve this against a background of shrinking public sector finances while at the same time, planning for a sustainable future. It is essential that all users of our services and all who pay for them, together with our suppliers and partners, have confidence in our governance arrangements - that our ways of working enable us to provide the right services effectively and efficiently and on a consistent basis, and that we take informed, transparent and lawful decisions. They must also be assured that we properly account for the money we receive and spend.

Our H&F Vision sets out five council priorities, which includes being 'ruthlessly financially efficient'. We have a fantastic record of cutting and freezing council tax and charges to residents, while spending more on vital services such as adult social care. We have developed more efficient practices, cut waste, and sought innovative ways to achieve savings. We want to maintain that record, ambition, and ethos under increasingly severe and ongoing government funding reductions.

In the context of further reductions in government funding, the Council will continue to prioritise and endeavour to maintain strong governance arrangements, focusing on the purpose of the Council and on outcomes for residents, borough businesses, people who work in our borough and visitors. It will do this by engaging with residents and stakeholders and demonstrating the values of good governance by upholding high standards of conduct and behaviour. Further to this, proactive risk and assurance management arrangements have been enhanced to support good governance and the efficient delivery of the council's key objectives.

The Business Plan sets out the council's main priorities for the next four years. This is an ambitious programme that builds on the success that has already set Hammersmith & Fulham Council apart as a leader and innovator in compassionate yet efficient local government.

Our Priorities are:

- ***Doing things with residents, not to them***
- ***Being ruthlessly financially efficient***
- ***Building shared prosperity***
- ***Creating a compassionate council***
- ***Taking pride in H&F***

What is Corporate Governance?
Corporate governance refers to the processes by which the Council is directed, controlled, led and held to account. It is also about culture and values, the way that councillors and employees think and act.

The Council's corporate governance arrangements aim to ensure that it does the right things for the right people in the right way, ie timely, inclusive, open, honest and accountable.

What this Statement tells you
This Statement describes the extent to which the Council has, for the year ended 31 March 2019, complied with its Governance Code and the requirements of the Accounts and Audit Regulations. It also describes how the effectiveness of the governance arrangements has been monitored and evaluated during the year and sets out any changes planned for the 2019-20 period.

The Statement has been prepared in accordance with guidance produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) - the 'Delivering Good Governance in Local Government Framework'. It embraces the elements of internal control required by the 'Code of Practice on Local Authority Accounting in the United Kingdom'.

The Council's Governance Responsibilities
The Council is responsible for ensuring it conducts its business in accordance with the law and to proper standards and that public money is properly accounted for and is used economically, efficiently and effectively. It also has a duty to continuously improve the way that it functions, having regard to effectiveness, quality, service availability, fairness, sustainability, efficiency and innovation. A key part of the Council's code of governance is the role of Cabinet (Executive) as part of decision-making.

The Council's Governance Code renewed in 2019 in accordance with the governance guidance produced by CIPFA and SOLACE, states the importance to the Council of good corporate governance and sets out its commitment to the principles involved.

The Governance Framework
The governance framework consists of the systems and processes, and culture and values, by which the Council is directed and controlled and through which it accounts to, engages with and leads the community.

It enables us to monitor the achievement of our objectives and to consider whether these have led to the delivery of appropriate, cost effective services. As the Council improves the way it provides services, it is important that the governance arrangements are robust and flexible enough to manage this.

Our Constitution

Our Constitution sets out how the Council operates, how decisions are made and the procedures for ensuring that the Council is efficient, transparent and accountable to local people. It contains the basic rules governing the Council's business, and a section on responsibility for functions, which includes a list of functions which may be exercised by officers. It also contains the rules, protocols and codes of practice under which the Council, its Members and officers operate.

The Constitution sets out the functions of key governance officers, including the statutory posts of 'Head of Paid Service' (Chief Executive), 'Monitoring Officer' (Assistant Director of Legal and Democratic Services) and 'Section 151 Officer' (Strategic Director, Finance and Governance) and explains the role of these officers for ensuring that processes are in place for enabling the Council to meet its statutory obligations and also for providing advice to Members, officers and committees on staff management, financial, legal and ethical governance issues.

The three pillars of the governance framework are highlighted below;

Corporate Governance

- Constitution (incl. statutory officers, scheme of delegation, financial management and procurement standing orders)
- Audit, Pensions and Standards Committee
- Internal Audit Service and external audit
- Independent external sources
- Council, Cabinet and Policy and Accountability Committees
- Medium Term Financial Strategy
- Complaints system
- HR policies and procedures
- Whistleblowing and other countering fraud arrangements
- Risk management framework
- Performance management system
- Codes of conduct
- Anti Fraud Service

Management Team

- The role of Chief Officers
- Delivery of Council's aims and objectives
- Corporate Planning
- Delivery, Financial, Service Improvement and Commissioning Plans
- Officer codes of conduct
- Performance appraisal
- The role of the Chief Financial Officer
- The role of the Head of Internal Audit
- Roles and responsibilities of Members and Officers
- Timely production of a Statement of accounts
- Completion of External and Internal audit reports recommendations
- Strategic Leadership Team - Review of Corporate Governance

Services are delivered economically, efficiently & effectively

- Management of risk
- Effectiveness of internal controls
- Democratic engagement and public accountability
- Budget and financial management arrangements
- Standards of conduct and behaviour
- Compliance with laws and regulations, internal policies and procedures
- Action plans dealing with significant issues are approved, actioned and reported on
- Local Government Ombudsman reports
- Electoral Commission reports
- Policy and Accountability reviews
- Effectiveness reviews of Audit Pensions and Standards Committee and Scrutiny Committees, Internal Audit
- Employee performance
- Compliance with Procurement Regulations
- Stakeholder engagement
- Evaluation of benefits gained from investments and projects

Local Code of Corporate Governance

The Council has in place a Local Code of Corporate Governance. The Code identifies the principles of good governance and transparency to which the Council subscribes and identifies the structures, systems and processes that the Council has established to ensure that it achieves good governance in practice. This was most recently reviewed in 2019.

Policy and Accountability Committees (Scrutiny)

The scrutiny function is provided through six Policy and Accountability Committees (PACs). PACs are committees of the Council rather than the Cabinet. They are aligned to the Cabinet Portfolios, as follows:

- Children and Education Policy and Accountability Committee
- Community Safety, Environment and Residents Services Policy and Accountability Committee
- The Economy, Housing and the Arts Policy and Accountability Committee
- Finance, Commercial Revenue and Contracts Policy & Accountability Committee
- Health, Inclusion and Social Care Policy and Accountability Committee.
- Public Services Reform Policy and Accountability Committee

In 2018/19, the Committees had cross cutting remits designed to reflect the Council's key priorities and objectives. They each comprised five elected non-executive Members. Committees were also able to co-opt members who had a particular expertise or direct knowledge of the service user perspective to assist with their work. Co-optees were usually non-voting although the parent governor and diocesan representatives on the Education and Children's Services PAC are entitled to vote on education matters.

Each Committee received the list of Key Decisions (a rolling list of key decisions which the Cabinet planned to take in the coming months) at every meeting, which assists in the development of work programmes and the identification of forthcoming key executive decisions deserving closer scrutiny and input.

PACs also have a wider role in policy development, originating topics of interest. The PACs were established as part of the Council's commitment to public engagement and working with residents in developing policy and strengthening the Council's decision-making process. They work hand-in-hand with residents to shape the future of the borough. They feedback their views to the Cabinet and individual Cabinet Members, officers, external partners and service providers. A large number of non-executive Members participate in scrutinising Cabinet business, external organisations such as the NHS, the Police and other statutory bodies.

Review of effectiveness

In order to review the effectiveness of the governance framework, assurances are provided to, and challenged by, the Audit Pension and Standards Committee, Policy and Accountability Committees, the Council's Strategic Leadership Team and/or Council as appropriate.

Our achievements and external assurances

Services for children and young people with special educational needs and/or disabilities (SEND):

The H&F SEND service covers services across the borough in education, health and social care for children and young people aged up to 25, with special educational needs and disabilities. The inspection covered all the SEND services in the local area, including those run by the NHS. The assessment of borough-wide services for children and young people with special educational needs and/or disabilities (SEND) in H&F says that as a result, young people are achieving well at each key stage of their education. It also commends the work H&F does with parents to put them at the heart of decision-making.

Stephen Wiltshire Centre:

There was special mention of the newly opened Stephen Wiltshire Centre by Ofsted who reported of 'improving access and increasing the range and reach of services such as short breaks'. They said it was succeeding in connecting more parents, previously not receiving this sort of council help, with a wider range of local services.

Public Sector Network Code of Connection (PSN CoCo):

The Public Services Network (PSN) was set up as an assured route for information sharing by central Government, to facilitate shared services and also serve as the assured route for Government Connects Secure Extranet (GCSx) mail. It acts as a compliance regime that serves as both a commitment to a basic level of information security for connecting government departments and local authorities and also a level of trust between Hammersmith and Fulham Council and other public services. PSN certification is relied upon as an assurance mechanism to support information sharing. The Council successfully achieved accreditation following completion of the compliance verification process. It shows that the Council has successfully achieved compliance by demonstrating to the PSN team that the infrastructure is sufficiently secure.

Fire Safety:

The Housing Asset Strategy and Fire Safety Management System documents, approved by Cabinet, set out a clear strategy for the Council as a landlord to enhance fire safety across its 17,000 plus homes based on property type, risk and occupancy, aligning the Council with the recommendations of the Hackitt review.

Fire risk assessments are in place for all buildings, with those for properties six storeys and above published on the Council's website. All actions are monitored weekly via the Council's compliance IT system, Geometra, including, for example, testing and maintenance of dry/wet risers and automated opening vents. The fire safety plus initiative continues, with over 900 homes having their electrical appliances checked.

Works to upgrade fire doors in buildings 10 storeys and above, sheltered and hostels; new dry risers, and enhancing fire detection in street-based homes is being commissioned. In addition, upgrading emergency lighting and lightning conductors has also been approved by Cabinet for implementation.

Work to further enhance building safety through the development of Building Information Management (BIM) and cloud-based asset management systems and reviewing the condition of building stock and its assets is underway.

Managing Risk

The Council's Risk Management Framework is fundamental to the system of internal control and forms part of a sound business operating model. It involves an ongoing process to identify the risks to our policies, aims and objectives and to prioritise them according to likelihood and impact. It also requires the risks to be managed efficiently, effectively and
economically.

All Members and managers are responsible for ensuring that risk implications are considered in the decisions they take. This is especially important as the Council reshapes its services to meet its financial challenges. Members and senior management identify the principal risks to the Council achieving the outcomes set out in the Council Business Plan. These, together with the significant risks to planning and delivering services are recorded in risk registers, which also record the controls necessary to manage the risks.

The registers are reviewed quarterly and challenged by senior management and the Audit Pensions and Standards Committee.

Specific assurance is sought concerning those risks associated with the key elements of the Governance Framework and that any necessary improvements to controls have been implemented.

The Governance Framework cannot eliminate all risk of failure to meet the targets in our policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

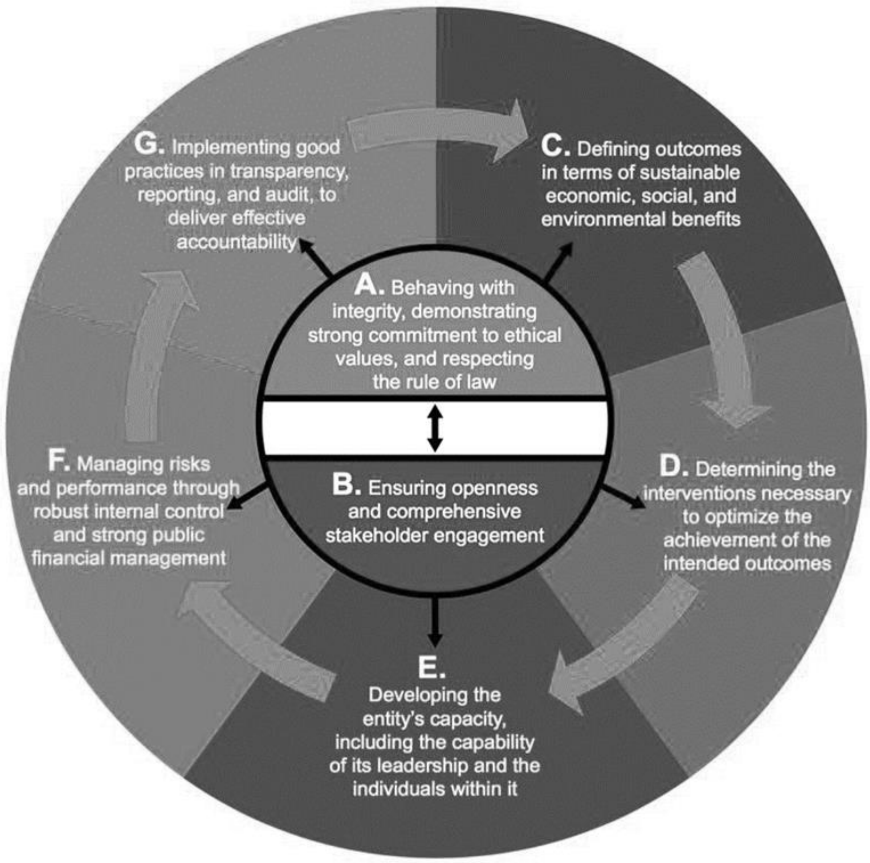
Audit and Audit Assurances
The Council is externally audited. In accordance with statutory requirements, the annual audit includes examining and certifying whether the financial statements are 'true and fair', and
assessing our arrangements for securing economy, efficiency and effectiveness in the use of resources. In 2018 the External Auditor gave an unqualified audit opinion on the financial statements.

The Internal Audit Service is a key means of assurance. It is responsible for reviewing the adequacy of the controls throughout all areas of the Council and is managed and delivered in accordance with the Public Sector Internal Audit Standards (PSIAS).

The Audit Pension and Standards Committee approve the Internal Audit Charter, which sets out the Internal Audit role and its responsibilities and clarifies its independence, and the
planned audit coverage.

Good Governance Principles

The following diagram provides a summary of information on the areas that the review has considered in accordance with Good Governance Principles:



Our new Enhanced Assurance arrangements
The Council's management team, known as the Strategic Leadership Team (SLT), is chaired by the Chief Executive and its membership comprises of the Chief Executive and six directors.

Each member of SLT has key areas of responsibility, but together they are jointly responsible (under the Chief Executive) for turning the strategic direction of the Council set by the current administration into operational policy. Over the past 12 months, the Chief Executive, SLT and elected members have continued to build the assurance capability of the Council, providing leadership on standards, expectations and strengthening assurance regimes, ways of working and approaches. This has included embedding risk management throughout the Council, monthly meetings focussed on assurance and conducting reviews of the Council's key risks and opportunities.

The SLT is responsible for the forward-looking approach to delivering services and the Council's transformation programmes - ensuring the Council is best placed to meet the future needs of residents and the community within the funding available. This involves working in new ways with public and voluntary sectors and ensuring services innovate to meet the continuing needs of residents and the demands of new legislation. A new Statutory Accountabilities Board, chaired by the Chief Executive, meets to ensure there are appropriate and coordinated governance arrangements in place for the effective delivery of the Council's statutory functions. The Resources Management Board, comprising the Chief Executive, Strategic Director, Finance and Governance and Director of Corporate Services, meets monthly to consider the management of staffing resources.

Commissioning and Procurement of Goods and Services
The Council recognises the value of considering different service delivery options in delivering our Business Plan. The effective commissioning and procurement of goods, works and services is therefore of strategic importance to our operations, while robust contract management helps to provide value for money and ensure that outcomes and outputs are
delivered.

Operational procedures for tendering, the use of the Council's e-tendering system, contract letting, contract management and the use of consultants are included in the Procurement Regulations which form part of the Council's Constitution.

The systems and processes that comprise the Council's governance arrangements have been evaluated for effectiveness for 2018/2019 and include:

Financial Management:
There are robust arrangements for effective financial control through our accounting procedures, key financial systems and the Financial Regulations. These include established budget planning procedures, which are subject to risk assessment, and periodic budget and actual reports to Members. Our Treasury Management arrangements, where the Council invests and borrows funds to meet its operating requirements, follow professional practice and are subject to regular review and scrutiny by the Audit, Pensions and Standards Committee.

In order to meet a year on year reduction in grants from Government, our Being Ruthlessly Financially Efficient Priority aims to improve efficiency in our services whilst maintaining our commitment to the most vulnerable and Creating a Compassionate Council. This involves taking a fundamental look at all areas of the Council's work, considering different ways of delivering services and working more effectively. The Medium-Term Financial Strategy sets out a strategic approach to meeting the financial challenges. Internal and external auditors periodically undertake reviews of the Council's Finances.

Stakeholder Engagement and Business Planning: The Council and its partners have comprehensive arrangements for identifying and prioritising stakeholders' needs. The Council's Strategy, Annual Budget and Medium-Term Financial Strategy were robustly developed through a series of challenge events, including review by the Policy and Accountability Committees. A business plan for 2018-22 was developed and this is the culmination of the Council's strategic delivery targets and actions. The plan is monitored regularly by SLT and this plan forms the basis for the production of Directorate / Service Plans, following similar reviews of their performance and identification and prioritisation of their statutory duties and stakeholder needs.

Conduct: Our Codes of Conduct set out the standards of conduct and behaviour required of our Members and our Employees. They are regularly reviewed and updated as necessary.
These include the need for Members to register personal interests and the requirements for employees concerning gifts and hospitality, outside commitments and personal interests. The requirements of these codes are included in induction training, are expected of employees and provided to both members and employees, and both groups are regularly reminded of the codes. Over the past year we have reviewed the Anti-bribery and Corruption Policy, Anti-Money Laundering Policy, Fraud Response Plan and are refreshing the risk assessment to inform our work.

Performance: The Council has established arrangements for the management of its objectives and for ensuring that they represent the best use of resources and value for money. A new corporate performance framework has been established, with quarterly performance reports to Strategic Leadership Team on progress against the business plan, major programmes and transformational activities, corporate risks, priority areas and service delivery. These reports, together with associated management arrangements, enable the Council to review data on delivery progress against the agreed performance objectives.

Resident Led Commissions: Over the course of the past year the Council has set up and managed two resident-led commissions to help to inform policy and practice. The Older People's Commission has examined issues affecting older people in the borough and presented its report to the Health, Inclusion and Social Care Policy and Accountability Committee in February 2019. The Policing and Crime Commission was launched in November 2018 and will report later in 2019.

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

Control Systems and Environment: The Council's Internal Audit Service carries out a comprehensive programme of review activity consistent with the Audit Strategy and the Public Sector Internal Audit Standards. The work is based around the core risks faced by the Council and includes significant work on the main financial and information management systems, corporate programmes, partnerships and Shared Services assurance. Based upon the programme of work for 2018/19, the Director of Audit Risk, Fraud and Insurance's opinion on the Council's control environment, governance arrangements and risk management arrangements are that they are satisfactory.

Managing Information: Information is central to the Council and its decision-making processes and it therefore needs to be accurate and accessible to those who need it at the time and place that is required. The Council also recognises that it has a responsibility to safeguard the information it holds and to manage it with care and accountability.

Over the past year the Council has been preparing to meet the requirements of the General Data Protection Regulation (a European privacy law that will be included in UK legislation), which took effect from 25 May 2018. This changed how we can collect, use and transfer personal data. A Corporate Project was established to ensure compliance across all parts of the Council's activities and to raise awareness amongst all staff.

Information governance policies and standards are in place which provide the Council's Strategic Leadership Team and Corporate Information Management Board with the necessary assurance about the security of the Council's information assets and data handling procedures. The Senior Information Risk Owner (SIRO) is ultimately accountable for the assurance of information security at the Council. A Caldicott Guardian is responsible for ensuring that health and social care information is managed appropriately, and that our annual new Data Security and Protection Toolkit submission meets the required levels of compliance.

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

Directors with functional responsibility for core risk areas were also required to review and report independently on the effectiveness of the core management systems in each service. The statements received in this regard indicated that overall the management systems were viewed as effective or very effective. Functional assurance can be demonstrated by our Adult Social Care Services approach to governance through examples of Director-led Boards for Budget Management, Performance, Quality Assurance, Recruitment and Staffing and regular Independently chaired quarterly meetings of the Adults Safeguarding Board.

Partnership Governance Arrangements: 'Moving On' refers to the Council's significant transformation and service redesign programme. The first phase was delivered over the course of 2017/18 and implemented sovereign delivery arrangements for the majority of services in Adult Social Care, Children's Services and Public Health, as well as Legal Services. A second phase of Moving On is underway, to disaggregate Resident Services from the shared services arrangements with the Royal Borough of Kensington and Chelsea. The opportunity to move away from shared delivery has been taken to improve the responsiveness of services to residents, facilitate greater sovereignty and control and ensure that local priorities are central to service plans, and ensure that opportunities for local residents, services users and other stakeholders to influence and inform service arrangements are improved.

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

External Audit: The Council's external auditors have statutory powers and responsibilities. They are required to review and report on the Council's Financial Statements, providing an opinion on the accounts, and use of resources, concluding on the arrangements in place for securing economy, efficiency and effectiveness in the Council's use of resources (the value for money conclusion). Recommendations arising from these reviews are reported to the Audit, Pensions and Standards Committee and implementation is monitored by internal audit. Published in 2018/19 (in respect of financial year 2017/18) were the External Audit Report 2017/18 which proposed unqualified opinions for the authority and pension fund financial statements and Value for Money conclusion, the Annual Audit Letter and the certification of grant claims and returns.

Role of the Chief Financial Officer: The Strategic Director, Finance and Governance is responsible for the proper administration of the Council's financial affairs, as required by Section 151 of the Local Government Act 1972, and the Council's financial management arrangements are compliant with the governance requirements set out in the Chartered Institute of Public Finance and Accountancy's 'Statement on the Role of the Chief Financial Officer in Local Government' (2016).

Role of the Monitoring Officer: The Council is required to appoint a Monitoring Officer who monitors and reviews the operation of the Constitution and ensures the aims and principles of the Constitution are achieved. The Assistant Director of Legal and Democratic Services is the Monitoring Officer and has been involved in preparing this statement. The Monitoring Officer advises on compliance with the Constitution and ensures that decision making is lawful and advises whether decisions of the Executive are within the agreed budget and policy framework. The Monitoring Officer has legal responsibility to consider matters of potential unlawfulness and has confirmed that there has not been the need to make a report concerning any proposal, decision or omission that would give rise to unlawfulness or maladministration. The Monitoring Officer is satisfied that the arrangements in place are working effectively, decisions have been made in accordance with the budget and policy framework and that no matters of significance have been omitted from this Statement.

As part of the senior management reorganisation which came into force in March 2018, the Council created a sovereign Legal Service which is led by the Assistant Director Legal and Democratic Services. The sovereign Legal Service has therefore advised the Council on all legal matters during 2018/19 unless the Assistant Director Legal and Democratic Services commissioned external advice.

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

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

Conclusion on the review: We are satisfied that the Council's arrangements continue to be regarded as fit for purpose in accordance with the governance framework. A satisfactory level of Assurance has been achieved following the conclusion of the review. Corporate Governance arrangements operate effectively in supporting the Council in meeting its challenges and responsibilities, but we will continue to monitor these to ensure that they remain effective throughout 2019-20 and into the future. There are always opportunities for improvement and where these have been identified, we will ensure that the necessary actions are taken.

Improving Governance

Table 1: The progress made during 2018-19 on the significant issues identified in our 2017-18 Annual Governance Statement is shown below:

1. Health and Safety, compliance with statutory inspections Some of the Council's governance processes were found to have been ineffective in response to a failure to meet certain Health and Safety responsibilities.
During 2018-19 some of the Council's governance and assurance processes around compliance were modified and work is continuing to ensure that they are effectively maintained and that management responsibilities, particularly at operational level, are understood and applied.
2. BT Managed Services Performance of Transactional Human Resource and Financial Services
The Council has successfully transferred services to a new provider, The Hampshire Partnership. This offered a tried and tested integrated Human Resources and Finance solution currently serving Hampshire County Council, Hampshire Constabulary, Hampshire Fire and Rescue Services and Oxfordshire County Council.
3. Contract Management Improvements in practice
Additional arrangements have been implemented corporately including work to consolidate and update records held on CapitalESourcing. This has simplified commissioning and procurement arrangements across many service areas to enable consistent practice, and compliance with corporate service standards. These changes will also enable additional opportunities for contract efficiencies to be realised moving forward.

Table 2: Based on our review of the governance framework, the following issues are being addressed in 2019-20:

1. Information Governance Working towards compliance with new data protection law (including the General Data Protection Regulation), access to information law (Freedom of Information Act, Environmental Information Regulations) and controlling risks of data breaches.
Compliance with access to information law is monitored corporately. A strategic review was undertaken to identify areas for improvement. This will inform the relevant Target Operating Models, policies, processes and guidance. All council suppliers were notified regarding the Council's General Data Protection Regulations policy and requirements for compliance.
2. **Commissioning, Procurement and Contract Management Strategy** Improvements in practice to maximise opportunity and innovations.
The opportunity has arisen to develop a new Commissioning, Procurement and Contract Management Strategy which sets out the vision and direction for the Council. Effective commissioning and procurement of goods, works and services is of strategic importance to our operations, while robust contract management helps to provide value for money and ensure that outcomes and outputs are delivered.
4. Organisational Health and Safety Health and Safety governance processes were modified for Shared Services, assurance is needed that the new Sovereign processes are effective.
We will continue to ensure that governance and management responsibilities for Health and Safety, particularly at operational level, are understood and applied. Also, we will address any findings that may be highlighted by the Health and Safety Executive.
5. Governance of Local Authority Trading Companies and other Service Models
Work is in hand, including using external legal advice to develop more robust governance arrangements in the event of future Commercial or other models of Trading Services being set up and the effectiveness of those governance arrangements being monitored through the Council's Commercial Revenue Committee.
6. Funding for Schools Funding for pupils with high needs is provided through Dedicated Schools Grant from government. A recent children's services finance survey showed that London boroughs were spending £78m more than their high needs grant allocation, with 32 out of 33 boroughs reporting a shortfall.
The Council is currently spending more that the resources allocated to it in relation to high needs. A project team is working to identify and implement potential options to reduce the underlying funding deficit. The Council has set aside reserves should the recovery plan be unable to recover the cumulative deficit in the medium term.
7. Continuing good governance, oversight and fiscal control of significant change programmes through 2019 2020.
Regeneration Programmes *King Street West* This scheme was approved at Cabinet, the budget approved at Full Council and planning permission was resolved in February 2019. The Council will benefit from efficiencies in delivering modern, inclusively designed and fit-for purpose office and civic accommodation for its staff and visitors, as well as for small and start-up businesses *Education City* The Education City development will create a new mixed used education hub on the site of the Ark Swift Primary School at Australia Road. The development will include a high-quality primary school, new and expanded nursery, adult education facilities, youth facilities, and office for educational charities, and 132 new homes, 50% of which will be affordable housing. *South Fulham* The Imperial Road development is situated in the south Fulham riverside regeneration area where the council aims to deliver significant growth opportunities for residents, new businesses, housing, jobs and infrastructure.

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

Signed:

Leader of the Council, Councillor Stephen Cowan

Signed:

Chief Executive, Kim Smith

Date:

On behalf of the London Borough of Hammersmith and Fulham

GLOSSARY OF TERMS

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

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

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

ACCRUALS BASIS
Accounting for income and expenditure during the financial year in which they are earned or incurred, not when money is received or paid.

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

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

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

AMORTISATION
The equivalent of depreciation for intangible assets.

APPROPRIATION
The transfer of ownership of an asset, from one Service Area to another at an agreed (usually market or outstanding debt) value.

ASSET REGISTER
A record of Council assets including land and buildings, housing, infrastructure, vehicles equipment etc. This is maintained for the purpose of calculating capital charges that are made to service revenue accounts. It is updated annually to reflect new acquisitions, disposals, revaluations and depreciation.

AVAILABLE FOR SALE FINANCIAL INSTRUMENTS RESERVE
The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments.

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

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

CAPITAL ADJUSTMENT ACCOUNT
See Note 3c of the Statement of Accounts.

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

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

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

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

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

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

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

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

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

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

CREDITOR
An individual or body to which the Council owes money at the balance sheet date.

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

DEBTOR
An individual or body that owes money to the Council at the balance sheet date.

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

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

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

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

EARMARKED RESERVE
See Note 4 of the Statement of Accounts.

EVENTS AFTER THE BALANCE SHEET DATE
Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue. Events arising after the Balance Sheet date should be reflected in the Statement of Accounts if they provide additional evidence of conditions that existed at the balance sheet date and materially affect the amounts to be included.

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

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

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT
See Note 3c of the Statement of Accounts.

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

FIXED ASSET
An asset that yields benefits to the Council and the services it provides for a period of more than a year.

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

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

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

HISTORICAL COST
The amount originally paid for a fixed asset.

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

IAS19
This International Accounting Standard is based on the principle that an organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future.

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

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

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

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

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

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

MINIMUM REVENUE PROVISION (MRP)
The minimum amount that the Council must charge to the CIES each year and set aside as a provision for the repayment of external loans and meeting other credit liabilities.

NON-DOMESTIC RATES (NDR)
The rates paid by businesses. The amount paid is based on the rateable value set by the Valuation Office multiplied by a rate in the £ set by the government which is the same throughout the country. The rates are collected by local authorities and shared between central and local government. The rates collected within Hammersmith and Fulham are shared as follows: The London Borough of Hammersmith and Fulham (64%) and the Greater London Authority (36%).

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

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

OPERATIONAL ASSETS
A fixed asset held and occupied, used or consumed by the Council in the direct delivery of services.

OUTTURN
Actual income and expenditure in a financial year.

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

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

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

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

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

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

PUBLIC SECTOR AUDIT APPOINTMENTS LTD (PSAA)
The PSAA is responsible for the appointment of local government external auditors and will continue in this role for the 2019/20 audit of accounts.

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

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

RESERVES
See Note 4 of the Statement of Accounts.

REVENUE CONTRIBUTIONS TO CAPITAL OUTLAY (RCCO)
The use of revenue monies to pay for capital expenditure – also known as Direct Revenue Financing (DRF).

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

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)
Expenditure that is classified as capital expenditure under statutory provisions, but does not result in the creation or enhancement of fixed assets owned by the Council. Such expenditure incurred during the year is treated as revenue expenditure and charged to the relevant service in the CIES.

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

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

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

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

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

USEFUL LIFE
The period over which the Council will benefit from the use of a fixed asset.

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

Audit Findings Report

Year ended 31 March 2019

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY

London Borough of Hammersmith and Fulham
London Borough of Hammersmith and Fulham Pension Fund

July 2019

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of London Borough of Hammersmith and Fulham Council ('the Council') and the Pension Fund and the preparation of the Council's and Pension Fund's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial statements audit	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's and Pension Fund's financial statements: • give a true and fair view of the financial position of the Council and Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on site during June and July. Our findings are summarised on pages 6 to 23. We have identified adjustments to the financial statements but there is no impact on the Council's Comprehensive Income and Expenditure Statement. There is an unadjusted audit misstatement relating to the Council's and Pension Fund's pension liabilities. Management have not adjusted as it is immaterial to both the Council and Pension Fund and because it is an estimate which still has a number of uncertainties relating to it. We accept this and therefore we have reported this as an unadjusted misstatement. Further detail on this issue is included on page 13. Adjusted and unadjusted audit misstatements are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix B. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion in Appendix E. Our anticipated audit report opinion will be unmodified. This is subject to the completion of outstanding work detailed in Appendix A. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of the organisation and the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that London Borough of Hammersmith and Fulham Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 24 to 31. We raised one recommendation for management as result of our VFM work in Appendix B.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code but are unable to issue our completion certificate until we complete our work on the Council's Whole of Government Accounts return.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be presented to the Audit, Pensions and Standards Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach - Council

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- an evaluation of the Council's internal controls environment, including its IT systems and controls;
- an evaluation of the components of the group based on a measure of materiality considering each as a percentage of the Council's gross revenue expenditure to assess the significance of the component and to determine the planned audit response.

Audit approach *(continued)*

- An evaluation of the Council's internal control environment , including IT systems and controls ; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Audit Approach Pension Fund

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included :

- An evaluation of the Pension Fund's internal control environment , including IT systems and controls ; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 12 March 2019.

Conclusion

We have substantially completed our audit of the financial statements for the Council and the Pension Fund ,subject to outstanding queries being resolved in Appendix A, we anticipate issuing an unqualified audit opinion following the Audit, Pensions and Standards Committee meeting on 23 July 2019, as detailed in Appendix E.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

	Pension Fund Amount (£)	Council Amount (£)
Materiality for the financial statements	£18,000,000	£13,000,000
Performance materiality	£13,500,000	£9,750,000
Trivial matters	£900,000	£650,000

We have set a lower materiality level for senior officers' remuneration for the Council's financial statements, as these are considered sensitive disclosures. A materiality of £28,000 was applied

Materiality calculations remain the same as reported in our audit plan, as communicated to you on 12 March 2019.

Significant findings – audit risks

Risks identified in our Audit Plan	Risk relates to	Commentary	Assessment
The risk that revenue includes fraudulent transactions Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Council and Fund**	Having considered the risk factors set out in ISA 240 and the nature of the Council's and the Fund's revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk. We have however : • evaluated the Council's accounting policy for recognition of revenues for appropriateness; • performed substantive testing on material revenue streams; and • reviewed unusual significant transactions. Our audit work has not identified any issues in respect of improper revenue recognition.	●
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council and Fund face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for the Council and the Fund, which was one of the most significant assessed risks of material misstatement.	**Council and Fund**	We have: • evaluated the design effectiveness of management controls over journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Subject to the completion of outstanding testing, our audit work has not identified any issues in respect of management override of controls.	●

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Assessment

- ● We have identified material audit misstatements during our audit
- ● We have identified audit misstatements during our audit but we do not consider these to be material
- ● No audit misstatements have been identified.

Significant findings – audit risks

Risks identified in our Audit Plan	Risk relates to	Commentary	Assessment
Valuation of land and buildings The Council revalues its land and buildings on a rolling five-yearly basis. Council houses are revalued annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.8 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. Management have engaged the services of a valuer to estimate the current value as at 31 March 2019. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Council Only**	We have: • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • considered the competence, expertise and objectivity of any management experts used; • discussed with the valuer the basis on which the valuation is carried out and challenge of the key assumptions; • reviewed and challenged the information used by the value to ensure it is robust and consistent with our understanding; • tested revaluations made during the year to ensure they are input correctly into the Council's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. Work is still in progress in respect of valuation of land and buildings. No significant audit issues have been identified to date.	

Assessment
- We have identified material audit misstatements during our audit
- We have identified audit misstatements during our audit but we do not consider these to be material
- No audit misstatements have been identified.

Significant findings – audit risks

Risks identified in our Audit Plan	Risk relates to	Commentary	Assessment
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£624 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Council only**	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. We have not yet completed our procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within that report. The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits. A high level assessment received from the actuary to estimate the impact of the McCloud judgement on the Council's pension fund liability indicated an increase in pension liabilities of £6.6 million, which is 0.5% of pension liabilities. Management chose not to adjust for this item on the basis it is not material and it is an estimate and because the pension liability can vary year on year. We accept this and therefore we have included this as an unadjusted audit misstatement in Appendix C. Further detail on this issue is included on page 13. Work is still in progress in respect of the valuation of the Council's pension fund net liability. Nothing has been identified to date.	

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Assessment

- We have identified material audit misstatements during our audit
- We have identified audit misstatements during our audit but we do not consider these to be material
- No audit misstatements have been identified.

Significant findings – audit risks

Risks identified in our Audit Plan	Risk relates to	Commentary	Assessment
Incomplete or inaccurate financial Information transferred to the new general ledger. In December 2018, the Council implemented a new general ledger system. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system. We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Council and Fund**	We have undertaken the following work in relation to this risk: • reviewed the Council and Pension fund's arrangements and controls over the transfer of data from the old system to the new system, and the controls over the completeness and accuracy of data transferred; • mapped the closing balances from the redundant general ledger (Agresso) to the opening balance position in the new ledger (SAP) to assess accuracy and completeness of the financial information; and • completed an information technology (IT) environment review to document, evaluated and tested the IT controls operating within the new general ledger system. We are satisfied that the data transfer of balances from Agresso to SAP was accurate and complete.	

Assessment

- We have identified material audit misstatements during our audit
- We have identified audit misstatements during our audit but we do not consider these to be material
- No audit misstatements have been identified.

Significant findings – audit risks

Risks identified in our Audit Plan	Risk relates to	Commentary	Assessment
Valuation of Level 3 Investments By their nature , Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£77 million) and the sensitivity of this estimate to changes in key assumptions Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2019. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Fund Only**	**Auditor commentary** We have undertaken the following work in relation to this risk : • gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls; • reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; • independently verified the Northern Trust valuation to independent market data; • reviewed the custodian independent valuation of Northern Trust; • considered the competence, expertise and objectivity of any management experts used; and • verified the investment balances to the fund manager and custodian reports The investment balances in the financial statements were based on custodian reports. The custodian reported the valuation as at Month 11 for one of the investments, Partners Infrastructures. The Month 12 balances were subsequently £1.1m higher (which would be 0.1% of total Investments) than the balances disclosed in the financial statements. As the adjustment is not material management have decided not to adjust the financial statements . We accept this and have included this as an unadjusted audit misstatement in Appendix C . This is well below performance materiality, therefore, we are satisfied that the impact on the accounts is immaterial. Work is still in progress in respect of the valuation of the Pension Fund's level 3 investments. Nothing further has been identified to date.	●

Assessment
- ● We have identified material audit misstatements during our audit
- ● We have identified audit misstatements during our audit but we do not consider these to be material
- ● No audit misstatements have been identified.

Significant findings – audit risks

Risks identified in our Audit Plan	Risk relates to	Commentary	Assessment
Valuation of Level 2 Investments Level 2 investments do not carry the same inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly. We therefore identified the valuation of the Fund's Level 2 investments as an other risk	**Fund Only**	We have undertaken the following work in relation to this risk: • gained an understanding of the Fund's process for valuing Level 2 investments and evaluated the design of the associated controls; • assessed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; • agreed the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and obtained explanations for variances; • obtained year-end confirmations from investment managers and custodian; • where necessary, tested a sample of unit values used to value level 2 investments to externally quoted information sources, or where not quoted, to unit values provided by the investment manager's own independent custodian. • for direct property investments agreed values in total to valuer's report and undertaken steps to gain reliance on the valuer as an expert; and • assessed the related impact of Britain leaving the European Union on 29 March 2019. Work is still in progress in respect of the valuation of the Pension Fund's level 2 investments. Nothing has been identified to date.	

Assessment

- We have identified material audit misstatements during our audit
- We have identified audit misstatements during our audit but we do not consider these to be material
- No audit misstatements have been identified.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Relates to	Commentary	Auditor view	Assessment
Dedicated Schools Grant The Council had cumulative overspend of £13.6m as 31 March 2019 due to insufficient government funding. An earmarked reserved was set aside to off-set the deficit which resulted in a negative reserve being off set by a separate reserve reflected in the statements.	**Council**	The Council had previously disclosed the overspend on the DSG as a debtor. Based on revised guidance received from Education Skills and Funding Agency(ESFA) this year management were advised to reflect the cumulative spend as a deficit in an ear-marked reserved. This is not in line with the Code. We have asked management to account for this by: • reflecting the deficit as movement in year between the Efficiency Projects Reserve and the DSG Reserve - Deficit earmarked reserve which has resulted in a nil balance for this reserve. • including a narrative in Note 29 – Dedicated Schools Grant reflecting the change in treatment of the deficit between the prior and current year. Please refer to Appendix C. The disclosure above supported management's need to maintain transparency and track the DSG deficit.	We have reviewed the joint statement from CIPFA and the Department for Education have issued on Direct Schools Grant (DSG) 2018/19. The statement confirms the guidance in LAAP bulletin 99 Local *Authority Reserves and Balances remains extant i.e. it "neither anticipates nor allows for a voluntary earmarked balance to be presented in a deficit position."*	●

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Assessment
- ● We have identified material audit misstatements during our audit
- ● We have identified audit misstatements during our audit but we do not consider these to be material
- ● No audit misstatements have been identified.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Relates to	Commentary	Auditor view	Assessment
Potential impact of the McCloud judgement The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.	**Council and Fund**	Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of local government bodies. The Council requested a high level estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was: • A possible increase in pension liabilities of £6,642k (this would be 0.5% of pension liabilities) for the Council and; • A possible increase in pension liabilities of £9,543k (this would be 0.6% of pension liabilities) for the Pension Fund; Management's view is that the impact of the ruling is not material for the Council or the Pension Fund as this is an estimate and will be considered for future years' actuarial valuations. We concur with management's view and therefore adjustments were not made to the financial statements. We have included this as an unadjusted audit misstatement in Appendix C.	We have assessed the high level estimate provided by the actuary and considered that the approach that has been taken to arrive at this estimate is reasonable. Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's and Pension Fund's liability. We have included this as an uncertainty within Appendix C.	

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Assessment

- We have identified material audit misstatements during our audit
- We have identified audit misstatements during our audit but we do not consider these to be material
- No audit misstatements have been identified.

Significant findings - other issues

Issue	Relates to	Commentary	Auditor view	Assessment
New System Transition (SAP) The Council implemented a new general ledger system In December 2018. The issues identified are due to the transition and has occurred due to the new system being implemented very close to year-end.	**Council**	**Bank reconciliation** After the implementation of SAP, the Council encountered some difficulties performing the bank reconciliation and identified the following issues through additional review: • cash received totalling £6,347k was entered into the Income Manager module, but did not transfer properly to the general ledger, meaning that the Council's cash balance was overstated, and creditors were overstated. This adjustment has no impact on the Council's income or expenditure. • an amount of £1,316k relating to misallocations was posted to the general ledger code in duplicate due to a misunderstanding by the staff at Hampshire IBC in terms of the way the new system processes reports. A thorough manual review has been done to remove duplicated amounts and this adjustment has no impact on the Council's income or expenditure. Total adjustments are £7,663k (this would be 10.24% of total Cash) Further detail on these adjustments is included on page 38.	**Bank reconciliation** There is a risk that errors in cash can be pervasive to the financial statements. We are satisfied that the cash balance is not indicative of a risk of material misstatement of the financial statements, as there are no unreconciled items. We have raised a recommendation in Appendix B that this be reviewed regularly	
		Debtors Based on our work performed on debtors at year-end, we noted £6.8 m (this would be 10.80% of Debtors) of credit debtors. This relates to receipts received that have not been matched against invoices due to the configuration of the new system, i.e. matching of receipts to outstanding invoices is amount specific.	**Debtors** We are satisfied that management have correctly included these credit balances as part of the debtors balance. There is no risk of material misstatement on the financial statement as these amounts are not material and by including these balances in the debtors balance this ensures that debtors at year end are not overstated. We have raised a recommendation in Appendix B that this be reviewed for the current year.	

Assessment

- We have identified material audit misstatements during our audit
- We have identified audit misstatements during our audit but we do not consider these to be material
- No audit misstatements have been identified.

Significant findings - other issues

Issue	Relates to	Commentary	Auditor view	Assessment
New System Transition (SAP) contd.	**Council**	**Impairment Allowance for Doubtful Debts** • Temp Accommodations - The Council's policy stated that debt over 6 years should be written off .However, the Council has not been writing off accounts for over 10 years now which amounted to £3.2 m • Transport/Parking - The Council's policy stated that debt over 3 years should be written off. However this has not been done by the Council and our assessment is that this amounted to £17.2m. Total write-off is £20.4m (this would be 32% of debtors)	**Impairment Allowance for Doubtful Debts** There is no risk of material misstatement on the financial statement as the write-offs recommended for both accounts have no impact on • Income and Expenditure; or • The Balance sheet as it would be re-classification between line items within Note 16 We have raised a recommendation in Appendix B that this be reviewed for the current year.	●
		Creditors Based on our work performed on creditors at year-end, we noted £2.4m (this would be less than 1.16% of creditors) of debit creditors. This relates to credit notes that have not been matched against invoices due to the configuration of the new system, i.e. matching of credit notes to outstanding invoices is amount specific.	**Creditors** We are satisfied that management have correctly included these debit balances as part of the creditors balance. There is no risk of material misstatement on the financial statement as these amounts are not material and by including these balances in the creditors balance this ensures that creditors at year end are not understated. We have raised a recommendation in Appendix B that this be reviewed for the current year. Our work on the Council's bank reconciliation, debtors and creditors are still in progress.	

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Assessment
- ● We have identified material audit misstatements during our audit
- ● We have identified audit misstatements during our audit but we do not consider these to be material
- ● No audit misstatements have been identified.

Significant findings - other issues

Issue	Relates to	Commentary	Auditor view	Assessment
New System Transition (SAP) contd.	**Council and Fund**	**IT Control - Insufficient details from SOC report demonstrated that the controls are designed adequately for SAP.** We were provided with an ISAE 3402 SOC Type II by Hampshire County Council (HCC) for the LBHF's hosted SAP system. We noted that there were insufficient details to demonstrate that the controls listed below were designed adequately: • Duties of security personnel do not include programming or IT management • User IDs required to be unique • Passwords are encrypted • Unauthorised access attempts are logged, investigated and follow-up actions documented.	**IT Control** Management will not have complete assurance over the design adequacy of the controls. We have raised a recommendation in Appendix B.	
		IT Control - SAP Password Controls The SAP password policy for external users required a length of 7 characters that did not need to be changed. With regards to this last point, this chimes with HMG National Cyber Security Centre (NCSC) advice which has stated that changing a password regularly can encourage poor password practices such as simply adding numbers to old and common passwords. Instead NCSC encouraged longer passwords that can be based upon a memorable phrase with a mix of characters, numbers and special characters. For example, the NCSC quote '3redhousemonkeys27!' on their website which illustrated this approach. This password is 19 characters long and uses complex characters.	**IT Control - SAP Password Controls** Weak password controls could give rise to compromise of accounts through password guessing or cracking. We have raised recommendations in Appendix B.	

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Assessment
- We have identified material audit misstatements during our audit
- We have identified audit misstatements during our audit but we do not consider these to be material
- No audit misstatements have been identified.

Significant findings – key judgements and estimates

Area	Relates to	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals Draft - £24m	**Council**	The Council are responsible for repaying a proportion of successful rateable value appeals. Management use historic data relating to appeal success rates and the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) to calculate the level of provision required. Due to the London NNDR Pooling arrangement, which was new in 2018/19, the Council's share of the liability has increased from 30% to 64%, and so the provision has increased by £17m in 2018/19.	• We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate; • We have considered the approach taken by the Council to determine the provision, and it is in line with that used by other bodies in the sector; • Disclosure of the estimate in the financial statements is considered adequate; and • There have been no changes to the calculation method this year, with the exception of the increase in the Council's share of the liability. Subject to the results of outstanding work, we have found no material misstatements in the financial statements relating to these balances.	●
Land and Buildings – Council Housing Draft - £1,259m	**Council**	The Council owns 12,218 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged Wilks, Head & Eve to complete the valuation of these properties. In the draft financial statements, the year end valuation of Council Housing was £1,259m, a net decrease of £13m from 2017/18 (£1,272m). .	• We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council; • No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate; • There have been no changes to the valuation method this year; and • Disclosure of the estimate in the financial statements is considered adequate. Subject to the results of outstanding work, we have found no material misstatements in the financial statements relating to these balances.	●

Assessment
- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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Significant findings – key judgements and estimates

Area	Relates to	Summary of management's policy	Audit Comments	Assessment
Land and Buildings Other Land and Buildings £333,019k Surplus Assets £33,094k Investment Property £84,256k	**Council**	The Council has engaged Wilks, Head & Eve to complete the valuation of these properties. **Other Land and Buildings** Each year the selection of properties for revaluation is based on top fifty assets with the highest Net Book Value plus any properties not being valued for more than 4 years. This ensures that at least 85% of the property portfolio is valued in-year. Any remaining properties not valued in year are reviewed by internal valuers in order to establish if there are any material changes in the values since their last valuation date. Properties which are subject to material value fluctuations are then added the revaluation list. We have applied Gerald Eve indices to evaluate the potential impact of management's decision not to revalue these assets. The total impact of not revaluing all assets at year end is below Performance Materiality. We are thus satisfied that the impact of not revaluing all PPE at year end is not material to financial statements. **Surplus Assets** The basis of valuation for surplus assets is fair value, as such, all of the assets in the class were revalued taking into account IFRS 13 implications. This is in line with the code. **Investment Property** The entire investment property portfolio was valued. There was a full inspection of 25% of the portfolio and 75% of the portfolio was valued on a desktop basis. Only assets held at 31 March 2019 were valued. Any in-year disposals and transfers were excluded from the valuation. Transfers-in and asset purchases were added to the revaluation portfolio. Investment properties have been valued at fair value, this is in line with the code. The total year end valuation of land and buildings was £450m, a net decrease of £24m from 2017/18 of £474m.	• We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. • There has been a changes to the valuation method this year due to new RICS guidance on Depreciated Replacement Cost. This change had had an effect on age and obsolescence of buildings and one of the factors for the downward valuation on buildings. We are awaiting a response from the valuer on this to confirm the reasonableness of the change • We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. This work has not raised any issues with the 2018/19 valuations. • Disclosure of the estimate in the financial statements is considered adequate. • We have considered the completeness and accuracy of the underlying information used to determine the estimate, and have noted the following issues: • The Council did include additions and enhancements made to assets that were revalued when calculating the gain or loss on revaluations. Subject to the results of outstanding work, we have found no material misstatements regarding the change in valuation method and assumptions of land and buildings in the financial statements relating to these balances.	

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Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

Area	Relates to	Summary of management's policy	Audit Comments	Assessment
Net pension liability Draft £624m	**Council**	The Council's net pension liability at 31 March 2019 is £624m (PY £649m) comprising obligations under both the London Borough of Hammersmith and Fulham Council Pension Fund Local Government pension scheme and the London Pensions Fund Authority scheme. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	• We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council. • We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Pension Fund valuation: (see table below) • No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. • There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above. • We have confirmed that the Council's share of the pension scheme assets is in line with expectations. • Disclosure of the estimate in the financial statements is considered adequate. Subject to the results of outstanding work, we have found no material misstatements in the financial statements relating to these balances. Nothing has been identified to date.	● (green)

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.35-2.45%	● (green)
Pension increase rate	2.4%	2.4- 2.45%	● (green)
Salary growth	3.9%	3.10 – 4.35% scheme specific	● (green)
Life expectancy – Males currently aged 45 / 65	45 : 25 65 : 23.4	22.2 – 25.0 20.6 – 23.4	● (green)
Life expectancy – Females currently aged 45 / 65	45 : 25 65 : 23.4	25.0 - 26.6 23.2 - 24.9	● (green)

Assessment
- ● (red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● (amber) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● (yellow) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● (green) We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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Significant findings – key judgements and estimates

Area	Relates to	Summary of management's policy	Audit Comments	Assessment
Level 3 investments Draft £ 77m	**Fund**	By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£77m) and the sensitivity of this estimate to changes in key assumptions. Management utilised the services of investment managers as valuation experts to estimate the fair value as at 31 March 2019. The Pension Fund invested in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. The pricing of complex investment assets may also be susceptible to pricing variances given the number of assumptions underlying the valuation. For year ended 31 March 2019, £77m out of a total of £1,035m of investments were in this harder to price category. As part of our audit of the Pension Fund, we independently verified a selection of investment asset prices to third party information and obtained independent confirmation on asset existence. We also tested the extent to which the Pension Fund had challenged the valuations reported by investment managers for harder to price investments and obtained independent assessment of the figures.	We have undertaken the following work in relation to this risk : • gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls; • reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; • independently verified the Northern Trust valuation to independent market data; • reviewed the custodian independent valuation of Northern Trust; • considered the competence, expertise and objectivity of any management experts used; and • verified the investment balances to the fund manager and custodian reports Subject to the results of outstanding work, we have found no material misstatements in the financial statements relating to these balances.	●

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Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process and key assumptions to be reasonable

DRAFT Public

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary	Auditor commentary	Assessment
Management's assessment process Management’s assessment is that there is no reason to consider the Council or the Pension Fund is at risk of not being a going concern.	The Council and Pension Fund have sufficient cash, investment and reserves balances to deliver their services for 12 months from the date of the financials statements without income contributions.	●
Work performed We have: • held regular discussions with officers throughout the year ; and • reviewed the Council’s financial statements and financial forward planning.	The Council and Pension Fund financial forecasts show that they have sufficient assets available to meet liabilities for the foreseeable future. We have considered these forecasts and the Council and Pension Fund’s past performance against its budgets. We have no concerns over the Council and the Pension Fund’s financial plans.	●
Concluding comments	We intend to issue an opinion that is not modified in respect of Going Concern. No events or conditions have been identified in the course of our audit that cast doubt on the entity’s ability to continue as a going concern.	●

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary	Assessment
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit ,Standard and Pensions Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures	●
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.	●
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work to date. Work is still in progress on this area.	●
Written representations	A letter of representation has been requested from the Council which is included in the papers for this meeting.	●
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council and Pension Fund's counterparties. This permission was granted and the requests were sent. **Council** – All requests were returned with positive confirmation. **Pension Fund** - One confirmation received from Invesco UK Limited provided a balance as at 31 December 2018. We undertook alternative procedures to verify the year end position.	●
Disclosures	Our review found no material omissions in the financial statements , however there were a number of internal consistencies and errors in the first version that was provided to us. Management have agreed to amend for the issues identified to date. Work is still in progress to ensure all final amendments are done. This is covered under work still to be completed in Appendix A.	●
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided. The finance team were very cooperative and we would like to thank the whole team for their approach to the 2018-19 audit. Work is still in progress to ensure all final audit queries/explanations are received. This is covered under work still to be completed in Appendix A.	●

Assessment
- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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Other responsibilities under the Code

Issue	Commentary	Assessment
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Subject to the work in Appendix A being completed we plan to issue an unmodified opinion in this respect – refer to appendix E.	●
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.	●
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold we will need to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is still in progress.	●
Certification of the closure of the audit	We intend to certify the closure of the 2018/19 audit of London Borough of Hammersmith and Fulham and the Pension Fund in the audit opinion, subject to the work in Appendix A being completed, as detailed in Appendix E.	●

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Assessment
● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Value for Money

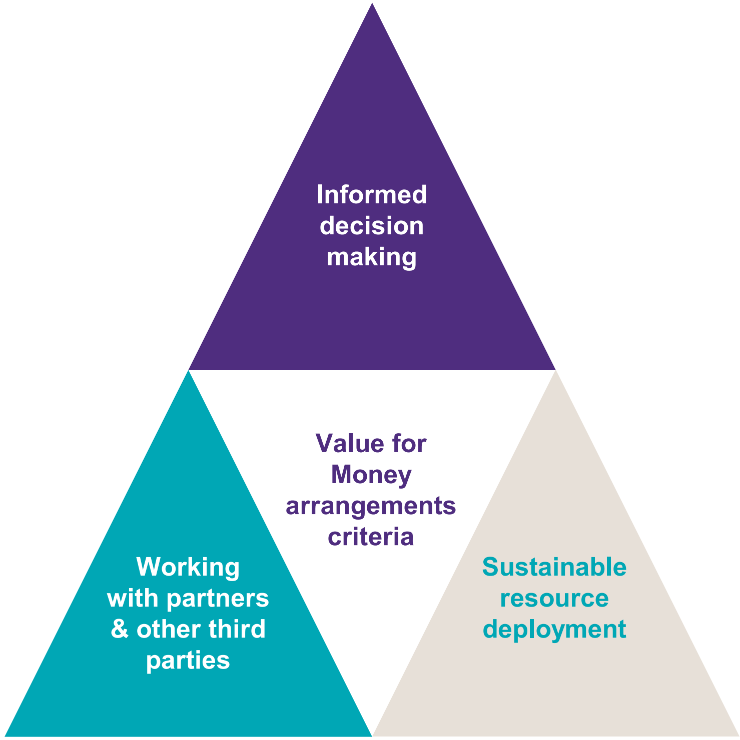
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in December 2018 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 12 March 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 25 to 31.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix B

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on the Council's arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Financial Sustainability In light of the continued funding pressures that the Council face, there is a risk that you will not be able to generate new revenue streams or deliver saving cuts of sufficient scale to maintain a balanced budget over the period covered by the Medium Term Financial Strategy (MTFS). We have reviewed recent performance against the budget and considered the reasonableness of the assumptions upon which the MTFS is based.	Local government finances have been under sustained pressure since 2011/2012. This has put pressure on the whole sector which has been compounded by: • An increase in demand for adult social care as the population ages, lives longer and with greater numbers of illnesses • An increase in the numbers of looked after and/or supported children due to challenges within communities impacted by drug and alcohol addition and the reduction in housing benefit and other support • An increase in the number of children with special needs who require high support packages; • An increase in the number of people recorded as homeless, particularly in London with the pressure on housing costs Some of these risks have been mitigated by: • Growth in the council tax base, particularly in London and the South- East • Provision of support from the Better Care Fund in its various iterations to support health and social care integration • Additional funds from the business rate pools • The flexible use of capital receipts to support revenue funding. For example, £3.5m of Invest to Save costs were funded from capital resources. • A focus on regeneration in the borough including the King Street West Regeneration project with a forecast profit of £11.1m coming back to the Council from the proposed Joint Venture profits. The Council will benefit from efficiencies in delivering modern, inclusively designed and fit-for purpose office and civic accommodation for its staff and visitors, as well as for small and start-up businesses

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings

Financial Sustainability (cont.)

The 2018/19 outturn

The table below shows the final revenue position against the budget for 2018/19 :

Department	Budget	Actual	Over/ (Under) Spend
	£m	£m	m
Children's Services	53.370	56.679	3.309
Corporate Services	1.260	1.235	(0.025)
Finance and Governance	14.886	13.751	(1.135)
Growth and Place	14.298	13.154	(1.144)
Public Service Reform	2.873	9.915	7.042
Residents' Services	67.615	69.142	1.527
Controlled Parking Account	(23.037)	(25.437)	(2.400)
Adult Social Care	53.764	53.765	0.001
Centrally Managed Budgets (including unallocated contingency)	33.114	27.492	(5.622)
Gross Operating Expenditure	**218.143**	**219.696**	**1.553**
Technical and Financial Accounting Adjustments	(31.952)	(31.952)	-
Capital Grants	(8.274)	(8.274)	-
Non-Ring-fenced Revenue Grants	(15.074)	(15.074)	-
Net Contribution to Earmarked Reserves	(19.418)	(19.418)	-
Total Net Expenditure	**143.425**	**144.978**	**1.533**

The key budgetary pressures revolve around Children Services and Public Services Reform. The significant variances on these departments have been outlined below:

Children Services

- £2.5m related to continued increases in demand for social care placements along with higher unit costs and more complex cases. As with other London Boroughs, we have seen a rise in demand from adolescents at risk due to knife crime and drug trafficking. The other significant variance is in Family Support and Child Protection and related to the numbers of children subject to protection plans having increased causing additional pressure and not covered through existing contracts.   The Council needs to find a sustainable solution to manage the pressures in Children's' Services.

Public Services Reform

- £2.1m is due to delays in business sales in 2018-19 as their team focused limited resources on delivering improved services.
- £1.9m related to prudent provisions due to commercial disputes and shortfalls in income from advertising profit sharing sites; and
- £1.2m on family support due to the delay in novating contracts to the Family Support Local Authority Trading Company.

To support the outturn position, the Council budgeted to use s106 funding during the year to relieve specific cost pressures.

Key findings

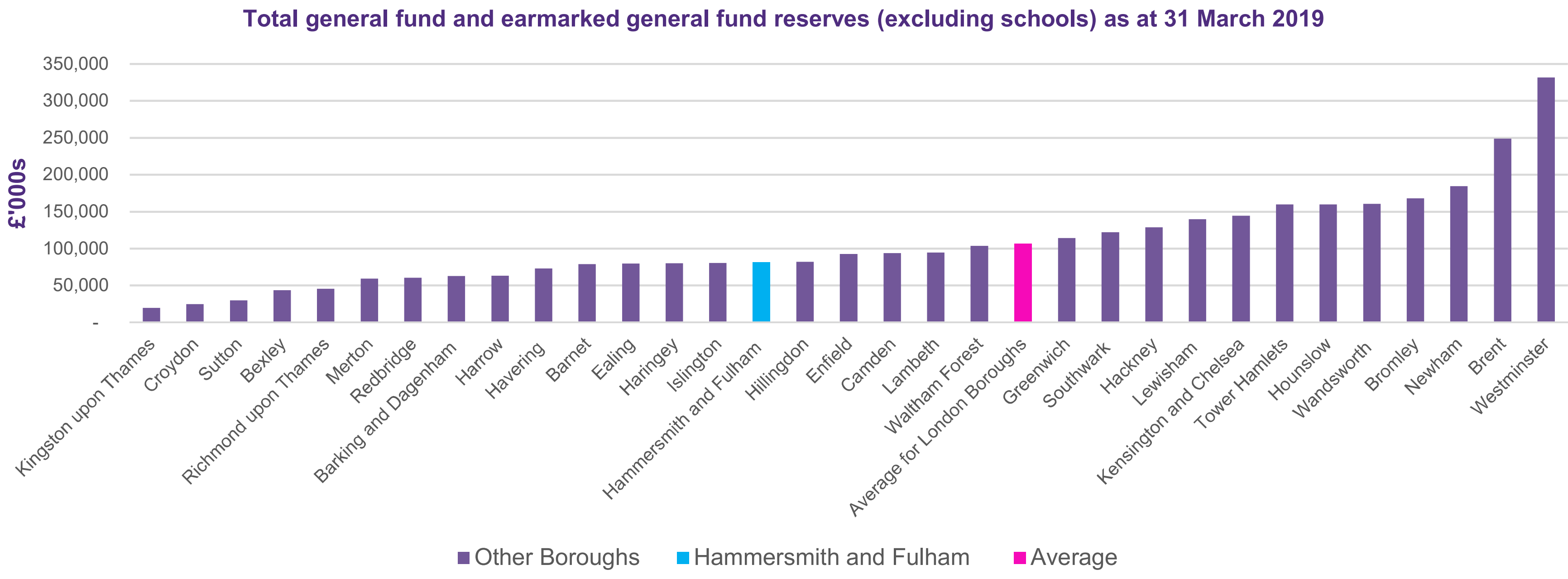
We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Financial Sustainability (cont.) .	*Dedicated Schools Grant funding* There are also ongoing pressures on Dedicated Schools Grant funding, a pressure which will continue into 2019/20. The cumulative deficit on £13.6m has been funded by the use of the Efficiency Projects Reserve. With the current trajectory of the deficit only expected grow for 2019-20 this is not a sustainable option for the future years. The Council has an action plan for their deficit recovery plan due to the overspend on this grant. Management are working to reduce this overspend as well as representations are being made to central government to demonstrate how they are underfunding the High Needs Block. *Use of earmarked reserves* General fund earmarked reserves have reduced from £95m to £63m. The general fund reserves were utilised for approved projects.£10.3m of the movement was due to technical NNDR adjustments. The use of earmarked reserves and the general fund have illustrated very clearly that the Council do have ongoing financial pressures, which need to be addressed in the medium term.

Significant risk	Findings
❶ **Financial Sustainability (cont.)**	*Reserves and financial position*

Reserves have reduced in recent years as a result of the financial pressures that the Council has faced and its investments in regeneration schemes within the borough. As a result, the Council is now maintaining a reserves position that is below the average when compared to other London Boroughs.

The following graph sets out a summary of your reserves position and key financial ratios as at 31 March 2019 relative to other London Boroughs as per their draft published financial statements for 2018/19:



The Council's reserves level is of concern as there doesn't appear to be sufficient cushion to weather the ongoing financial challenges that the Council will face over the medium term due to reductions in central government funding and forecast pressures of the DSG funding. The Council only has finite reserves available and it is important that you continue to maintain appropriate budgetary control. It cannot be stressed enough how important it is to have a fall back position to address the challenges of the future. We have seen a number of Councils reach the financial precipice and members have a fiduciary duty to ensure the Council retains financial sustainability. We would strongly recommend that use of reserves remains limited in future years other than for specifically earmarked schemes. We have raised a recommendation for management in Appendix B in respect of this matter.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Financial Sustainability (cont.) .	**The 19/20 budget and beyond** The 2019/20 budget is more challenging. The budget was approved in February 2019 and included: • c£10.3m of savings • a decision to increase the Hammersmith & Fulham element of the council tax charge by 2.7%. The 2.7% inflation-linked increase in Council Tax will generate additional income of £6.3m over 4 years and £1.56m in the first year, and • the “social care precept” levy of 2% as modelled by the Government.. The adult social care precept of 2% will generate additional income of £4.6m over 4 years and £1.15m in the first year. The medium-term position is more uncertain due to impact of Brexit. Local Government funding is due to go undergo significant shake up due to the impact of the business rate retention plan and the fairer funding review. **Conclusion** The Council’s reserves have reduced significantly in recent years and are now below average when compared to other London Boroughs. As a result, our view is that the Council needs to carefully consider funding of future projects through the use of reserves as this will continue to weaken the Council’s financial position. The Council should also consider finding sustainable solutions to address the ongoing pressure areas, e.g. the underfunding of Dedicated Schools Grant. The financial outlook for local government is at its most uncertain for a generation. It is vital members recognise that the current level of reserves provides a buffer for the uncertainties ahead and does not represent an easy way to resolve immediate budget pressures. Overall, we conclude that the Council has proper arrangements in place to mitigate its financial position.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents

Significant risk	Findings
Brexit At the time of our planning and risk assessment, the UK was due to leave the European Union on 29 March. When Britain exits the EU, there will be national and local implications that will impact on the Council, which the Council will need to plan for. We have reviewed the Council's arrangements and plans to mitigate any risks on Brexit. Our review focussed on areas such as workforce planning, supply chain analysis and impacts on finances including investment and borrowing as well as any potential impact on the valuation of the Council's assets	At the time of writing our audit plan, the UK was due to exit from the EU on 31 March 2019. Brexit has been delayed with a revised date of 31 October 2019 so the risk has not materialised within the period covered by this report. • The Council has established an EU Exit Strategic Board which meets to discuss Brexit related issues that could impact upon the Council, members of the board include Executive Director of City Management and Communities (chair), Director of Corporate Finance and Property, business continuity representatives and relevant service heads. The group reports to the Pan London Brexit group on a monthly basis. The Council has also established and monitors an EU Brexit risk register. • The Council produced a Brexit Briefing ,which updated the Audit ,Pensions and Standards Committee on the potential impacts of Brexit on the Council. Mitigating actions being planned or developed are communicated to the Audit, Pensions and Standards Committee on a regular basis. • Associated risks and opportunities are described and risk rated based on likelihood and impact resulting in an overall score and risk mitigations and actions to take forward. The register is regularly reviewed and updated by the EU Strategic Board. In addition, the Council is monitoring Performance Indicators for tracking Brexit Impacts in Hammersmith and Fulham. • The Council have considered the impact of a no deal and are confident that there would be no impact on business continuity as: - the Council is not reliant on any European social care suppliers and business as usual will continue - senior management are all eligible for settled status therefore no unplanned vacancies or skills gaps will occur. - The Council has arranged access for senior staff to work from home as a contingency plan in the event of Council staff being unable to get to work due to traffic gridlock. • The Council's website also provides helpful links to where residents and businesses can get the most up to date advice including government's official source for a wide-range of information for residents and businesses about the UK leaving the EU. We have concluded that the Council has established proper arrangements to analyse and mitigate any potential risks and opportunities resulting from Brexit.

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers . In this context, we disclose the following to you:

We draw your attention to the fact that ex-Grant Thornton employee, Emily Hill currently occupies a senior finance position within the Council. Emily Hill, who was a Director and Technical Lead in our Public Sector Assurance team (PSA), joined the Council in March 2017 as Assistant Director of Finance (Deputy S151 Officer). We have consulted with our Ethics team and have ensured that we have put in place adequate safeguards. These safeguards are listed below :

- We have allocated the Engagement Lead role to Andrew Smith ,a Key Audit Partner from our Manchester office who joined the firm in April 2017 , after Emily left Grant Thornton.
- We have appointed an Engagement Quality Control Review Partner , based in our Bristol office who will undertake a review of key audit work including critical judgements.
- We have reported the threat and our proposed safeguards to those charged with governance and outlined the mitigating actions we have taken.

We have reviewed the facts above and concluded that this has had no bearing on our audit judgement or independence.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Independence and ethics

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

	Fees £	Threats identified	Safeguards
Audit related	**£21,000**		
Certification of Housing capital receipts grant	£4,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,500 in comparison to the total fee for the audit of £126,242 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers' Pension Return	£3,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,500 in comparison to the total fee for the audit of £126,242 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefits Claim	£13,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £13,000 in comparison to the total fee for the audit of £126,242 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related	**£17,950**		
CFO Insights subscription	£12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £126,242 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
HSF LLP (JV entity of Council) Tax Compliance	£3,700	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,700 in comparison to the total fee for the audit of £126,242 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
HSF 2 Developments (JV entity of Council) Accounts Compilation Audit	 £1,750 TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £1,750 in comparison to the total fee for the audit of £126,242 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Council's policy on the allotment of non-audit work to their auditors. All services have been approved by the Audit, Pensions and Standards Committee. None of the services provided are subject to contingent fees.

We do not believe that the previous services detailed above will impact our independence as auditors.

Outstanding Work

We have substantially completed our audit of the financial statements, with the exception of the following outstanding items:

Council

- managements response to the Fraud, Laws and Regulations Letter issued
- those charged with governance responses to Fraud, Laws and Regulations Letter issued
- receipt and review of supporting documentation for NNDR appeals provision and bad debts provision
- receipt and review of supporting documentation for a sample of debtors and creditors
- management responses to adjustments and disclosure queries(A1a/disclosure checklist)
- final quality checks and senior personnel reviews of the audit work performed;
- receipt of a signed management representation letter;
- review of the final, approved set of financial statements: and
- completion of WGA consolidation procedures

Pension Fund

- receipt and review of supporting documentation for a sample of contributions
- responses to variance queries on analytical review on employer contributions
- receipt and review of Invesco internal control report
- receipt and review of supporting documentation for a sample of admitted bodies
- management responses to adjustments and disclosure queries(A1a/disclosure checklist)
- final quality checks and senior personnel reviews of the audit work performed; and
- review of the final, approved set of financial statements

Action plan - Council

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Issue and risk	Recommendations	Assessment
New System Transition (SAP) **Bank Reconciliation** The Council has provided a full bank reconciliation at 31 March 2019. Due to the transition to SAP and the need to improve the bank reconciliation process with the Hampshire IBC, the Council needs to develop its bank reconciliation process to ensure that this is completed promptly on a monthly basis.	**Bank Reconciliation** The Council should review the bank reconciliation process with Hampshire IBC to ensure the bank reconciliation process can be performed promptly. **Management response** A new bank reconciliation process including documenting the respective roles and responsibilities of the Council and the Hampshire IBC is being agreed with the Hampshire IBC and further work is being undertaken on our Income Management system to address issues identified and automate and speed up the process wherever possible. This will ensure that a monthly bank reconciliation can be completed promptly.	●
Debtors We found receipts received that have not been matched against invoices in a timely manner due to the configuration of the new system. **Creditors** We found credit notes that have not been matched against invoices in a timely manner due to the configuration of the new system.	**Debtors and Creditors** Creditors and debtors should be reviewed regularly to consider whether any unmatched amounts should be written off or reclassified. **Management response** During 2019/20 the Council will undertaken an exercise to review unmatched items. This will include work on our Income Management system and with Hampshire IBC to reduce the volume of items which are unmatched and a review of any historical items.	●
Impairment Allowance for Doubtful Debts We found outstanding debts which should be matched against receipts or written off if they exceed Council's debt write off policies.	**Impairment Allowance for Doubtful Debts** A review of all historic balances should be conducted to determine the appropriate treatment **Management response** During 2019/20 the Council will undertaken an exercise to review debt policies and aged debts. This will include the review of unmatched items per the above point raised about unmatched amounts before any write off is considered.	●

Controls
- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Action plan - Council

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Issue and risk	Recommendations	Assessment
New System Transition (SAP) contd. **IT Control - Insufficient details from SOC report demonstrated that the controls are designed adequately for SAP.** We noted that there were insufficient details to demonstrate that the controls listed below were designed adequately: • Duties of security personnel do not include programming or IT management • User IDs required to be unique • Passwords are encrypted • Unauthorised access attempts are logged, investigated and follow-up actions documented. The risk would be that management would not have complete assurance over the design adequacy of the controls	We recommend that management confirm the arrangements that HCC have implemented on behalf of LBHF with respect to the following controls to ensure that: • Duties of security personnel do not include programming or IT management. • User ids are unique. • Passwords are encrypted. • Unauthorised access attempts are logged, investigated and follow-up actions documented. **Management response** We will ensure that the audit findings are fed back to the Hampshire partnership and request further details to ensure the necessary controls are in place.	●
IT Control - SAP Password Controls Weak password controls could give rise to compromise of accounts through password guessing or cracking. The risk would be that weak password controls could give rise to compromise of accounts through password guessing or cracking.	We recommend that management review the adequacy of the current password criteria regarding length in light of NCSC advice to strengthen those passwords that are not changed by business users. **Management response** We will ensure that the audit findings are fed back to the Hampshire partnership and request further details to ensure the necessary controls are in place.	●

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Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan - Council

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Issue and risk	Recommendations	Assessment
Financial Sustainability The Council is using its reserves to meet ongoing pressures on Dedicated Schools Grant funding and to invest in regeneration projects. Whilst the Council's reserves are currently sufficient, this will not be sustainable in the medium term.	The Council needs to manage reserves carefully to ensure that they remain sufficient. We would strongly recommend that use of reserves for new projects is limited in future years other than for specifically earmarked schemes. In addition, the Council needs to identify sustainable solutions to address the ongoing pressures on Dedicated Schools Grant funding. **Management response** The Council is undertaking a detailed review and forecasting of reserves which will include a realignment of reserves against current and expected future commitments. The Council's High Needs Block Board is working to identify savings and funding options.	●
Employee Contracts We reviewed, on a sample basis, employee contracts held by the Council. Contracts were on file for the sample of employees reviewed but they were not signed by the respective employees.	We recommend that the Council's HR team reviews the documentation on file to ensure each employee has a signed contract. There is a risk that the Council could end up in litigation if complaints/cases are filed by employees against the Council. In addition, HR teams to ensure that a review of all new starters are checked on a monthly basis to ensure they have obtained a signed copy of the contracts. **Management response** The Council will discuss with Hampshire IBC the process roles and responsibilities around the documentation for new starters.	●

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Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Action plan – Pension Fund

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Issue and risk	Recommendations	Assessment
Third party Confirmation from Fund Manager- Invesco UK Limited The external confirmation received from Invesco UK Limited had provided a balance as at 31 December 2018 as opposed to 31 March 2019 which is the Pension Fund's year end.	We would recommend that management ensures that fund managers are aware that data and balances should be provided and kept on hand for the Pension Fund's reporting date which is the 31 March. **Management response** Management will ensure this this message is reiterated to all fund managers.	●

Controls
- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Bank reconciliation – Council			
After the implementation of SAP, the Council encountered some difficulties performing the bank reconciliation and identified the following issues through additional review :			
• Misallocations of of £1,316k were incorrectly uploaded in the general ledger in-year. The Council have agreed to amend for this as follows:			
Dr Unallocated Receipts Suspense Account		1,316	
Cr Cash		(1,316)	
• An error in a system feeder file meant that NDR cash refund payments recognised in the Council's Income Manager module were not transferred appropriately to the general ledger. We are satisfied that this issue had no impact on the Council's income and expenditure. The Council have agreed to amend for this as follows:			
Dr NDR Creditors		6,347	
Cr Cash		(6,347)	
Overall impact	**£0**	**£0**	**£0**

Work is still in progress but no adjusted audit misstatements have been identified in relation to the Pension Fund to date.

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure Reference	Relates to	Detail	Adjusted?
Useful Economic Lives	Council	Incorrect disclosures in Note 9 (ii) of the financial statements: • Council Dwellings should be 46-53 years • Other land & buildings should be 38-50 years • Add Surplus Assets (Building element only - land not depreciated) with UEL of 41-46 years	TBC
Expenditure and Income Analysed by Nature	Council	Additional disclosure detailing Prior Year restatements of: • Employee benefits • Other Service expenses • Support service recharges	TBC
Dedicated Schools Grants	Council	A narrative to be added to show that there was a difference in accounting treatment for the deficit. The PY deficit was shown as a debtor and the current year the cumulative deficit is being drawn down from a reserve	TBC
Movement in Reserves	Council	Negative Ear Marked reserve - The Code has not allowed for negative reserves. The amendment of this will consolidate reserves 31a and 31b. The consolidated reserve will reflect a movement in year of the cumulative DSG deficit from the Efficiency Project Reserve so that the reserve nets to nil and is in line with the code	TBC
Financial Instruments	Council	• The current year's current debtors amount of £ 31,314 is currently being shown under the Loans and Receivable, should this not be under Financial Assets at amortised cost per the new classification under IFRS 9 • The categories for financial assets are not in line with the new standards. Note to be revised in line with IFRS 9 • New disclosures relating to the introduction of iFRS 9 to be included.	TBC
Collection Fund Balance Note	Council	Within Note 3 – The Prior Year figures disclosed are 2016/17 figures	TBC
Housing Revenue Account	Council	• Major repair reserves and earmarked reserves lines for PY out of order • Number of council dwellings reflecting 67 hostels should be 5 hostels	TBC
Financing and Investment Income and Expenditure	Council	Income and expenditure in relation to investment properties and Net (gains)/losses from fair value adjustments on investment properties figures not consistent with PY	TBC

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure Reference	Relates to	Detail	Adjusted?
Assumptions made about the future and other major sources of uncertainty	Pension Fund	Note is incomplete – Actuarial present value of promised retirement benefits uncertainties and effect if actual results differ from assumptions	TBC
Additional Voluntary Contributions	Pension Fund	Current year figures to be updated as PY figures currently reflected in disclosure	TBC
Fund Account	Pension Fund	Fund account disclosure on restatements to be revised for clarity	TBC
Management Expenses	Pension Fund	More context to be added t the accounts for higher management fees reported in 18/19	TBC
Financial Instruments	Pension Fund	The categories for financial assets are not in line with the new standards. Note to be revised in line with IFRS 9.	TBC
Fund account and net assets statements	Pension Fund	Additional subtotal for the fund account required. Also, consolidate Cash into current assets.	TBC
Related Parties	Pension Fund	Figures within the related parties note to be updated for correct figures.	TBC
Pooled Investments	Pension Fund	In Note 12 of the Pension Fund financial statements, further analysis of pooled investments to be made.	TBC

Unadjusted items

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management

The Audit , Pension and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Relates to	Reason for not adjusting
Potential impact of the McCloud judgement The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented. Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £6,642k (0.5% of pension liabilities) for the 2019/20 year. We have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.	**Council**	The figures provided by the actuary are an estimate, and not a formal actuarial valuation. Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we are satisfied that the differences are not likely to be material. This issue will be considered as part of the next actuarial valuation exercise in 2019/20.
Potential impact of the McCloud judgement The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented. Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £9,543k (0.6% of pension liabilities), for the 2019/20 year. We have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Pension Fund's liability.	**Fund**	The figures provided by the actuary are an estimate, and not a formal actuarial valuation. The Pension Fund Statement of Accounts does not record Pension Fund Liabilities in the main statements, it is only reflected in a disclosure note, as such there are no direct impact to the main statements from the omission of this adjustment. This issue will be considered as part of the next actuarial valuation exercise in 2019/20.

Unadjusted items

Impact of unadjusted misstatements

Detail	Relates to	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Investment Fund Month 11 Balances used Audit work performed on investment balances noted that the custodian reported the valuation as at Month 11 for one of the investments, Partners Infrastructures. The Month 12 balances were subsequently £1.1m higher (which would be 0.1% of total Investments) than the balances disclosed in the financial statements.	**Fund**				.The adjustment is not material and management have decided not to adjust the financial statements . This is well below performance materiality, therefore, we are satisfied that the impact on the accounts is immaterial
Dr Investments Assets – Private Equity and Infrastructure			1,069	1,069	
Cr Profit and losses on disposal of investments		(1,069)			
Overall impact		**(£1,069)**	**£1,069**	**£1,069**	

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	126,242	TBC
Pension Fund Audit	16,170	TBC
Total audit fees (excluding VAT)	**£142,412**	**TBC**

The final fee for the Council and Pension Fund audits is to be confirmed.

Non-audit fees

Fees for other services	Fees £'000
Audit related services	**21,000**
• Certification of Pooling Capital Receipts Return	4,500
• Certification of Teachers' Pension return	3,500
• Certification of Housing Benefits Claim	13,000
Non-audit services	**17,950**
• CFO Insights	12,500
• HSF (JV entity of Council) –Tax Compliance	3,700
• HSF 2 Developments (JV of Council) – Accounts Compilation	1,750
• HSF 2 Developments (JV of Council) – Audit	TBC
Total non-audit fees (excluding VAT)	**£33,500**

Audit opinion

We anticipate we will provide the Council with an unmodified audit report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of [name of client] (the 'Authority') for the year ended 31 March 2019 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Core Statements, Policies and Judgements, Notes to the Housing Revenue Account Statement and Notes to the Collection Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Council's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Council has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Section 151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, [the Narrative Report, the Annual Governance Statement and the Annual Report, other than the financial statements and, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit.

Audit opinion

We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report, the Annual Governance Statement and the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Strategic Director of Finance and Governance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page16, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director of Finance and Governance. The Strategic Director of Finance and Governance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director of Finance and Governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the Strategic Director of Finance and Governance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit , Pension and Standards Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.

This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Audit opinion

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Public

DRAFT

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23 July 2019

Dear Sirs

London Borough of Hammersmith and Fulham Council and the Pension Fund Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of London Borough of Hammersmith and Fulham Council and the Pension Fund for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Council and the Pension Fund's financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

We have fulfilled our responsibilities for the preparation of the Council and the Pension Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

i. We have fulfilled our responsibilities for the preparation of the Council and the Pension Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/19 ("the Code"); in particular the Council and Pension Fund's financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and Pension Fund and these matters have been appropriately reflected and disclosed in the Council and Pension Fund's financial statements.

iii. The Council and Pension Fund has complied with all aspects of contractual agreements that could have a material effect on the Council and Pension Fund's financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the Council and Pension Fund's financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. In particular, we confirm that management assumptions relating to:
   a. the calculation of the business rates appeals provision;
   b. the valuation of property, plant and equipment; and
   c. the classification and valuation of investment properties;

   are considered to be reasonable.

vi. Except as disclosed in the financial statements:
   a. there are no unrecorded liabilities, actual or contingent;
   b. none of the assets of the Council and the Pension Fund has been assigned, pledged or mortgaged; and
   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the Council and Pension Fund's financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council and Pension Fund's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the Council and Pension Fund's financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and Pension Fund and its financial position at the year-end**.** Unadjusted items are set out in appendix one to this letter.

   The Council and Pension Fund's financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the Council and Pension Fund's financial statements.

xiv. We believe that the Council and Pension Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council and Pension Fund's needs. We believe that no further disclosures relating to the Council and Pension Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xv. We have provided you with:

  a. access to all information of which we are aware that is relevant to the preparation of the Council and Pension Fund's financial statements such as records, documentation and other matters;

  b. additional information that you have requested from us for the purpose of your audit; and

  c. unrestricted access to persons within the Council and Pension Fund from whom you determined it necessary to obtain audit evidence.

xvi. We have communicated to you all deficiencies in internal control of which management is aware which could have a material effect on the Council or Pension Fund's financial statements.

xvii. All transactions have been recorded in the accounting records and are reflected in the Council and Pension Fund's financial statements.

xviii. We have disclosed to you the results of our assessment of the risk that Council and Pension Fund's financial statements may be materially misstated as a result of fraud.

xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the and Pension Fund and involves:

  a. management;

  b. employees who have significant roles in internal control; or

  c. others where the fraud could have a material effect on the Council and Pension Fund's financial statements.

xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council and Pension Fund's financial statements communicated by employees, former employees, analysts, regulators or others where the fraud could have a material effect on the Council or Pension Fund's financial statements.

xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxii. We have disclosed to you the identity of the Council and Pension Fund's related parties and all the related party relationships and transactions of which we are aware.

xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the Council and Pension Fund's financial statements.

Annual Governance Statement

xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxv. The disclosures within the Narrative Report fairly reflect our understanding of the Council and Pension Fund's financial and operating performance over the period covered by the Council and Pension Fund's financial statements.

Approval

The approval of this letter of representation was minuted by the Council and Pension Fund's Audit, Pension and Standards Committee at its meeting on 23 July 2019

Yours faithfully

Councillor Iain Cassidy

Chair of the Audit, Pensions and Standards Committee

Date:

Hitesh Jolapara

Strategic Director, Finance and Governance

Date:

Signed on behalf of the Audit, Pensions and Standards Committee

Appendix 1 – Schedule of Unadjusted Items

Item	Relates to	Reason for not adjusting
The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented. Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities for the overall Pension Fund of £9,543k (0.6% of pension liabilities), for the 2019/20 year. The Council estimated share of this would be £6,642k (0.5% of pension liabilities).	Council/ Pension Fund	The figures provided by the actuary are an estimate, and not a formal actuarial valuation. Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we are satisfied that the differences are not likely to be material. This issue will be considered as part of the next actuarial valuation exercise in 2019/20.
Investment Fund Month 11 Balances used - Audit work performed on investment balances noted that the custodian reported the valuation as at Month 11 for one of the investments, Partners Infrastructures. The Month 12 balances were subsequently £1.1m higher (which would be 0.1% of total Investments) than the balances disclosed in the financial statements.	Pension Fund	The adjustment is not material and management have decided not to adjust the financial statements.

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Annual Report

Hammersmith & Fulham Pension Fund • 2018/19

hammersmith & fulham

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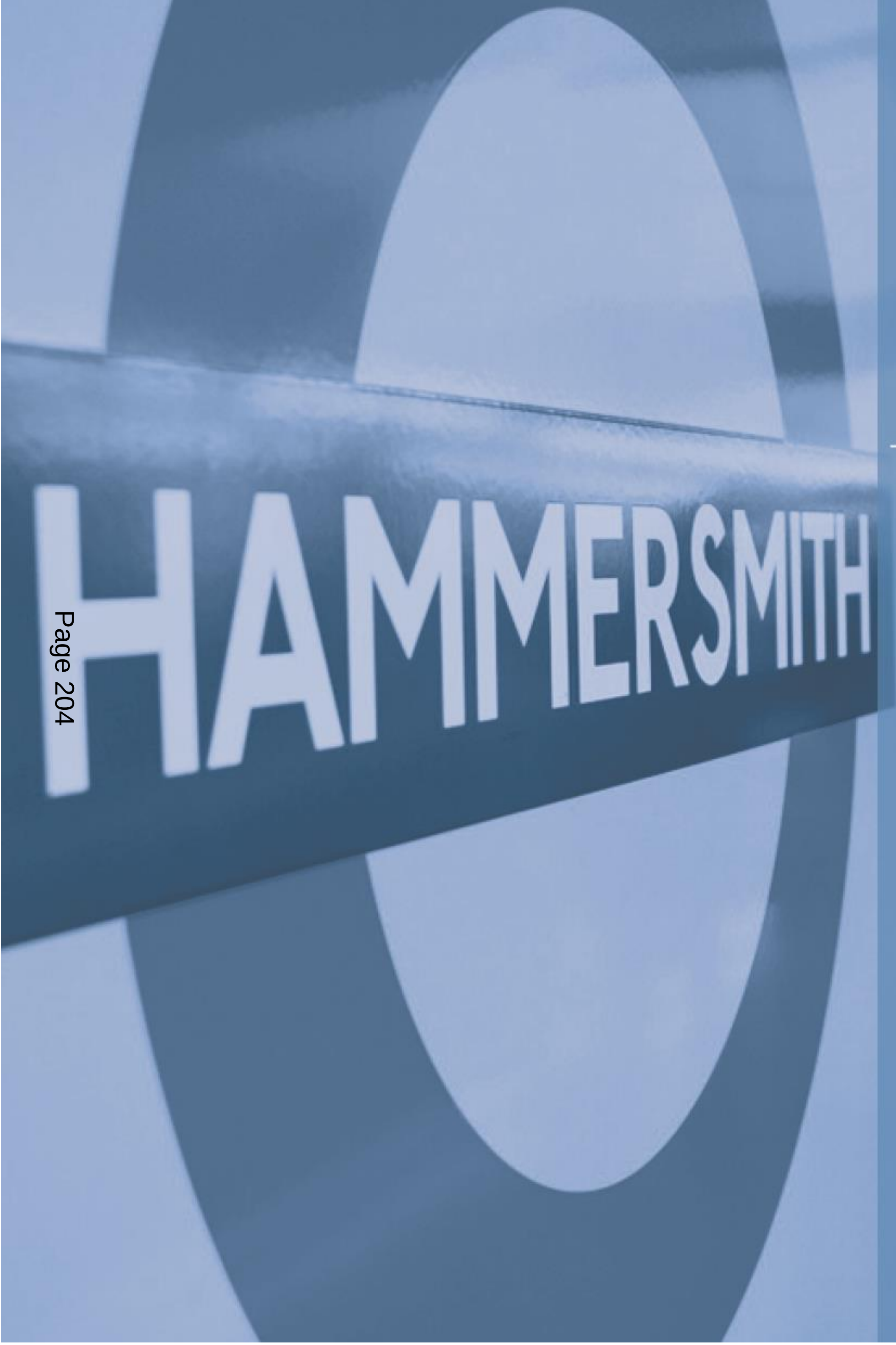


1. Preface

Report from Chair of the Pensions Sub-Committee

WELCOME TO THE ANNUAL REPORT OF HAMMERMSITH AND FULHAM PENSION FUND

The Pensions Sub-Committee is responsible for overseeing the management of the London Borough of Hammersmith and Fulham Pension Fund, including investment management and pension administration issues. As the current Chairman of this Committee, I am pleased to introduce the Pension Fund's Annual Report for the year 2018-19.

During the year, the value of the Fund increased by over £42m to £1,052m. This is in part due to the significant depreciation of sterling in relation to the Pension Fund's overseas assets, but also strong performance of the Fund's diversifying assets in inflation protection, infrastructure and multi asset credit. The Sub-Committee continues to monitor the Fund closely at each quarterly committee meeting and challenges the investment advisors as necessary to ensure the Fund's investments are being managed effectively.

The Fund will complete the 2019 actuarial valuation next year, with the expectation of an improvement to the 2016 position thanks to strong investment returns over the period. The actuary reported in 2016 that the Fund has sufficient assets to cover 88% of future pension liabilities and an overall deficit of £114m.

The Fund has transferred assets to the London Collective Investment Vehicle (LCIV) in the quest for efficiencies and fee reductions. In 2018/19 it was agreed that a further £85m would be transferred to the LCIV Buy and Maintain Bond Fund from the Insight Bonds Plus Fund. The Pension Fund now has almost 70% of its assets pooled and pooling of assets will continue over the coming years to maximise cost savings and net of fees returns for the Fund.

The Pension Fund remains conscious of its role in ensuring good environmental, social and governance behaviours from the companies in which it invests, with a key part of this looking at the Fund's carbon footprint. After reviewing this, the Fund elected to switch its global passive equity index to the MSCI Low Carbon Index in the Autumn of 2018. As at 31 March 2019, the value of this investment was £374m which accounts for around 36% of the Fund.

The headline numbers show that the MSCI World Low Carbon Target Index contains, in absolute terms, 43 million tonnes of CO_2 (equivalent) less than the MSCI World Index at 28 million compared with 71 million. This combined with the investment in the Aviva Renewable Infrastructure Fund (£31m) shows the Fund is taking an active approach to being a responsible investor.

I would like to thank all those involved in the management of the Pension Fund during the year especially those who served on the Sub-Committee during 2018-19

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

Introduction

The London Borough of Hammersmith and Fulham Pension Fund is part of the national Local Government Pension Scheme (LGPS) and is administered locally by Hammersmith and Fulham Council. It is a contributory defined benefit pension scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the Hammersmith and Fulham Council and the admitted and scheduled bodies in the Fund. These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. Teachers are excluded from this scheme as they are administered under the Teachers' Pension Scheme.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from investment returns on the Fund's investment assets. Contributions rates for employees set in accordance with the Local Government Pension Scheme Regulations 2013. Employer contributions are set based on the triennial actuarial funding valuation. The next valuation is due in 2019/20 based on the Fund's data as at 31 March 2019.

The benefits payable from the Fund in respect of service from 1 April 2014 are set out in the Local Government Pension Scheme Regulations 2013, as amended, and in summary consist of:

- Career average revalued earnings (CARE), revalued in line with the Consumer Prices Index.
- Pensionable pay to include non-contractual overtime and additional hours.
- Flexibility for member to pay 50% contributions for 50% of the pension benefit
- Normal pension age to equal the individual member's State Pension Age.
- Option to trade £1 of pension for a £12 tax-free lump sum at retirement.
- Death in service lump sum of three times pensionable pay and survivor benefits
- Early payment of pensions in the event of ill health.

The benefits payable in respect of service prior to 1 April 2014 are based on an employee's final salary and the number of years eligible service. Benefits accrued in the Scheme before 1st April 2014 are protected up to that dated based on the scheme member's final year's pay.

The Fund is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

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

The content and format of this annual report is prescribed by the LGPS Regulations 2013.

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

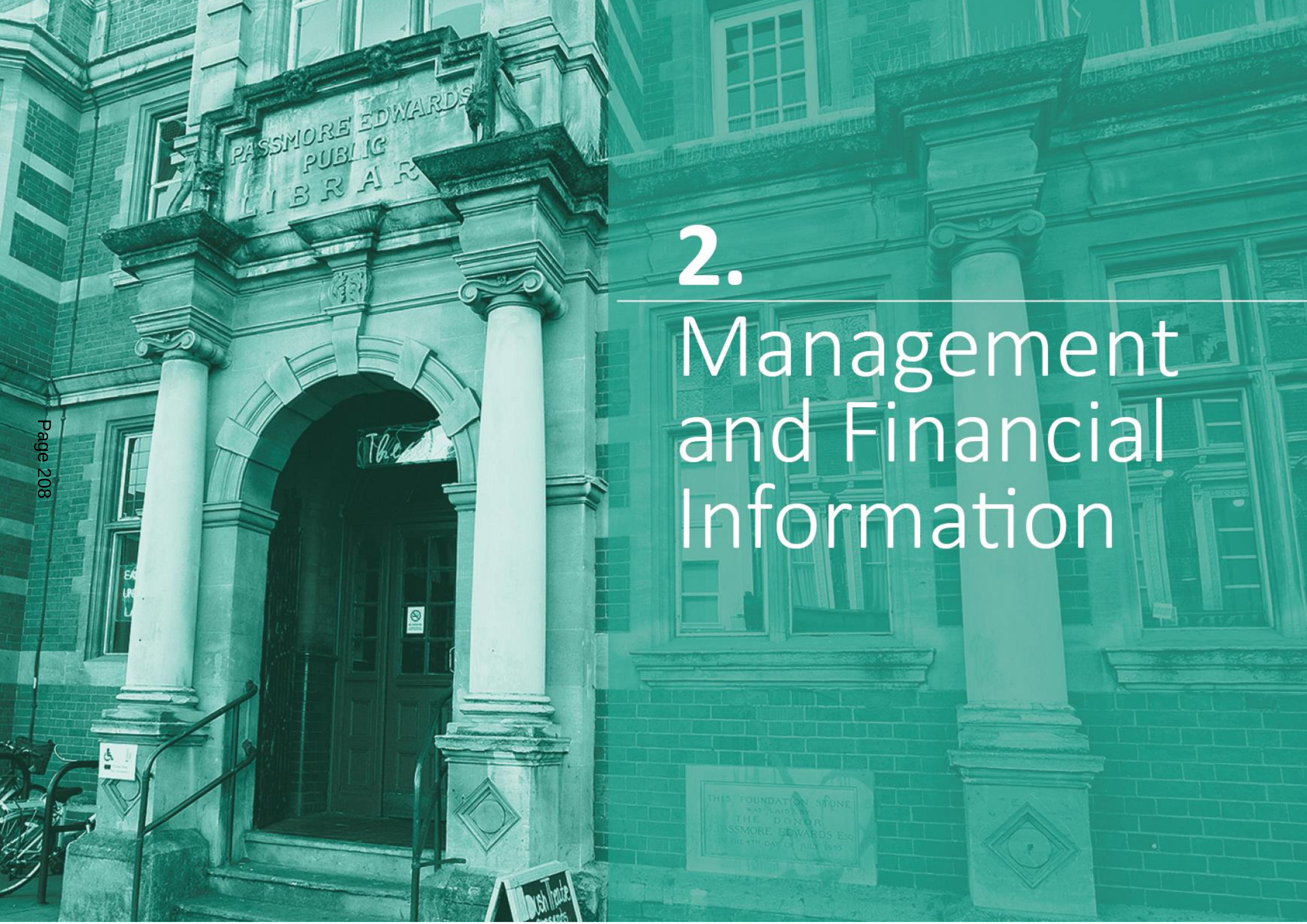
It is in the interest of both employees and the public that the Fund is well managed and continues to provide high returns and excellent value for money.

Introduction (continued)

This annual report comprises the following sections:

- **Management and Financial Performance** which explains the governance and management arrangements for the Fund, as well as summarising the financial position and the approach to risk management.
- **Investment Policy and Performance** which details the Fund's investment strategy, arrangements and performance.
- **Scheme Administration** which sets out how the Scheme's benefits and membership are administered.
- **Actuarial Information** which includes the funding position of the Fund with a statement from the Fund's actuary.
- **The Fund's Annual Accounts** for the year ended 31 March 2019.
- **List of contacts** and a glossary of some of the more technical terms
- **Appendices** setting out the various regulatory policy statements of the Fund:
  - Governance Compliance Statement
  - Statement of Investment Principles
  - Communication Policy
  - Funding Strategy Statement

Further information about the Local Government Pension Scheme can be found at: *www.lbhfpensionfund.org*



2.

Management and Financial Information

Governance Arrangements

PENSION FUND COMMITTEE

The London Borough of Hammersmith & Fulham Council has delegated responsibility for pension matters to the Audit, Pensions and Standards Committee.

The Committee is comprised of six elected representatives of the council – four from the administration and two opposition party representatives. Members of the admitted bodies and representatives of the Trade Unions may attend the committee meetings but have no voting rights. In order to manage the workload of the committee, it has delegated decisions in relation to all pension matters to the Pensions Sub-Committee.

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

Terms of reference for the Sub-Committee are:

- To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the investment consultant.
- To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable.
- To determine the Fund's management arrangements, including the appointment and termination of fund managers, actuary, custodians and fund advisors.
- To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.
- To approve the final Statement of Accounts of the Pension Fund and to approve the Annual Report.
- To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund.
- To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of the Council for the payment of pensions, and allowances to beneficiaries.
- To make and review an admission policy relating to admission agreements generally with any admission body.
- To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
- To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
- To receive and consider the Auditor's report on the governance of the Pension Fund.
- To determine any other investment or Pension Fund policies that may be required from time to time to comply with Government regulations and to make any decisions in accordance with those policies

The current membership of the Pensions Sub-Committee is set out below. All elected members served for the full year in 2018/19.

Councillor	Committee Attendance 2018/19
Iain Cassidy (Chair)	5/5
Matt Thorley (Vice Chair)	5/5
Rebecca Harvey	4/5
Asif Siddique	5/5
Mike Adam (Co-opted)	4/5

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

LOCAL PENSION BOARD

The Council has also established a Pensions Board (the Board) to assist the Pensions Sub-Committee as required by the Public Services Pensions 2013. The purpose of the Pensions Board is to provide oversight of the Pensions Sub-Committee.

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

Terms of reference for the Local Pension Board are:

- To secure compliance with the LGPS Governance regulations and any other legislation relating to the governance and administration of the Fund.
- To secure compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme
- To ensure effective and efficient governance and administration of the Scheme

The membership of the Board is as follows:

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

The current membership of the Pensions Board is set out below. All members served for the full year 2018/19.

Board Member	Employer/Employee	Attendance 2018/19
Cllr Rory Vaughn (Chair)	Employer	2/2
Cllr Bora Kwon	Employer	1/2
Eric Kersey	Employee	1/2
Orin Miller	Employee	1/2
Neil Newton	Employee	0/2

MEMBER AND OFFICER TRAINING

During 2018/19 knowledge was gained at various meetings with investment managers in addition to individual attendance at conferences and seminars.

Training Programme	Date
Legislation and Governance	24 October 2018
Equity Protection	20 November 2018
Environmental and Social Governance	20 November 2018
Fixed Income	26 March 2019

Further relevant training is planned for 2019/20 based on self-assessments completed by Sub-Committee and board members in accordance with the policy.

CONFLICTS OF INTEREST

The Pension Fund is governed by elected members acting as trustees and the Code of Conduct for elected members' sets out how any conflicts of interests should be addressed. The Members Code of Conduct is in Part 5 of the Council Constitution which can be found online at *www.lbhf.gov.uk*

The Code includes general provisions on ethics and standards of behaviour which require elected members to treat others with respect and not to bully, intimidate or do anything to compromise the impartiality of those who work for or on behalf of the Council.

The Code also contains rules about "disclosable pecuniary interests" and sets out the action an elected member must take when they have such an interest in Council business, for instance withdrawing from the room or chamber when the matter is discussed and decided in committee, unless dispensation has been obtained from the Council's Monitoring Officer.

GOVERNANCE COMPLIANCE STATEMENT

The LGPS Regulations 2013 require Pension Funds to prepare, publish and maintain a governance compliance statement; and to measure the governance arrangements in place against a set of best practice principles. This measurement should result in a statement of full, partial or non-compliance with a further explanation provided for any non- or partial-compliance.

The key issues covered by the best practice principles are:

- Formal committee structure;
- Committee membership and representation;
- Selection and role of lay members;
- Voting rights;
- Training, facility time and expenses.

The Fund's Governance Compliance statement was updated in June 2015 can be found at Appendix 1.

Scheme Management and Advisors

EXTERNAL PARTIES

Investment Advisor	Deloitte	
Investment Managers	**Global Equities (Passive)** Legal & General Investment Management **Private Multi-Asset Credit** Partners Group **Infrastructure** Aviva Investors Partners Group **Private Equity** Invesco Unigestion	**UK Equities (Active)** London LGPS CIV - Majedie Asset Management **Absolute Return** London LGPS CIV – Ruffer **Fixed Income** Oakhill Advisors London LGPS CIV – PIMCO **Long Lease Property** Aberdeen Standard **Inflation Linkage** M&G Investments
Custodian	Northern Trust	
Banker	NatWest Bank	
Actuary	Barnett Waddingham	
Auditor	Grant Thornton LLP	
Legal adviser	Eversheds Sutherland	
Scheme Administrators	Surrey County Council	
AVC Providers	Zurich Assurance	Equitable Life Assurance Society

OFFICERS

Strategic Director of Finance and Governance (S151 Officer)	Hitesh Jolapara	
Tri-Borough Pensions Team	Phil Triggs Matt Hopson Miriam Adams to September 2018 Mat Dawson from March 2018	Yvonne Thompson-Hoyte Tim Mpofu from August 2018 Billie Emery from November 2018 Alastair Paton
Director of Corporate Services	Mark Grimley	
Pensions Manager	Maria Bailey	

Risk Management

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

The responsibility for the Fund's risk management strategy rests with the Pensions Sub-Committee. In order to manage the risks two Pension Fund Risk Registers are maintained, one focusing on investment risks and the other focusing on administration risk. These documents are reviewed quarterly. For the key risks which have been identified, appropriate planned actions have been introduced to minimise their impact. The risk registers are managed by the Tri-Borough Director of Pensions and Treasury and risks have been assigned to the appropriate "risk owners".

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

Objective Area at Risk	Risk	Risk Rating	Responsible Officer	Mitigating Actions
Investment	Significant volatility and negative sentiment in global investment markets cause by global political uncertainty	High	Strategic Director of Finance and Governance	The Fund's officers are in regular dialogue with investment managers with regards to their management of political risk. The Fund holds a well-diversified portfolio and the investment strategy is reviewed regularly.
Governance	Changes LGPS Regulations	Medium	Tri-Borough Director of Pensions and Treasury	The Fund will consider the future impact on employer contributions and cash flows will considered during the 2019 actuarial valuation process. The Fund regularly monitors the impact of LGPS (Management of Funds) Regulations 2016
Operational	Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation	Medium	Strategic Director of Finance and Governance	Data encryption technology is in place within the organisation allowing for the secure transmission of data to external service providers
Funding	Insufficient cash available to the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension obligations	Low	Tri-Borough Director of Pensions and Treasury	The Fund's officers maintain a cashflow forecast which is monitored weekly and reported to the Pensions Sub-Committee quarterly.

Risk Management (continued)

Risks arising from financial instruments are outlined in the notes to the Pension Fund Accounts (Note 16).

The Funding Strategy Statement (Appendix 3) sets out the key risks, including demographic, regulatory, governance, to not achieving full funding in line with the strategy. The actuary reports on these risks at each triennial valuation or more frequently as and when required.

Objective Area at Risk	Risk	Risk Rating	Responsible Officer	Mitigating Actions
Administration	Loss of funds through fraud or misappropriation leading to financial loss	Medium	Strategic Director of Finance and Governance	The Fund has independent reconciliation processes in place to monitor financial transactions. Third parties are regulated by the FCA and a review of their internal control reports is carried out annually. The Fund's finance and HR functions are internally audited periodically
Governance	Committee members do not have appropriate skills or knowledge to discharge their responsibility appropriately	Medium	Tri-Borough Director of Pensions and Treasury	The Fund has a Knowledge and Skills Policy in place and monitors the training requirements for members. The Fund acquires advices from the Fund's consultant on matters relating to the investment strategy
Operational	Concentration of knowledge in a small number of offices and risk of departure of key staff	Low	Tri-Borough Director of Pensions and Treasury	The Fund's finance team has a library of process notes for all officers to access. The officers attend regular industry training events as part of their continuous professional development. The Fund has a succession plan in place in the event of departure of key staff. The Tri-Borough arrangement increases the resilience of the fund
Governance	Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation	Low	Tri-Borough Director of Pensions and Treasury	The Fund's internal controls are regularly reviewed. The governance arrangements of the Fund allow for the Fund to report any breaches as soon as they occur to mitigate any negative impact.

Risk Management (continued)

THIRD PARTY RISKS

The Council has outsourced the following functions of the Fund:

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

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

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

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

The results of these reviews are summarised below and cover 99.5% of investment holdings at 31 March 2019.

Fund Manager	Type of Assurance	Control Framework	Compliance with Controls	Reporting Accountant
Aberdeen Standard	ISAE 3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Aviva Investors	ISAE 3402	Reasonable assurance	Reasonable assurance	PWC LLP
Invesco	ISAE 3402	Reasonable assurance	Reasonable assurance	PWC LLP
Legal & General	ISAE 3402	Reasonable assurance	Reasonable assurance	KPMG LLP
M&G Investments	SOC10	Reasonable assurance	Reasonable assurance	Ernst Young LLP
Oak Hill Advisors	SOC10	Reasonable assurance	Reasonable assurance	RSM US LLP
Partners Group	ISAE 3402	Reasonable assurance	Reasonable assurance	PWC LLP
Ruffer LLP	ISAE 3402	Reasonable assurance	Reasonable assurance	Ernst Young LLP
Unigestion	ISAE 3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Custodian				
Northern Trust	SOC10	Reasonable assurance	Reasonable assurance	KPMG LLP

Financial Performance

The Fund asset value increased by £42m to £1,052m as at 31 March 2019 due to the continued recovery in global markets since the uncertainty of 2016/17.

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

The next triennial revaluation will take place in 2019 and will set employer contribution rates from 2020/21 onwards.

ANALYTICAL REVIEW – FUND ACCOUNT

	2015/16	2016/17	2017/18	2019/20
Fund account	£'000	£'000	£'000	£'000
Dealings with members				
Contributions	(30,617)	(32,274)	(33,454)	(36,386)
Pensions	37,858	40,770	42,827	48,846
Net (additions)/withdrawals from dealings with members	**7,241**	**8,496**	**9,373**	**12,460**
Management expenses	7,762	6,530	4,503	6,199
Net investment returns	(12,631)	(12,799)	(10,283)	(11,967)
Change in market value	9,784	(148,740)	(10,384)	(49,142)
Net (increase)/decrease in the Fund	**12,156**	**(146,513)**	**(6,791)**	**(42,450)**

Over the four-year period, pensions paid have exceeded contributions received by £38m in total. This reflects the maturity of the Fund membership in that there are fewer contributors than beneficiaries, although increased deficit recovery contributions in 2018/19 would have reduced this.

Net investment returns in 2018/19 remained healthy, increasing by £1.7m from the previous year, however, this was still lower than the returns from the earlier years. The Fund's market value increase by £50m in 2018/19, as the financial markets experienced continued growth in the longest bull environment in recent memory.

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

ANALYTICAL REVIEW – NET ASSET STATEMENT

	2015/16	2016/17	2017/18	2019/20
Net Asset Statement	£'000	£'000	£'000	£'000
Bonds	36,771	-	-	-
Equities	136,937	112,475	150	150
Pooled investment vehicles	671,300	834,828	998,141	1,034,851
Commodities	1,976	-	-	-
Derivatives	(368)	-	-	-
Cash deposits	7,544	7,856	6,168	12,843
Other	1,504	486	35	34
Total Investment Assets	855,664	1,002,682	1,004,494	1,047,878
Current assets	1,842	4,373	6,420	5,396
Current Liabilities	(1,187)	(4,223)	(1,291)	(1,201)
Net (increase)/decrease in the Fund	856,319	1,002,832	**1,009,623**	**1,052,073**

The points to note are:

- 95% of pooled investment vehicles comprise equity and fixed income shareholdings both domestic and overseas, while the remaining 5% is in property pooled funds. (95% and 5% respectively in 2017/18).
- The overall value of pooled investment vehicles increased by £163m (16%) during the year.

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

Financial Performance (continued)

ANALYSIS OF DEALINGS WITH SCHEME MEMBERS

	2015/16	2016/17	2017/18	2019/20
Contributions receivable	£'000	£'000	£'000	£'000
- Members	(6,795)	(6,937)	(6,781)	(7,157)
- Employers	(22,412)	(22,494)	(24,268)	(25,074)
- Transfers in	(1,375)	(2,090)	(3,012)	(2,934)
- Other	(35)	(753)	607	(1,221)
Total Income	(30,617)	(32,274)	**(33,454)**	**(36,386)**

	2015/16	2016/17	2017/18	2019/20
Benefits Payable	£'000	£'000	£'000	£'000
- Pensions	29,076	30,002	31,465	32,912
- Lump sum retirements and death benefits	5,536	5,685	7,256	8,167
- Transfers out	3,230	5,046	4,086	7,726
- Refunds	16	37	20	41
Total Expenditure	37,858	40,770	42,827	48,846
Net Dealings with Members	7,241	8,496	9,373	12,460

The key variances were due to the following:

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

Financial Performance (continued)

ANALYSIS OF OPERATIONAL EXPENSES

The costs of running the pension fund are shown below.

	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000
Administration				
Employees	77	138	235	214
Supplies and services	527	381	165	132
Other Costs	2	1	3	2
Total Administration Costs	606	520	403	348
Governance and Oversight				
Employees	74	103	341	337
Investment advisory services	100	66	65	93
Governance and compliance	54	43	0	56
External audit	21	24	21	16
Actuarial fees	19	31	25	50
Total Governance and Oversight Costs	268	267	452	552
Investment Management				
Management fees	4,774	4,310	3,223	4,763
Performance fees	1,646	997	343	244
Transaction costs	73	382	44	185
Custodian fees	395	54	38	107
Total Investment Management Fees	6,888	5,743	3,648	5,299
Total Operational Expenses	7,762	6,530	4,503	**6,199**

The Fund's operational expenses have been on a gradual decline as it continues to aim to deliver value for money on its investments.

The Fund reported higher investment management fees in 2018/19 due to improved information from fund managers in relation to the fees deducted at source. This includes both annual investment and custody fees.

Administration Management Performance

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

PERFORMANCE INDICATORS

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

Performance Indicators	Target	2016/17 Performance	2017/18 Performance	2018/19 Performance
Letter detailing transfer out quote	20 days	59%	34%	82%
Process refund and issue payment voucher	10 days	92%	98%	92%
Letter notifying estimate of retirement benefit	10 days	82%	100%	87%
Letter notifying actual retirement benefit	7 days	87%	100%	98%
Letter acknowledging death of member	5 days	100%	100%	100%
Letter notifying amount of dependant's benefits	10 days	100%	100%	94%
Calculate and notify deferred benefits	20 days	70%	44%	90%

Performance has generally improved across the board due to improvements in staffing and the implementation process of the new online pension systems which has negatively affected performance last year. During the financial year ending 31 March 2019, there were no delays in processing pension payments and no impact on the accuracy of final calculations made.

ORBIS

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

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

Scheme employers can use the new system to:

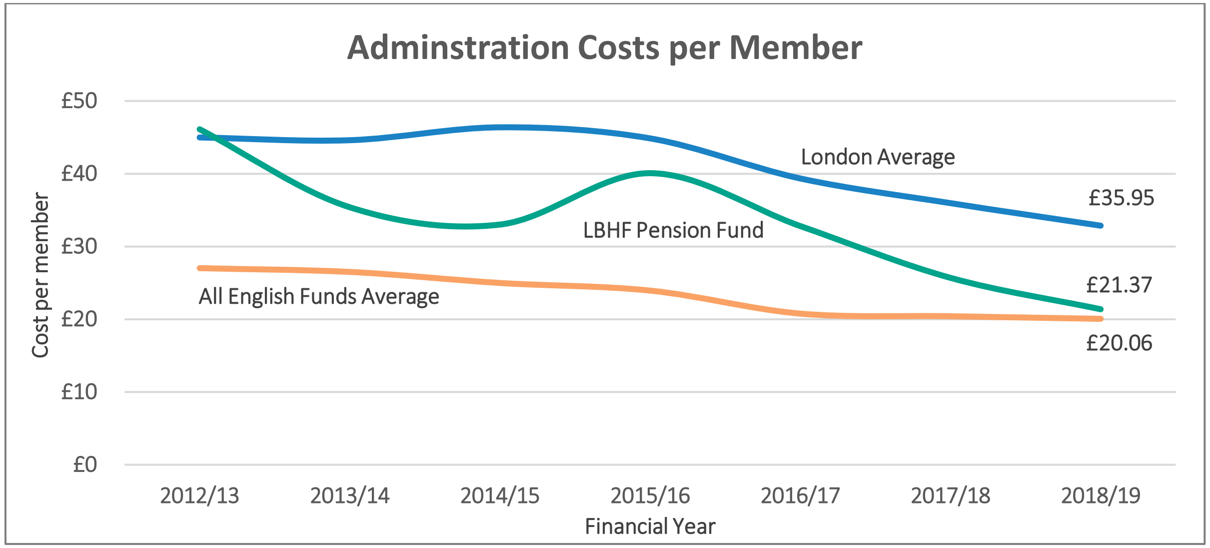
- Submit starter and leaver details and other changes online
- View and update employee details
- Run benefit calculations e.g. early retirements

COMPLAINTS RECEIVED

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

No new complaints have been lodged with the Ombudsman in 2018/19.

Administration Management Performance (continued)



STAFFING INDICATORS

The Pension Fund's cost of administration per member remains below the average for the London borough pension funds as shown in the chart. Administration costs are subject to regular review.

The administration of the Fund comprises of:

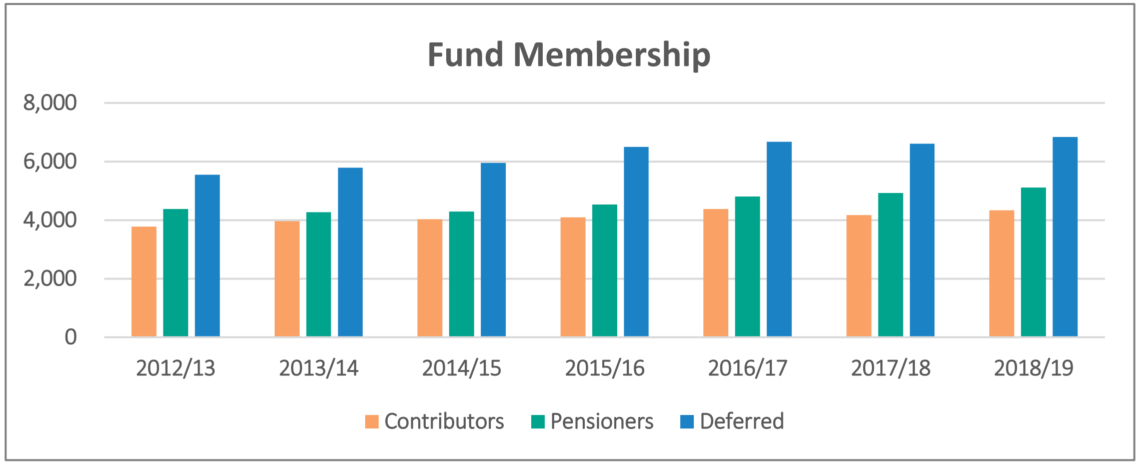
- 3 full-time equivalent (FTE) staff engaged by Surrey CC working directly on pension administration for Hammersmith and Fulham
- 1.8 FTE Hammersmith and Fulham HR staff to deal with internal administration.
- 1.93 FTE Westminster Finance staff assigned to the oversight and governance of the Pension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

Administration Management Performance (continued)

MEMBERSHIP NUMBERS AND TRENDS

Overall membership has increased by 16% over the past 5 years from 14,017 to 16,046.

The introduction of auto-enrolment in 2013 and the increase in admitted employers has led to an increase in members contributing towards the Scheme. Nonetheless, the number of pensioners has continued to rise (20% in 2018/19) in common with other local government pension funds, reflecting the increasing maturity of the Fund.



ENHANCED BENEFITS

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

Reason for leaving	2015/16	2016/17	2017/18	2018/19
Ill health retirement	10	10	6	4
Early retirement	36	29	18	20
	46	**39**	**24**	**24**

Administration Management Performance (continued)

CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

The list below contains a list of the current active contributing employers and the contributions received in 2018/19. The employer's contributions figures include early retirement and deficit funding contributions.

Administering Authority Employer	Employees Contributions £000	Employers Contributions[1] £000	Total Contributions £000
London Borough of Hammersmith & Fulham	4,565	16,081	20,647
Addison Primary School	28	128	156
All Saints Church of England Primary School	10	44	54
Avonmore Primary School	7	31	38
Bayonne Nursery School	17	74	91
Brackenbury Primary School	29	125	154
Cambridge School	28	86	114
Flora Gardens Primary School	22	75	97
Holy Cross Catholic Primary School	33	142	175
Jack Tizard School	45	194	239
James Lee Nursery School	7	28	34
John Betts Primary School	9	35	44
Kenmont Primary School	12	52	64
Larmenier & Sacred Heart Catholic Primary School	33	106	139
Melcombe Primary School	31	138	169
Miles Coverdale Primary School	27	117	144
Normand Croft Community School	24	105	129
Old Oak Primary School	30	132	162
Queensmill School	99	435	534
Randolph Beresford Early Years Centre	60	251	311
Sir John Lillie Primary School	26	113	139
St Augustine's Primary School	14	63	77
St John XXIII Catholic Primary School	27	122	149
St John's Walham Green Church of England Primary School	22	97	119
St Mary's Catholic Primary School	10	4	50
St Paul's Catholic Primary School	23	102	125
St Peter's Church of England Primary School	16	71	87
St Stephens Church of England Primary School	35	156	191
St. Thomas of Canterbury Primary School	12	49	61
The Good Shepherd Primary School	17	80	97
Vanessa Nursery School	12	54	66
Wendall Park Primary School	26	112	138
William Morris Sixth Form School	52	212	264
Wood Lane High School	17	69	86
Wormholt Park Primary School	35	143	178
Total Contributions from Administering Authority	**5,460**	**19,862**	**25,322**

[1] Includes early retirement and deficit contributions

Administration Management Performance (continued)

SCHEDULED BODIES

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

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

Scheduled Body	Employees Contributions £000	Employers Contributions[2] £000	Total Contributions £000
Ark Bentworth Primary Academy	14	38	52
Ark Burlington Danes Primary Academy	77	257	334
Ark Conway Primary Academy	13	59	72
Ark Swift Primary Academy	15	64	79
Bridge AP Academy	85	295	380
Fulham Boys School	29	98	127
Fulham College Boys' Academy	42	152	194
Fulham Cross Girls' Academy	52	168	220
Greenside Primary School	16	63	79
Hammersmith Academy	48	175	223
Hurlingham & Chelsea Academy	27	99	126
Lady Margaret School	45	158	203
Langford Primary School	7	24	31
Lena Gardens Primary School	10	41	51
London Oratory School	54	129	183
Mortlake Crematorium Board	22	58	80
Phoenix Academy	38	143	181
Sacred Heart High School	51	166	217
TBAP Trust	69	255	324
Thomas' Academy	17	66	83
West London Free School	83	261	344
Total Contributions from Scheduled Bodies	**814**	**2,769**	**3,583**

[2] Includes early retirement and deficit contributions

Administration Management Performance (continued)

ADMITTED BODIES

Admitted bodies participate in the pension scheme via an admission agreement made between the Council and the employing organisation. Examples of admitted bodies are not-for-profit organisations linked to the Council and contractors who have taken on delivery of services with Council staff also transferred to third parties.

Admitted Body	Employees Contributions £000	Employers Contributions[3] £000	Total Contributions £000
3BM	80	253	333
Abelian UK	-1	15	14
Agilisys	4	9	13
Amey	76	258	334
Birkin Clean	1	5	6
BT-IT Services	8	27	35
Caterlink	84	-69	15
CT Plus Transport	17	82	99
Disabilities Trust	1	4	5
Eden Food Services	83	331	414
Family Support Service	81	322	403
FM Conway	19	45	64
Fulham Palace Trust	10	34	44
HTC – Passenger Transport	11	42	53
Hestia	1	3	4
Idverde	8	25	33
London Hire Community Services	2	9	11
Medequip Assistive Technology	2	7	9
Mitie Property Services	80	239	319
Peabody Trust	14	44	58
Pinnacle PSG	81	270	351
Quadron Services	53	175	228
RM Education	3	5	8
Serco Group	185	462	647
Urban Partnership	20	63	83
Total Contributions from Admitted Bodies	**923**	**2,610**	**3,583**

[3] Includes early retirement and deficit contributions

Administration Management Performance (continued)

EMPLOYER ANALYSIS

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

	Active	Ceased	Total
Administering Authority	1	-	1
Scheduled Bodies	21	3	24
Admitted Bodies	25	20	45
Total number of bodies	**47**	**23**	**70**

3.

Investment Policy and Performance

Investment Policy

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

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

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

The ISS also sets out the Fund's approach to responsible investment and corporate governance issues, and how the Fund demonstrates compliance with the "Myners Principles".

These Principles are a set of recommendations relating to the investment of pension funds originally prepared by Lord Myners in 2001 and subsequently endorsed by Government. The current version of the Myners Principles covers the following areas:

- effective decision making
- clear objectives
- risk & liabilities
- performance measurement
- responsible ownership
- transparency and reporting

The Fund's ISS has been included in this report as Appendix 4.

For 2018/19, the LGPS (Management and Investment of Funds) Regulations 2016, requires the Fund to publish an ISS.

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

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

Any queries relating to the Fund's investment policy should be addressed to:

Tri-Borough Pensions Team
16th Floor
64 Victoria Street
London
SW1E 6QP

Email: *pensionfund@lbhf.gov.uk*

Asset Allocation

The strategic asset allocation is agreed by the Pensions Sub-Committee and the Fund's advisers. The allocation during the year ended 31 March 2019 was as follows:

Asset Class	Target Allocation
Global Equities	30.0%
UK Equities	15.0%
Fixed Income	32.5%
Multi Asset	10.0%
Infrastructure	7.5%
Long Lease Property	5.0%
Total	**100.0%**

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

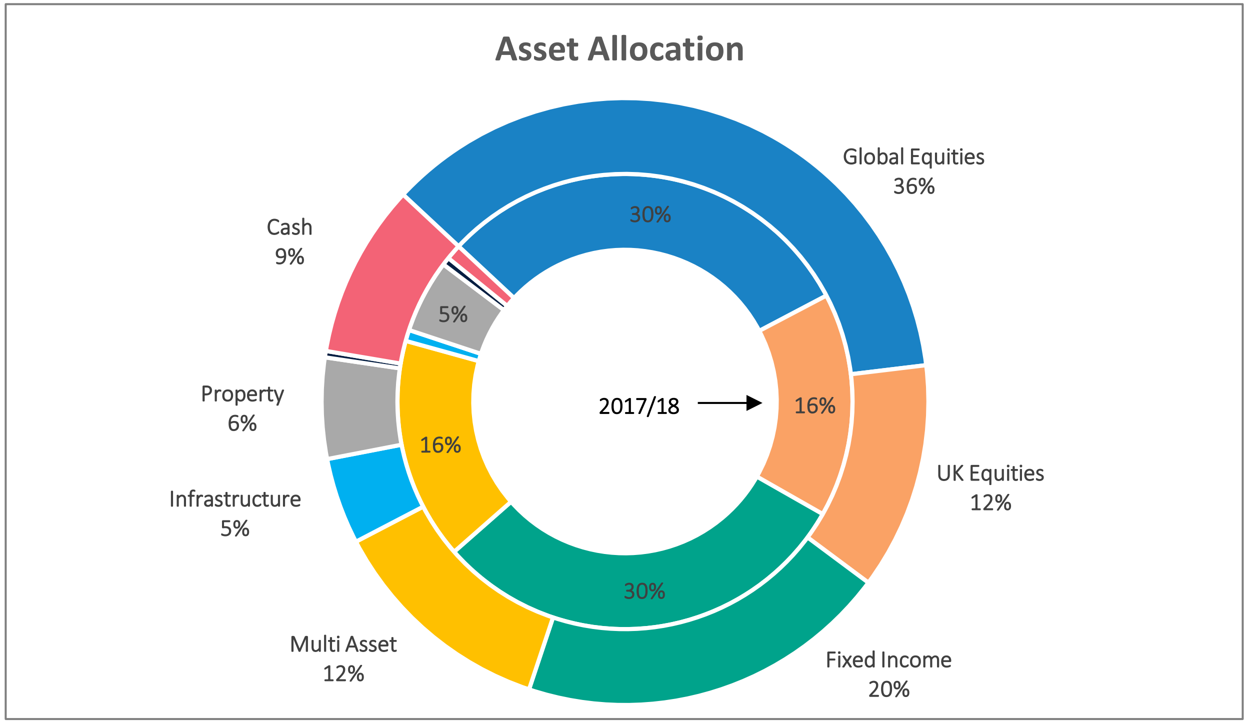
Investment portfolios are reviewed at each Committee meeting in discussion with the Investment Adviser and Officers, and Fund Managers are called to a Sub-Committee meeting if there are issues that need to be addressed. Officers meet Fund Managers regularly and advice is taken from the Investment Advisor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

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

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

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

At 31 March 2019, the fund had an overweight allocation to cash due to assets in transit. This cash is intended to be allocated to fixed income in 2019/20.



Asset Allocation (continued)

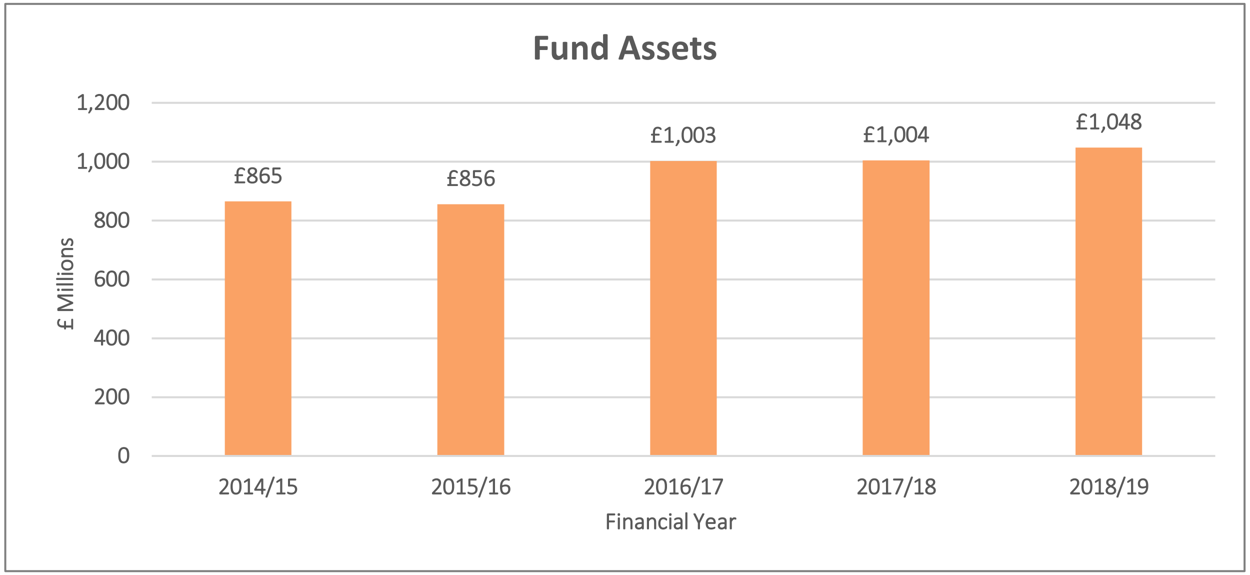
FUND VALUE

The net asset value of the Fund has more than doubled over the past ten years with 21% of the growth coming within the last five years.

In 2015/16, the Fund experienced a slight fall in assets due to the uncertainty around the strength of the global economy and China in particular, but the Fund recovered well and has continued to grow steadily since.

Despite a challenging year politically and economically markets, the Fund increased in value by 4.4% in 2018/19.

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

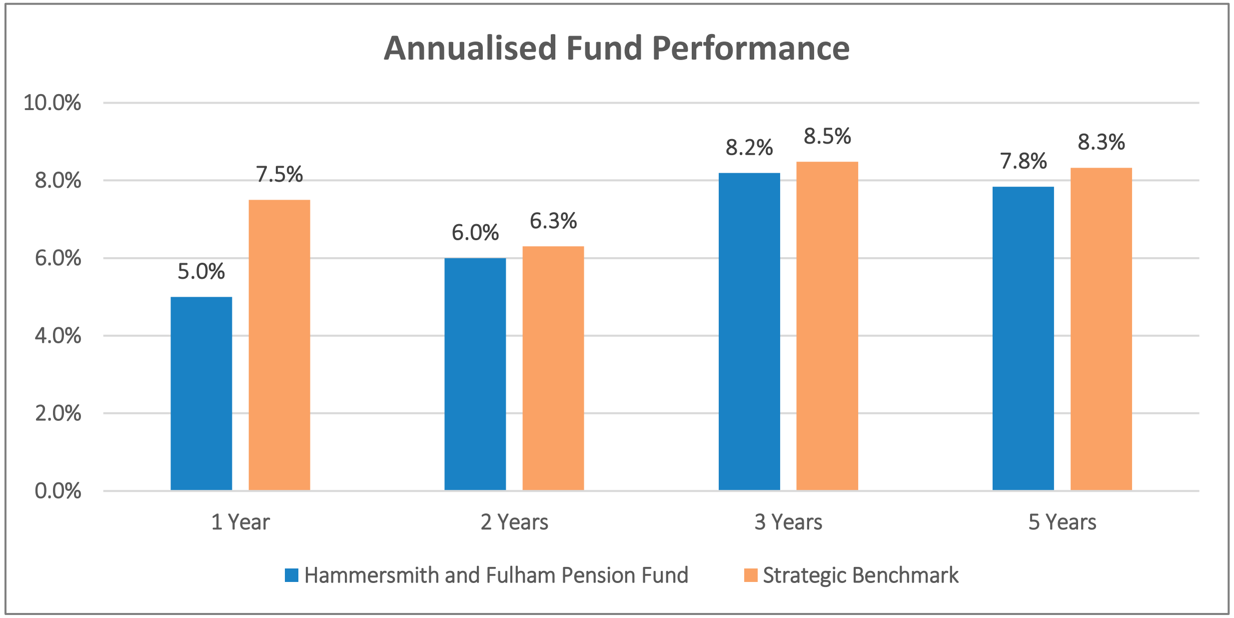


Investment Performance

In 2018/19, the Fund's investments grew by 5.0% (1.7% in 2017/18) to £1.05bn. This was below the average LGPS return of 6.6%.

Performance of the Fund is measured against an overall strategic benchmark. Below this, each fund manager is assigned individual performance targets which are linked to index returns for the assets they management, e.g. FTSE All Share for UK equities. Details of these targets can be found in the Statement of Investment Principles.

The chart below shows the annualised fund performance over different time periods. Overall, the Fund has underperformed strategic benchmark across the different periods with an underperformance of 2.5% in 2018/19.



2018/19 has been a challenging year for the global markets. It has been rife with global political uncertainty, a burgeoning trade war and no resolution to the Brexit issue.

This had a negative impact on a few of the investment strategies which underperformed their strategic benchmarks.

However, over the last ten years, the Fund has experienced lower than average level of volatility while achieving an average return rate. This demonstrates the effectiveness of the Fund's risk management strategy.

Investment Performance (continued)

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

There were a couple new strategies entered during the year; these have been measured on their performance since inception.

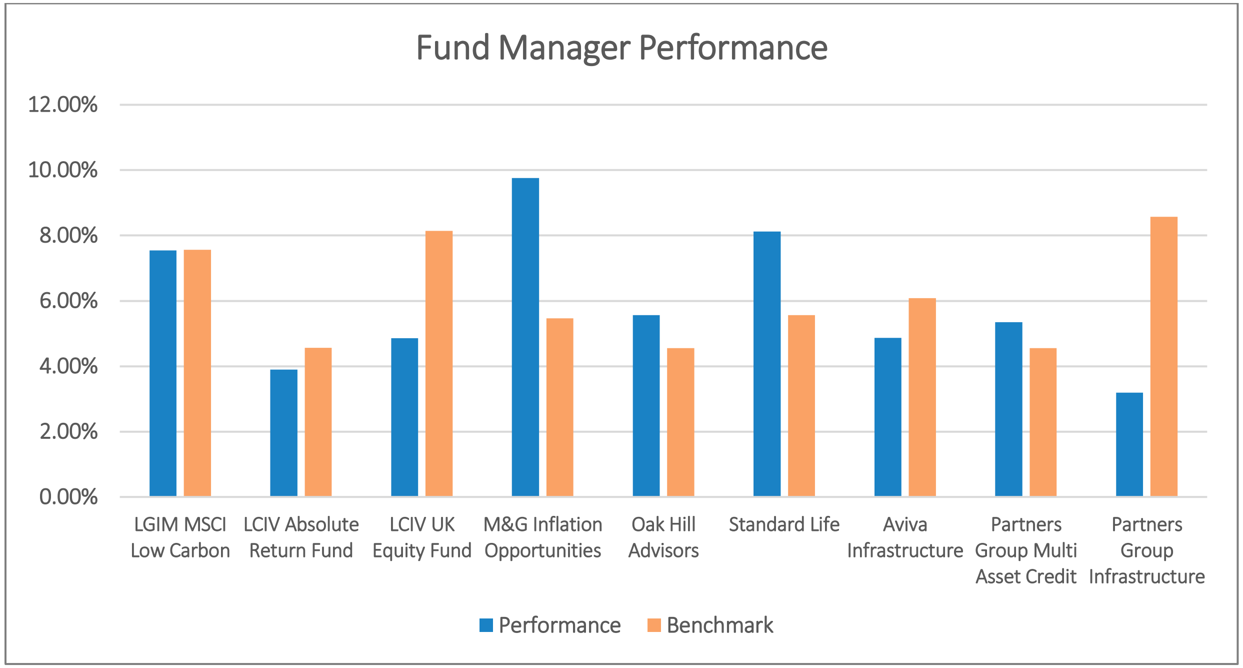
Partners Group Infrastructure is still deploying capital and returns are expected to be low compared to the benchmark until the full commitment has been drawn down.

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

- Targets for active fund mandates are set to outperform the benchmark by a set percentage through active stock selection and asset allocation.
- Targets for passive funds are set to achieve the benchmark through investment in a stable portfolio.

The table on the below shows the portfolio mixture of the fund.

Active	Passive
London LGPS CIV Ltd LCIV Absolute Return Fund (Ruffer) LCIV UK Equity Fund (Majedie)	**Legal & General Investment Management** MSCI Low Carbon Tracker Fund
Partners Group Private Multi Asset Credit Infrastructure	**M & G Investments** Inflation Opportunities Fund
Aviva Investors Infrastructure	**Aberdeen Standard** Long Lease Property Fund
Oak Hill Advisors	



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Corporate Governance

RESPONSIBLE INVESTMENT POLICY

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

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

In line with this policy, in 2018/19 the Fund decided to investment its entire passive equity allocation into a low carbon index fund. Additionally, the fund has used infrastructure funds to invest in sustainable technologies such solar and wind power.

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

PROFESSIONAL BODIES

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

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

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

VOTING

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

COLLABORATIVE VENTURES

The Fund has been working closely with other London LGPS funds in the London Collective Investment Vehicle set up to enable greater buying power, reduced fees and enhanced governance arrangements.

The Hammersmith and Fulham Pension Fund is a shareholder in London LGPS CIV Limited and had about 65% of assets invested with the pool as at 31 March 2019.

Corporate Governance (continued)

SEPARATION OF RESPONSIBILITIES

The Fund has appointed Northern Trust as its global custodian, which is independent to the investment managers and responsible for the safekeeping of all the Fund's investments. Northern Trust are also responsible for the settlement of all investment transactions and the collection of income.

The Fund's bank account is held with NatWest Bank. This is used for the operation functions of the Fund which include receiving contributions from employers and paying out benefits to members.

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

STEWARDSHIP CODE

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

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

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

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

FUNDING STRATEGY STATEMENT

The Funding Strategy Statement (Appendix 3) sets out the aims and purpose of the pension fund and the responsibilities of the administering authority regarding funding the scheme.

Its purpose is:

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

4.

Scheme Administration

Scheme Administration

SERVICE DELIVERY

Although the LGPS is a national scheme, it is administered locally. Hammersmith and Fulham Council has a statutory responsibility to administer the pension benefits payable from the Pension Fund on behalf of the participating employers and the past and present members and their dependents.

The Council administers the scheme for 70 employers (a complete list of employers is provided in section 2). These employers include not only the Council, but also academy schools within the borough and a small number of organisations linked to the Council which have been "admitted" to the pension fund under agreement with the Council.

A not-for-profit contractual arrangement is in place with Surrey County Council for the provision of pension administration services. Performance of this service against targets within the contract is reported on page 19. The Council's Human Resources provide oversight of the administration service.

COMMUNICATION POLICY STATEMENT

The Local Government Pension Scheme Regulations 2013 require Pension Funds to prepare, publish and maintain a communication policy statement, which can be found on page 101. The Communication Policy details the overall strategy for involving stakeholders in the pension fund. A key part of this strategy is a dedicated pension fund website, which includes a great deal more information about the benefits of the pension fund and this can be accessed via the following link:

www.lbhfpensionfund.org

INTERNAL DISPUTE RESOLUTION PROCEDURE

Members of pension schemes have statutory rights to ensure that complaints, queries and problems concerning pension rights are properly resolved. To facilitate this process, an Internal Disputes Resolution Procedure (IDRP) has been established. While any complaint is progressing, fund members are entitled to contact The Pensions Advisory Service (TPAS), who can provide free advice.

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

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

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

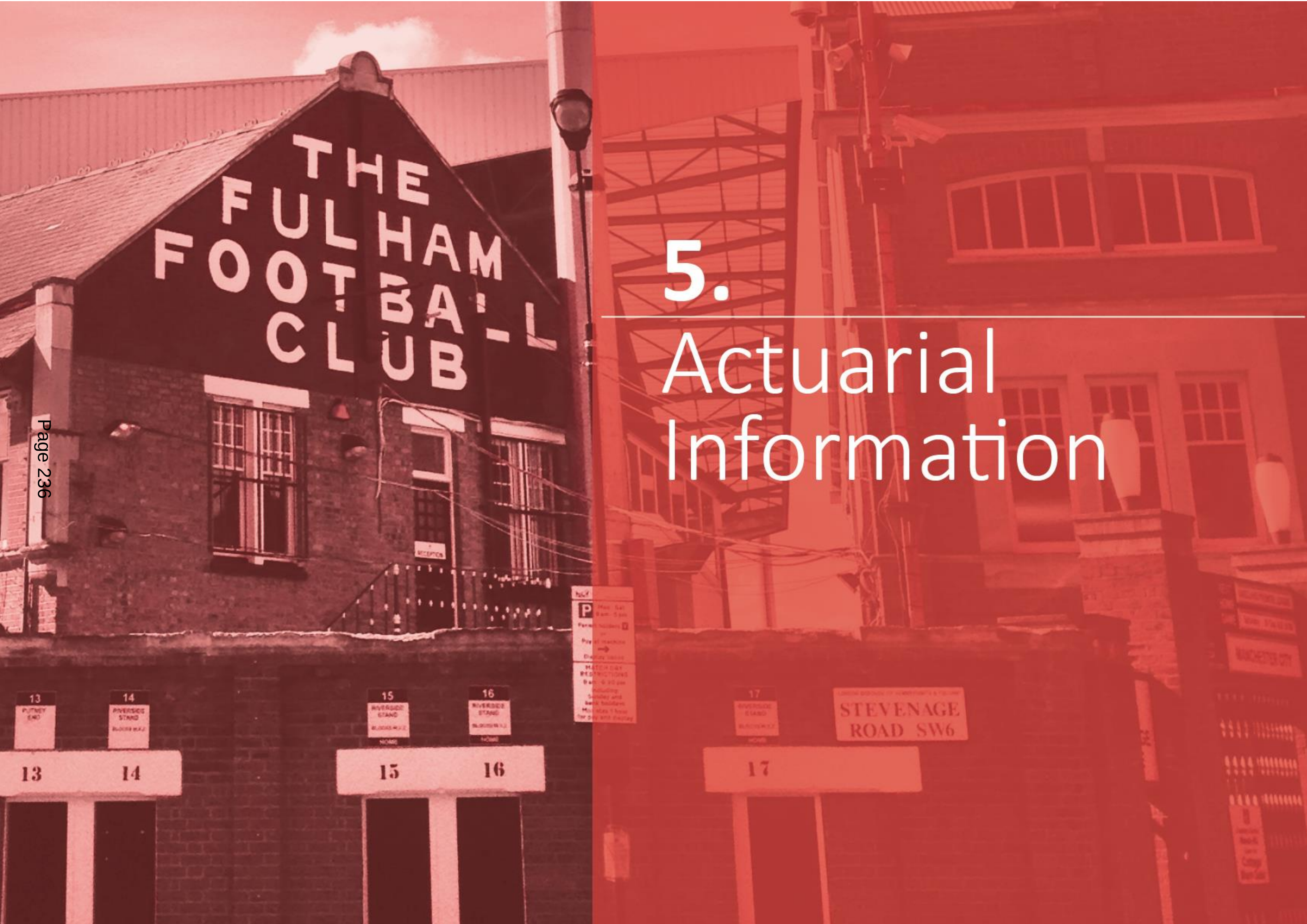
No complaints have been received or referred to the Pensions Ombudsman in 2018/19.

Both TPAS and the Pensions Ombudsman can be contacted at:

11 Belgrave Road
Pimlico
London
SW1V 1RB

5.

Actuarial Information



Report by Actuary

INTRODUCTION

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

This statement gives an update on the funding position as at 31 March 2019 and comments on the main factors that have led to a change since the full valuation.

2016 VALUATION

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

- The Fund as a whole had a funding level of 88% i.e. the assets were 88% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £114m which is lower than the deficit at the previous valuation in 2013.
- To cover the cost of new benefits a total contribution rate of 15.5% of pensionable salaries would be needed.
- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment required to pay for their share of the deficit.
- Full details of all the assumptions underlying the valuations are set out in our valuation report.

UPDATED POSITION

Using assumptions consistent with those adopted at the 2016 valuation, we estimate that the funding position at 31 March 2019 has improved compared with the position as at 31 March 2016.

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

Graeme Muir FFA

Partner, Barnett Waddingham LLP

6.

Pension Fund Accounts

Statement of Responsibilities

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

THE COUNCIL'S RESPONSIBILITIES

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs, in line with statute this is the Strategic Director of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

RESPONSIBILITIES OF THE STRATEGIC DIRECTOR OF FINANCE

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

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

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

The Strategic Director of Finance and Governance has also:

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

CERTIFICATE OF THE STRATEGIC DIRECTOR OF FINANCE

I certify that the Statement of Accounts (set out on pages 42 to 78) present a true and fair view of the financial position of the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2019 and income and expenditure for the year for the financial year 2018/19.

Hitesh Jolapara
Strategic Director of Finance and Governance
Section 151 Officer

Date:

Independent Auditors Report

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

Please note that this report is subject to change once the auditors have completed the audit of the Pension Fund's Statement of Accounts.

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

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

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

RESPECTIVE RESPONSIBILITIES OF THE STRATEGIC DIRECTOR OF FINANCE AND THE AUDITOR

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

Independent Auditors Report (continued)

SCOPE OF THE AUDIT OF THE PENSION FUND FINANCIAL STATEMENTS

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

OPINION ON THE PENSION FUND FINANCIAL STATEMENTS

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

OPINION ON OTHER MATTERS

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

[NAME]

for and on behalf of Grant Thornton, Appointed Auditor

Grant Thornton

[ADDRESS]

[DATE]

Pension Fund Accounts and Explanatory Notes

FUND ACCOUNT

2017/18		Notes	2018/19
£'000			£'000
	Dealings with members, employers and other directly involved in the fund		
	Contributions		
(24,268)	From Employers	7	(25,074)
(6,781)	From Members	7	(7,157)
(3,012)	Individual Transfers in from Other Pension Funds		(2,934)
607	Other income		(1,221)
(33,454)	**Total Contributions**		**(36,386)**
	Benefits		
31,465	Pensions	8	32,912
7,256	Commutation, Lump Sum Retirement and Death Benefits	8	8,167
	Payments to and on account of leavers		
4,086	Individual Transfers Out to Other Pension Funds		7,726
20	Refunds to Members Leaving Service		41
42,827	**Total Benefits**		**48,846**
9,373	**Net Additions (Withdrawals) from dealings with members**		**12,460**

Pension Fund Accounts and Explanatory Notes (continued)

FUND ACCOUNT

2017/18		Notes	2018/19
4,503	Management expenses	9	6,199
	Returns on Investment		
(10,283)	Investment Income	10	(11,967)
(10,384)	(Profit) and losses disposal of investments and changes in value of investments	12	(49,142)
(20,667)	Net Return on Investments		(61,109)
(6,791)	Net (Increase)/Decrease in the net assets available for benefits during the year		(42,450)
(1,002,832)	Opening Net Assets of the Scheme		(1,009,623)
(1,009,623)	Closing Net Assets of the Scheme		(1,052,073)

Pension Fund Accounts and Explanatory Notes (continued)[4]

NET ASSETS STATEMENT

2017/18		Notes	2018/19
£'000			£'000
	Investment Assets		
150	Equities	12	150
51,933	Pooled Property Vehicles	12	55,558
890,947	Pooled Investment Vehicles	12	902,851
55,261	Private Equity/Infrastructure	12	76,442
6,168	Cash Deposits	12	12,843
	Other Investment Balances		
35	Investment income due	12	34
1,004,494	Net Investment Assets		1,047,878
6,420	Current Assets	20	5,396
(1,291)	Current Liabilities	21	(1,201)
1,009,623	**Net assets of the Fund available to fund benefits at the period end**		**1,052,073**

The 31 March 2018 Net Asset Statement has been restated to show the £150k equity holding in the London CIV which had been included with Pooled Investment Vehicles. The £150k relates to the initial set up costs for the London CIV and represents the fund's shareholding in the pool therefore it is disclosed separately as it is classed as a direct equity investment.

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

Note 1 Description of Hammersmith and Fulham Pension Fund

A. GENERAL

The Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Hammersmith and Fulham Council. It is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of Hammersmith and Fulham Council and the admitted and scheduled bodies in the Fund. These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. Teachers are excluded from this scheme as they are administered under the Teachers' Pension Scheme.

The benefits payable in respect of service from 1 April 2014 are based on an employee's career average revalued earnings (CARE) and the number of years of eligible service. The benefits payable in respect of service prior to 1 April 2014 are based on an employee's final salary and the number of years eligible service. Pensions are increased each year in line with the Consumer Price Index.

The Fund is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

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

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from investment returns on the Fund's investment assets. Contributions from employees are made in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employer contributions are set based on the triennial actuarial funding valuation, as detailed in Note 19.

B. PENSIONS SUB-COMMITTEE

The Council has delegated the investment arrangements of the scheme to the Audit, Pensions and Standards Committee, who in December 2014 formed a Pensions Sub-committee and delegated all pensions responsibilities to it. The sub-committee decides on the investment strategy most suitable to meet the liabilities of the Fund and has responsibility for the investment strategy. The sub-committee is made up of 5 members, 4 of whom are elected representatives of the Council and one co-opted member, each having voting rights. Members of the admitted bodies and representatives of the Trade Unions may attend the sub-committee meetings but have no voting rights.

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

C. PENSION BOARD

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

Note 1 Description of Hammersmith and Fulham Pension Fund (continued)

D. INVESTMENT PRINCIPLES

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Sub-Committee approved an Investment Strategy on 23 July 2018 (available on the Council's website). The Statement shows the Authority's compliance with the Myner's principles of investment management.

The Sub-committee has delegated the management of the Fund's investments to regulated investment managers (see note 11), appointed in accordance with the regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

E. MEMBERSHIP

Membership of the LGPS is voluntary and employees, whilst auto-enrolled into the scheme, are free to choose whether to stay in or leave the scheme, or make their own personal arrangements outside the scheme.

Organisations participating in the Hammersmith & Fulham Pension Fund include:

- Scheduled bodies, which are local academies and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies and private contractors undertaking a local authority function following outsourcing to the private sector.

The Deferred member numbers include 1,204 undecided leavers, who are no longer paying contributions or in receipt of benefits.

31 March 2018		31 March 2019
45	Number of active employers	50
4,166	Contributing employees	4,332
4,920	Pensioners receiving benefit	5,111
6,603	Deferred pensioners	6,840
15,689	**Total members**	**16,283**

Details of the scheduled and admitted bodies are in Section 2 of this report.

Note 2 Basis of Preparation of Financial Statements

The Statement of Accounts summarise the Fund's transactions for 2018/19 and its position at year end as at 31 March 2019. The accounts been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts have been prepared on an accruals basis, apart from transfer values which have been accounted for on a cash basis.

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they consider the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Asset Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Authority has opted to disclose this information in a note to the accounts (Note 19). The Pension Fund Accounts have been prepared on a going concern basis.

Note 3 Summary of Significant Accounting Policies

FUND ACCOUNT – REVENUE RECOGNITION

A. CONTRIBUTION INCOME

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

B. TRANSFERS TO AND FROM OTHER SCHEMES

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

C. INVESTMENT INCOME

Investment income arising from the underlying investments of the Pooled Investment Vehicles is either reinvested within the Pooled Investment Vehicles and reflected in the unit price or taken as a cash dividend to support the Fund's outgoing cash flow requirements.

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

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

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

Note 3 Summary of significant accounting policies (continued)

FUND ACCOUNT – EXPENSE ITEMS

D. BENEFITS PAYABLE

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

E. TAXATION

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. As the Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises

F. VSP, MSP AND LIFE TIME ALLOWANCE

Members are entitled to request that the Pension Fund pays their tax liabilities due in respect of annual allowance and life time allowance in exchange for a reduction in pension. Where the Fund pays member tax liabilities direct to HMRC, it is treated as an expense in the year in which the payment occurs.

G. MANAGEMENT EXPENSES

The fund discloses its pension fund management expenses in accordance with the CIPFA guidance "Accounting for Local Government Pension Scheme Management Expenses 2016".

- Administrative expenses – All staff costs of the pension administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.
- Oversight and governance – All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.
- Investment management expenses – The Sub-Committee has appointed external investment managers to manage the investments of the Fund. Managers are paid a fee based on the market value of the investments they manage, and/or a fee based on performance.

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

Note 3 Summary of significant accounting policies (continued)

NET ASSET STATEMENT

H. FINANCIAL ASSETS

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the value of the asset are recognised in the Fund account.

The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 14a).

I. DERIVATIVES

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see Note 14a).

J. FOREIGN CURRENCY TRANSACTIONS

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

K. CASH AND CASH EQUIVALENTS

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

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

L. FINANCIAL LIABILITIES

A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. The Fund recognises liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised costs are carried at amortised cost i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

M. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

N. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed for information in Note 22. There are also some residual policies with Equitable Life, which are disclosed in Note 22, but it is not open for new members.

O. RECHARGES FROM THE GENERAL FUND

The LGPS (Management and Investment of Funds) Regulations 2016 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs have been charged to the Fund based on actual time spent on Pension Fund business. Costs incurred in the administration and the oversight and governance of the Fund are set out separately in Note 9.

Note 4 Critical Judgements in Applying Accounting Policies

The accounts contain certain estimated figures that are based on assumptions made by the Council and other bodies about the future or that are otherwise uncertain. Estimates are made because they are required to satisfy relevant standards or regulations and are based on best judgement at the time, derived from historical experience, current trends and other relevant factors. As a result, actual results may differ materially from those assumptions.

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

A. PENSION FUND LIABILITY

The Pension Fund liability is calculated every three years by the appointed actuary with annual updates in the intervening years. The methodology used follows generally agreed guidelines and is in accordance with IAS 19. These assumptions are summarised in the accompanying actuarial report. The estimates of the net liability to pay pensions depends on several judgements and assumptions. In particular, those relating to the discount rate, the rate at which salaries are projected to increase, change in retirement ages, mortality rates and expected returns on the Fund's assets.

The effects on the net pension liability of changes in assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £30m. A 0.1% increase in assumed earnings would increase the value of liabilities by approximately £2m, a 0.1% increase in pension increases would increase the liability by about £28m and a one-year increase in life expectancy would increase the liability by about £62m.

B. PRIVATE EQUITY INVESTMENTS

The fair value of private equity investments is unavoidably subjective. The valuations are based on forward-looking estimates and judgements involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards. The value of private equity investments at the balance sheet date was £3.5m.

C. PRIVATE DEBT/INFRASTRUCTURE INVESTMENTS

The fair value of the Partners Group Multi Asset Credit fund and Infrastructure fund is also to some extent subjective. Several of the underlying assets are traded in private markets only and therefore judgement needs to be made about value, using factors such as the enterprise value and net debt. As at 31 March 2019, the assets invested with Partners Group were value at £42.3m.

The same applies to the Aviva Infrastructure which is has a quarterly valuation cycle. As at 31 March 2019, the value of the investment was £30.6m.

Note 5 Assumptions Made About the Future and Other Major Sources of Uncertainty

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

Description of asset	Uncertainties	Basis of va
Actuarial present value of promised retirement benefits (Note 19a)	Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on fund assets. Barnet-Waddingham are engaged to provide the fund with expert advice about the assumptions to be applied.	For instance: • 0.1% increas would result £30m • 0.1% increas the value of t • 0.1% increas the liability b • A one-year increase the

Note 6 Events After the Balance Sheet Date

Note 7 Contributions Receivable

Employees' contributions are calculated on a sliding scale based on a percentage of their gross pay. The administering body, scheduled bodies and admitted bodies are required to make contributions determined by the Fund's actuary to maintain the solvency of the fund.

The tables on the right show a breakdown of the total amount of contributions by authority and by type.

BY AUTHORITY

2017/18 £000		2018/19 £000
(24,290)	Administering authority	(25,322)
(3,245)	Scheduled bodies	(3,583)
(3,514)	Admitted bodies	(3,326)
(31,049)	**Total Contributions Receivable**	**(32,231)**

BY TYPE

2017/18 £000		2018/19 £000
(6,781)	Employees' normal contributions	(7,157)
	Employer's contributions:	
(14,861)	Normal contributions	(15,740)
(9,407)	Deficit recovery contributions	(9,334)
(31,049)	**Total Contributions Receivable**	**(32,231)**

Note 8 Benefits Payable

The tables on the right below show a breakdown of the total amount of benefits payable.

BY AUTHORITY

2017/18 £000		2018/19 £000
35,914	Administering authority	37,640
2,427	Scheduled bodies	6,454
380	Admitted bodies	476
38,721	**Total Benefits Payable**	**41,079**

BY TYPE

2017/18 £000		2018/19 £000
31,465	Pensions	32,912
6,360	Commutation and lump sum retirement benefits	7,297
896	Lump sum death benefits	870
38,721	**Total Benefits Payable**	**41,079**

Note 9 Management Expenses

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

MANAGEMENT EXPENSES

2017/18 £000		2018/19 £000
403	Administrative costs	334
3,648	Investment management expenses	5,298
452	Oversight and governance costs	567
4,503	**Total Management Expenses**	**6,199**

The table on the right provides a breakdown of the Investment Management Expenses.

The Fund reported higher management fees in 18/19 due to improved information from fund managers in relation to the fees deducted at source. The Fund pays its management fees through invoices or deductions made at source by the individual fund managers. Of the £4.7m, £4.4m was deducted at source. The Fund requests and monitors this information from fund managers and accounts for it in its accounts to recognise the net return on investments. Information from the alternative investments such as infrastructure and private debt was not made available in prior years but has been provided for 2018/19. This accounted for about £1.2m of all management fees.

INVESTMENT MANAGEMENT EXPENSES

2017/18 £000		2018/19 £000
3,223	Management fees	4,763
343	Performance fees	244
38	Transaction costs	185
44	Custody fees	106
3,648	**Total Investment Management Expenses**	**5,298**

Note 10 Investment Income

The table below shows a breakdown of investment income.

2017/18 £000		2018/19 £000
(5,331)	Pooled investments – unit trusts and other managed funds	(8,874)
(47)	Income from Bonds	-
(17)	Interest on Cash Deposits	(98)
(4,888)	Private Equity/Other	(2,995)
(10,283)	**Total Investment Income**	**(11,967)**

Note 11 Investment Strategy

During 2018/19, the Fund's strategy had the following developments:

- The Fund invested its full £30m commitment in Aviva Infrastructure in two capital calls. The first was in May 2018 and the last was in November 2018. As at 31 March 2019, the investment was valued at £30.6m.
- In December 2018, the Fund transitioned its entire passive equities portfolio to the MSCI Low Carbon tracker fund under the management of the Legal & General Investment Management team. As at 31 March 2019, this was valued at £374.0m.
- The Fund liquidated its positions in both the Insight Bonds strategy (£85m) and the Majedie Focus and Tortoise strategies which were outside of the London CIV (£35m).
- The proceeds from the sale of the Majedie assets were reinvested into the equity passive strategy.
- On 26 March 2019, the Pensions Sub-Committee agreed to reinvest the proceeds from the Insight sale into the London CIV's Buy & Maintain strategy in Q1 2018/19. In the interim period, the assets have been invested into the LGIM Sterling Liquidity Fund which was valued at £96.0m on 31 March 2019.

The market value and proportion of investments managed by each fund manager at 31 March 2019 was as follows:

31 March 2018 £000	%	Fund Manager	Mandate	31 March 2019 £000	%
Investment managed by the London CIV asset pool:					
-	-	LGIM – MSCI Low Carbon	Global Equity (Passive)	374,028	35.7%
302,920	30.1%	LGIM – World Equity	Global Equity (Passive)	-	-
157,480	15.7%	LCIV – Ruffer	Absolute Return (Active)	126,636	12.1%
125,194	12.5%	LCIV – Majedie	UK Equity (Active)	125,154	11.9%
596,462	59.3%	Total assets managed by the London CIV asset pool		625,818	59.7%
Investment managed outside of the London CIV asset pool:					
99,302	9.9%	M&G Investments	Inflation Opportunities	107,834	10.3%
10,868	1.1%	LGIM – Sterling Liquidity Fund	Cash	96,007	9.2%
72,371	7.2%	Oak Hill Advisors	Secured Income (Active)	73,203	7.0%
51,933	5.2%	Aberdeen Standard	Long Lease Property	55,558	5.3%
-	-	Aviva Investors	Infrastructure	30,644	2.9%
41,711	4.2%	Partners Group	Multi Asset Private Credit	25,318	2.4%
7,031	0.8%	Partners Group	Infrastructure	16,987	1.6%
3,757	0.4%	Invesco	Private Equity	2,199	0.2%
1,871	0.2%	Unigestion	Private Equity	1,293	0.1%
88,885	8.8%	Insight	Global Bonds (Active)	-	-
33,946	3.4%	Majedie	UK Equity (Active)	-	-
7,075	0.6%	Inhouse Cash	Cash	12,867	1.3%
150	0.0%	London CIV Ltd	UK Equity	150	0.0%
408,032	40.6%	Total assets managed outside of the London CIV asset pool		422,060	40.3%
1,004,494	**100.0%**	**Total investments**		**1,047,878**	**100.0%**

Note 11 Investment Strategy (continued)

As part of the Fund's ongoing investment strategy, pooled investments are used as the primary investment vehicle and these are in the form of unit trusts. A breakdown of all the Fund's investments is included in the table on the following page.

In August 2015, the Funded made a commitment to the Partners Group Direct Infrastructure fund in August. As at 31 March 2019 €33.8m still remained unfunded.

The private equity investments made some years ago are now in the redistribution phase of the cycle, which will be completed in late 2019. As at 31 March 2019, £3.5m remained to be redistributed back into the Fund.

As shareholders of London LGPS CIV Ltd, (the organisation set up to run pooled LGPS investments in London), the Fund has funded £150,000 of regulatory capital. This is in the form of unlisted UK equity shares. The Council has been active in the transfer of assets under management to the London Collective Investment Vehicle (CIV) to gain efficiencies and fee reductions. As at 31 March 2019, the Fund had £721.8m invested with the London CIV, which accounts for 68.9% of the fund's total assets.

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

31 March 2018 £000	%	Fund Manager	Mandate	31 March 2019 £000	%
-	-	LGIM – MSCI Low Carbon	Global Equity (Passive)	374,028	35.7%
302,920	30.1%	LGIM – World Equity	Global Equity (Passive)	-	-
157,480	15.7%	LCIV – Ruffer	Absolute Return (Active)	126,636	12.1%
125,194	12.5%	LCIV – Majedie	UK Equity (Active)	125,154	11.9%
99,302	9.9%	M&G Investments	Inflation Opportunities	107,834	10.3%
10,868	1.1%	LGIM – Sterling Liquidity Fund	Cash	96,007	9.2%
72,371	7.2%	Oak Hill Advisors	Secured Income (Active)	73,203	7.0%
51,933	5.2%	Aberdeen Standard	Long Lease Property	55,558	5.3%
88,885	8.8%	Insight	Global Bonds (Active)	-	-

Note 12 Reconciliation of Movement in Investments

The table below shows a reconciliation of the movement in the total investment assets of the Fund by asset class during 2018/19.

Fund Manager	Value at 1 April 2018 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Value at 31 March 2019 £000
Equities	150	-	(10)	10	150
Pooled equity Investments	890,947	836,089	(867,391)	43,206	90,851
Pooled property investments	51,933	33	-	3,592	55,558
Private equity/infrastructure	55,261	38,866	(20,023)	2,338	76,442
Total	998,291	874,988	(887,424)	49,146	1,035,001
Cash deposits	6,168	-		22	12,843
Investment income due	35	-		-	34
Spot FX contracts	-	-		(26)	-
Net investment assets	**1,004,494**	**874,988**	**(887,424)**	**49,142**	**1,047,878**

Note 12 Reconciliation of Movement in Investments (continued)

The equivalent analysis for 2017/18 is provided below:

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

Note 13 Fair Value Basis of Valuation

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Investments – Equity Funds UK and Overseas Managed Funds	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets	Evaluated price feeds	Not required
Unquoted Bonds and Unit Trusts	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services	Evaluated price feeds	Not required
Pooled Long Lease Property Fund	Level 2	The Standard Life Long Lease Property Fund is priced on a Single Swinging Price	In house evaluation of market data	Not required
Private Equity	Level 3	Comparable valuation of similar companies in accordance with International Private and Venture Capital Valuation Guidelines 2012	Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple Revenue multiple	Valuations could be affected by changes to expected cashflows, cost of replacing key business assets, or by any differences between the audited and unaudited accounts
Infrastructure funds	Level 3	Valued by Fund Managers at the lower of cost and fair value	Managers use their judgement having regard to the Equity and Venture Capital Valuation Guidelines 2012 guidelines noted above	Upward valuations are only considered where there is validation of the investment objectives and such progress can be demonstrated Downward valuations are enacted where the manager considers there is an impairment to the underlying investment

Note 14a Valuation of Financial Instruments Carried at Fair Value

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

LEVEL 1

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

LEVEL 2

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

LEVEL 3

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

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

		31 March 2018				31 March 2019
Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs		Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs
Level 1	Level 2	Level3		Level 1	Level 2	Level3
£000	£000	£000		£000	£000	£000
			Financial Assets			
33,940	908,939	55,412	Designated at fair value through profit and loss	-	958,409	76,592
33,940	908,939	55,412	Net Financial Assets	-	958,409	76,592
		998,291				**1,035,001**

Note 14b Reconciliation of Fair Value Measurements Within Level 3

	Market Value as at 31 March 2019 £000	Purchases £000	Sales £000	Unrealised Gains/(losses) £000	Realised Gains/(losses) £000	Market Value as at 31 March 2019 £000
Overseas infrastructure	13,551	8,866	(3,536)	(940)	2,539	20,480
Private Credit	41,710	-	(16,487)	95	-	25,318
London LGPS CIV	150	-	-	-	-	150
UK Infrastructure	-	30,000	-	644	-	30,644
Total	**55,411**	**38,866**	**(20,023)**	**(201)**	**2,539**	**76,592**

Note 15a Classification of Financial Instruments

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

31 March 2018				31 March 2019		
Designated at fair value through profit & loss	Financial assets at amortised cost	Financial liabilities at amortised cost		Designated at fair value through profit & loss	Financial assets at amortised cost	Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial Assets			
			Pooled Investment Vehicles:			
791,194			UK equity funds	806,844		
10,867			UK cash funds	96,007		
51,933			UK property funds	55,558		
88,885			Overseas fixed income funds	-		
150			London LGPS CIV	150		
41,711			UK venture capital	72,950		
13,551			Overseas venture capital	3,492		
35			Investment Income Due	35		
	6,168		Cash deposits with managers		12,843	
	2,059		Debtors		2,679	
	4,361		Cash balances (held by fund)		2,673	
998,326	12,588		Total Financial Assets	1,035,036	18,195	-
			Financial Liabilities			
		(620)	Creditors	-		(1,185)
		(620)	Total Financial Liabilities	-	-	(1,185)
1,010,294			Total Net Assets			**1,052,046**

Note 15b Net Gains and Losses on Financial Statements

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

31 March 2018		31 March 2019
	Financial Assets	
10,235	Fair value through profit and loss	49,146
149	Loans and receivables	23
	Financial Liabilities	
-	Fair value through profit and loss	(27)
10,384	**Net Gains /(losses) on Financial Instruments**	**49,142**

Note 16 Nature and Extent of Risks Arising from Financial Instruments

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

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

A. MARKET RISK

In order to meet the Fund's objective of being fully funded within 22 years of the 2016 actuarial valuation, the fund managers have been set differing targets appropriate to the types of assets they manage. The Fund's assets are invested in a broad range of asset classes in terms of geographical and industry sectors and individual securities which are expected to produce returns above their benchmarks over the long term, albeit with greater volatility. This diversification reduces exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level.

The aim of the investment strategy is to maximise the opportunity for gains across the whole Fund's portfolio within a tolerable level of risk of an overall reduction in the value of the Fund. Responsibility for the Fund's investment strategy rests with the Pensions sub-committee and is reviewed on a regular basis.

B. PRICE RISK

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all such instruments in the market.

The Fund is exposed to price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments (with the exception of the derivatives where the risk is currency related) is determined by the fair value of the financial instruments. The Fund's investment managers aim to mitigate this price risk through diversification and the selection of securities and other financial instruments.

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

Assets exposed to price risk	Value £000	+10% £000	-10% £000
At 31 March 2018	998,291	1,098,120	898,462
At 31 March 2019	**1,035,001**	**1,138,501**	**931,501**

C. INTEREST RATE RISK

The Fund invests in financial assets for the primary purpose of obtaining a return on its investments. Fixed Interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

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

Assets exposed to interest rate risk	Value £000	+1% £000	-1% £000
At 31 March 2018	220,753	222,779	218,367
At 31 March 2019	**225,147**	**226,318**	**230,307**

Note 16 Nature amd Extent of Risks Arising from Financial Instruments (continued)

D. CURRENCY RISK

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than pounds sterling.

The Fund recognises that a strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

In order to mitigate the risk, one of the Fund's investment managers enters into forward foreign exchange contracts (accounted for as derivatives) to hedge the currency risk which arises from undertaking non-sterling transactions. In addition, several of the pooled investment vehicles partially or fully hedge the currency back into sterling. These actions reduce the overall currency risk the Fund is exposed to

Assets exposed to currency risk	Value £000	+10% £000	-10% £000
At 31 March 2018	418,816	460,698	376,934
At 31 March 2019	**418,816**	**460,698**	**376,934**

E. CREDIT RISK

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high-quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

F. LIQUIDITY RISK

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments. This will particularly be the case for cash to meet the pensioner payroll costs; and cash to meet investment commitments. The Fund has immediate access to its cash holdings.

The only assets in the Fund which cannot be liquidated within a month are detailed in the table below. These amounted to 9.67% of the Fund's Net Assets at 31 March 2019 (10.20% at 31 March 2018). The remaining can all be liquidated within days.

Manager	Portfolio	31 March 2018	31 March 2019
Partners Group	Multi asset credit	41,711	25,319
Partners Group	Infrastructure	7,924	16,987
Aberdeen Standard	Property	51,933	55,558
Invesco	Private Equity	3,757	2,199
Unigestion	Private Equity	1,871	1,293
	Total	**107,196**	**101,356**

Note 17 Contingent Liabilities and Contractual Commitments

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

	31 March 2018	31 March 2019
	£000	£000
Aviva Infrastructure Fund	30,000	-
Partners Group Direct Infrastructure Fund 2015	40,198	29,098
	70,198	**29,098**

Note 18 Stock Lending Arrangements

The Fund did not participate in stock lending or underwriting.

Note 18 Funding Arrangements

The latest full triennial valuation of the London Borough of Hammersmith and Fulham Pension Fund was carried out by Barnett Waddingham, the Fund's actuary, as at 31 March 2016 in accordance with the Funding Strategy Statement of the Fund and the Local Government Pension Scheme Regulations 2013. The results were published in the triennial valuation report dated 30 March 2017. This valuation set the employer contribution rates from 1 April 2017.

The latest full triennial valuation of the London Borough of Hammersmith and Fulham Pension Fund was carried out by Barnett Waddingham, the Fund's actuary, as at 31 March 2016 in accordance with the Funding Strategy Statement of the Fund and the Local Government Pension Scheme Regulations 2013. The results were published in the triennial valuation report dated 30 March 2017. This valuation set the employer contribution rates from 1 April 2017.

The 2016 valuation certified a common contribution rate of 15.5% of pensionable pay (13.6% as at March 2013) to be paid by each employing body participating in the Fund, based on a funding level of 88% (83% as at March 2013). In addition, each employing body must pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

The actuary's smoothed market value of the scheme's assets at 31 March 2016 was £851m and the actuary assessed the present value of the funded obligation at £965m indicating a net liability of £114m (£147m 2013).

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

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

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

The next actuarial valuation of the Fund will be as at 31 March 2019 and will be published in 2020.

Note 19a Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2019. The figures have been prepared by Barnett Waddingham, the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

In calculating the required numbers, the actuary adopted methods and assumptions that are consistent with IAS19.

31 March 2018 £000		31 March 2019 £000
(1,630,601)	Present value of promised retirement benefits	(1,651,279)
1,009,620	Fair value of scheme assets (bid value)	1,052,073
(620,981)	**Net Liability**	**(599,206)**

Present Value of Promised Retirement Benefits comprises of £1,617.1m (£1,592.5m at 31 March 2018) and £34.1m (£37.3m at 31 March 2018) in respect of vested benefits and non-vested benefits respectively as at 31 March 2019.

The assumptions applied by the actuary are set out below:

FINANCIAL ASSUMPTIONS

	31 March 2018	31 March 2019
RPI increases	3.3%	3.4%
CPI increases	2.3%	2.4%
Salary increases	3.8%	3.9%
Pension increases	2.3%	2.4%
Discount rate	2.6%	2.4%

DEMOGRAPHIC ASSUMPTIONS

The post mortality tables adopted are the S2PA tables. The base tables are projected using the CMI 2012 Model, allowing for a long-term rate of improvement of 1.5% p.a. The assumed life expectancies from age 65 are:

		31 March 2018	31 March 2019
Retiring today	Males	24.5	23.4
	Females	26.1	24.8
Retiring in 20 years	Males	26.8	25.0
	Females	28.4	26.6

OTHER ASSUMPTIONS

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age;
- 5% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

Note 20 Current Assets

SHORT TERM DEBTORS

31 March 2018 £000		31 March 2019 £000
964	Contributions due – employers	1,971
197	Contributions due – employees	453
898	Sundry Debtors	229
2,059	Total short-term debtors	2,723
4,361	Cash at bank	2,673
2,059	**Total Current Assets**	**2,723**

ANALYSIS OF DEBTORS

31 March 2018 £000		31 March 2019 £000
228	Local authorities	941
1,831	Other entities and individuals	1,782
2,059	**Total short-term debtors**	**2,723**

Note 21 Current Liabilities

CREDITORS

31 March 2018 £000		31 March 2019 £000
(75)	Unpaid benefits	(527)
(369)	Management expenses	(461)
(672)	HM Revenue and Customs	-
(175)	Sundry creditors	(212)
(1,291)	**Total Current Liabilities**	**(1,201)**

ANALYSIS OF DEBTORS

31 March 2018 £000		31 March 2019 £000
(158)	Local authorities	-
(672)	Central government bodies	-
(461)	Other entities and individuals	(1,201)
(1,291)	**Total Current Liabilities**	**(1,201)**

Note 22 Additional Voluntary Contributions (AVCS)

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

31 March 2018 £000		31 March 2019 £000
824	Zurich Assurance	908
203	Equitable Life Assurance	203
1,027	**Total Additional Voluntary contributions**	**1,111**

In accordance with Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid, and the investments are not included in the Pension Fund Accounts.

The AVC providers secure benefits on a money purchase basis for those members electing to pay AVCs. Members of the AVC schemes each receive an annual statement confirming the amounts held in their account and the movements in the year. The Fund relies on individual contributors to check that deductions are accurately reflected in the statements provided by the AVC provider.

Note 23 Related Party Transactions

THIRD PARTY RELATIONSHIPS

The Pension Fund has several third-party relations for the administration of this fund. This includes the finance and human resources teams. Each counterparty incurred the following costs on behalf of the Pension Fund and were reimbursed by the Fund:

- £0.167m – for costs incurred by Westminster City Council in relation to the finance team
- £0.089m – for costs incurred by the London Borough of Hammersmith & Fulham in relation to the finance and human resources teams
- £0.082m – for costs incurred by the Royal Borough of Kensington & Chelsea in relation to the human resources team

GOVERNANCE ARRANGEMENTS

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

KEY MANAGEMENT PERSONNEL

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

	31 March 2018	31 March 2019
Short-term benefits	29	26
Post-employment benefits	42	(3)
Total	**71**	**23**

Note 24 Agency Services

The Hammersmith and Fulham Pension Fund pays discretionary awards to the former employees of London Borough of Hammersmith and Fulham Council. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the Council. In 2018/19 the pension fund paid discretionary awards of £2.300m (£2.342m in 2017/18).

31 March 2018 £000		31 March 2019 £000
2,342	Payments on behalf of London Borough of Hammersmith and Fulham	2,300
2,342	**Total**	**2,300**

Note 25 External Audit Costs

The external audit fee payable to Fund's external auditors, Grant Thornton LLP, was £16,170 (£21,000 in 2017/18).

7. Glossary and Contacts

Glossary of Terms

ACCOUNTING POLICIES

The rules and practices adopted by the authority that determine how the transactions and events are reflected in the accounts.

ACCRUALS

Amounts included in the accounts for income or expenditure in relation to the financial year but not received or paid as at 31 March.

ACTIVE MANAGEMENT

Active management or active fund management is where the fund manager makes specific investments with the aim of outperforming an investment benchmark.

ACTIVE MEMBER

Current employee who is contributing to a pension scheme.

ACTUARIAL GAINS AND LOSSES

These arise where actual events have not coincided with the actuarial assumptions made for the last valuations (known as experience gains and losses) or the actuarial assumptions have been changed.

ACTUARY

An independent professional who advises the Council on the financial position of the Fund. Every three years the actuary values the assets and liabilities of the Fund and determines the funding level and the employers' contribution rates.

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

An option available to active scheme members to secure additional pension benefits by making regular contributions to separately held investment funds managed by the Fund's AVC provider.

ADMITTED BODY

An organisation, whose staff can become members of the Fund by virtue of an admission agreement made between the Council and the organisation. It enables contractors who take on the Council's services with employees transferring, to offer those staff continued membership of the Fund.

ASSET ALLOCATION

The apportionment of a Fund's assets between different types of investments (or asset classes). The long-term strategic asset allocation of a Fund will reflect the Fund's investment objectives.

BENCHMARK

A measure against which the investment policy or performance of an investment manager can be compared.

BONDS

Investments, mainly in government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTING)

CIPFA is the professional institute for accountants working in the public services. CIPFA publishes the Code.

CREDITORS

Amounts owed by the Council for goods and services received but not paid for as at 31 March.

DEBTORS

Amounts owed to the Council for goods and services provided but where the associated income was not received as at 31 March.

DEFERRED MEMBERS

Scheme members, who have left employment or ceased to be active members of the scheme whilst remaining in employment but retain an entitlement to a pension from the scheme.

DEFINED BENEFIT SCHEME

A type of pension scheme, where the pension that will ultimately be paid to the employee is fixed in advance, and not impacted by investment returns. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised.

DERIVATIVE

A derivative is a financial instrument which derives its value from the change in price (e.g. foreign exchange rate, commodity price or interest rate) of an underlying investment (e.g. equities, bonds, commodities, interest rates, exchange rates and stock market indices), which no net initial investment or minimal initial investment and is settled at a future date

EMPLOYER CONTRIBUTION RATES

The percentage of the salary of employees that employers pay as a contribution towards the employees' pension.

EQUITIES

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

EXCHANGE TRADED

This describes a financial contract which is traded on a recognised exchange such as the London Stock Exchange or the London International Financial Futures Exchange.

FINANCIAL ASSETS

Financial assets are cash, equity instruments within another entity (e.g. shares) or a contractual right to receive cash or another asset from another entity (e.g. debtors) or exchange financial assets or financial liabilities under potentially favourable conditions (e.g. derivatives).

FINANCIAL INSTRUMENT

Any contract giving rise to a financial asset in one entity and a financial liability or equity in another entity.

FINANCIAL LIABILITIES

Financial assets are contractual obligations to deliver cash or another financial asset (e.g. creditors) or exchange financial assets or financial liabilities under potentially unfavourable conditions (e.g. derivatives).

FORWARD FOREIGN EXCHANGE DERIVATIVE

Forward foreign exchange derivatives are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange.

INDEX

A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

OVER THE COUNTER

This describes a financial contract which is potentially unique as they are not usually traded on a recognised exchange

PASSIVE MANAGEMENT

Passive management is where the investments mirror a market index.

POOLED INVESTMENT VEHICLES

Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

PROJECTED UNIT METHOD – PENSION FUND VALUATION

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependents, allowing where appropriate for future increases, and
- the accrued benefits for members in service on the valuation date.

RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party, to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source, to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Advice from CIPFA is that related parties to a local authority include Central Government, bodies precepting or levying demands on the Council Tax, members and chief officers of the authority and its pension fund.

RELATED PARTY TRANSACTION

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party, irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets of loans, irrespective of any direct economic benefit to the pension fund;
- the provision of services to a related party, including the provision of pension fund administration services; and
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, rents and payments of benefits.

RETURN

The total gain from holding an investment over a given period, including income and increase or decrease in market value.

SCHEDULED BODY

An organisation that has the right to become a member the Local Government Pension Scheme under the scheme regulations. Such an organisation does not need to be admitted, as its right to membership is automatic.

THE CODE

The Code incorporates guidance in line with IFRS, IPSAS and UK GAAP Accounting Standards. It sets out the proper accounting practice to be adopted for the Statement of Accounts to ensure they 'present fairly' the financial position of the Council. The Code has statutory status via the provision of the Local Government Act 2003.

UNREALISED GAINS/LOSSES

The increase or decrease in the market value of investments held by the fund since the date of their purchase.

NOTE: values throughout these accounts are presented rounded to whole numbers. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match to the core statements or other tables due to rounding differences.

Contact Information

FOR FURTHER DETAILS CONTACT:

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HR ENQUIRIES

Bi-Borough Pensions Manager
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The Town Hall
Hornton Street
London
W8 7NX
pensions@rbkc.gov.uk

ADMINISTRATIVE ENQUIRIES

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

8. Appendices

Appendix 1. Governance Compliance Statement

BACKGROUND

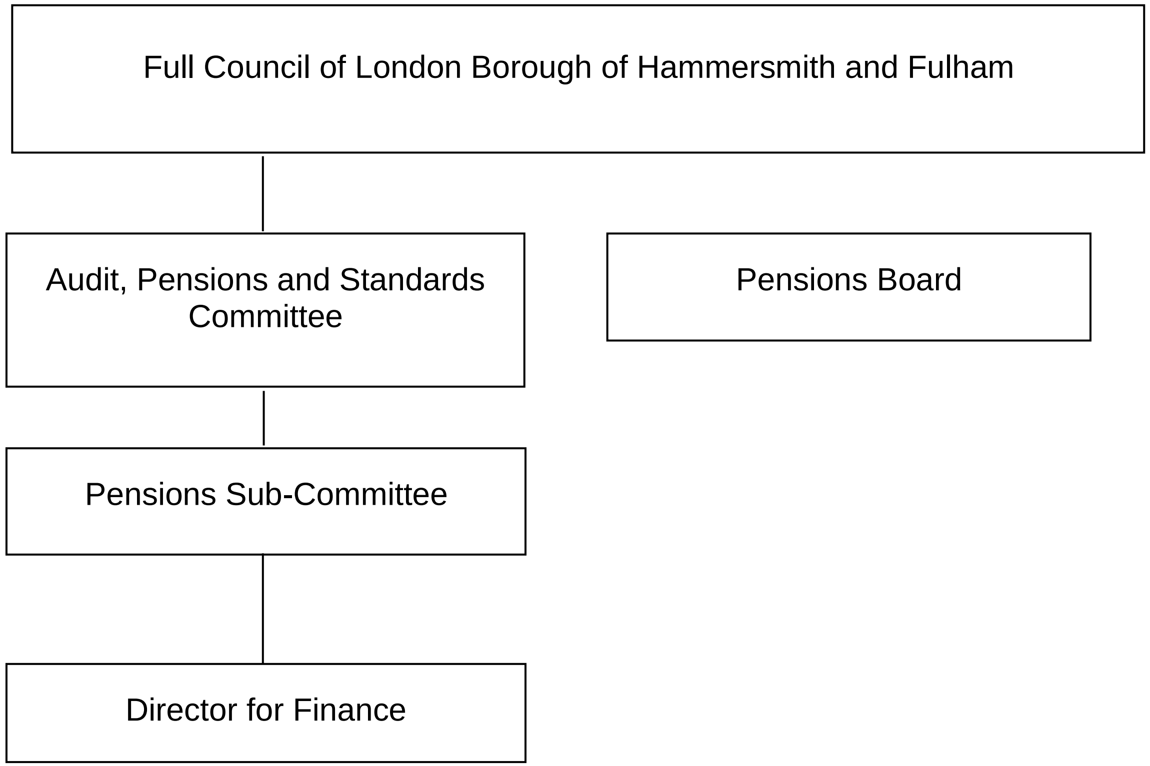
The London Borough of Hammersmith and Fulham is the administering authority for the London Borough of Hammersmith and Fulham ("the Fund") and it administers the Local Government Pension Scheme on behalf of the participating employers.

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires all administering authorities for local government pension schemes to publish a Governance Compliance Statement setting out the Fund's governance arrangements. Information on the extent of the Fund's compliance with guidance issued by the Secretary of State for Communities and Local Government is also a requirement of this regulation.

GOVERNANCE STRUCTURE

The diagram on the right shows the governance structure in place for the Fund.

Full Council has delegated its functions in relation to the Pension Fund regulations, as shown in the diagram. The sections below explain the role of each party and provide the terms of reference.



AUDIT, PENSIONS AND STANDARDS COMMITTEE

Full Council has delegated all decisions in relation to the Public Service Pensions Act 2013 to the Audit, Pensions and Standards Sub-Committee. In order to manage the workload of the committee, the committee has delegated decisions in relation to all pensions' matters to the Pensions Sub-committee.

PENSIONS SUB-COMMITTEE

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

The sub-committee is made up of four elected members of the Audit, Pensions and Standards Committee and one co-opted member. Three members of the committee are administration councillors and one member represents the opposition. The sub-committee is chaired by the Chair of the Audit, Pensions and Standards Committee. The Sub Committee may co-opt non-voting independent members, including Trade Unions and representatives from the admitted and scheduled bodies in the Pension Fund.

All Councillors on the sub-committee have voting rights. In the event of an equality of votes, the Chair of the Sub-committee shall have a second casting vote. Where the Chair is not in attendance, the Vice-Chair has the casting vote.

The Sub-committee meets four times a year and may convene additional meetings as required. Three members of the Sub-committee are required to attend for a meeting to be quorate.

The terms of reference for the sub-committee are:

1. To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the Investment Consultant.
2. To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable;
3. To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Actuary, Custodians and Fund Advisers.
4. To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.
5. To approve the final statement of accounts of the Pension Fund and to approve the Annual Report.
6. To receive actuarial valuations of the Superannuation Fund regarding the level of employers' contributions necessary to balance the Superannuation Fund.
7. To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of the Council for the payment of pensions, and allowances to beneficiaries.
8. To make and review an admission policy relating to admission agreements generally with any admission body.
9. To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
10. To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
11. To receive and consider the Auditor's report on the governance of the Pension Fund.
12. To determine any other investment or pension fund policies that may be required from time to time so as to comply with Government regulations and to make any decisions in accordance with those policies.

Governance Compliance Statement (continued)

PENSION BOARD

With effect from 1st April 2015, all administering authorities are required by the Public Services Pensions Act 2013 to establish a Pension Board to assist them. The London Borough of Hammersmith and Fulham Pension Board was established by full Council on 25th February 2015.

The role of the Pension Board is to assist the administering authority with securing compliance with Local Government Pension Scheme regulations and other legislation relating to the governance and administration of the scheme. The Board does not have a decision making role in relation to management of the Fund, but is able to make recommendations to the Pension Fund Committee.

The membership of the Board is as follows:

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

All Board members are entitled to vote, but it is expected that as far as possible Board members will reach a consensus. Three Board members are required to attend for a meeting to be quorate. The Board will meet a minimum of twice a year but is likely to meet on a quarterly basis to reflect the same frequency as the Pension Fund Committee.

COMPLIANCE WITH STATUTORY GUIDANCE

It is a regulatory requirement that the Fund publishes the extent to which it complies with statutory guidance issued by the Secretary of State for Communities and Local Government. The guidance and compliance levels are set out in Annex 1.

REVIEW OF STATEMENT

This statement will be kept under review and updated as required. Consultation with the admitted and scheduled bodies of the Fund will take place before the statement is finalised at each change.

Governance Compliance Statement (continued)

Compliance Requirement	Compliance	Notes
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	As set out in terms of reference of the Pensions Sub-Committee.
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Not fully compliant	Representatives of the employers and scheme members are Pension Board members, rather than members of the Pensions Sub-Committee.
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Not applicable	All Pension Fund matters are considered by the Pensions Sub-Committee
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel	Not applicable	All Pension Fund matters are considered by the Pensions Sub-Committee
Committee membership and representation		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: - i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an *ad hoc* basis).	Not fully compliant	Representatives of the employers and scheme members are Pension Board members, rather than members of the Pensions Sub-Committee. Expert advisers attend the Sub-Committee as required
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights	Not applicable	All Pension Fund matters are considered by the Pensions Sub-Committee
Selection and role		
That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee	Compliant	As set out in terms of reference of the Pensions Sub-Committee
That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Compliant	This is a standing item on the Pensions Sub-Committee agendas
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	As set out in terms of reference of the Pensions Sub-Committee

Governance Compliance Statement (continued)

Compliance Requirement	Compliance	Notes
Training, facility time and expenses		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process	Compliant	As set out in the Council's allowances policy and the Pension Fund Knowledge and Skills policy
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum	Compliant	As set out in the Council's constitution
Meetings		
That an administering authority's main committee or committees meet at least quarterly.	Compliant	As set out in terms of reference of the Pensions Sub-Committee
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits	Not applicable	All Pension Fund matters are considered by the Pensions Sub-Committee.
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	Compliant	Represented on the Pensions Board
Access		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Compliant	As set out in the Council's constitution
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Compliant	as set out in terms of reference of the Pensions Sub-Committee
Publicity		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements	Compliant	All meeting minutes, reports and Pension Fund policies are published on the Council's website

Appendix 2. Communication Policy

1. BACKGROUND

Regulation 61 of the Local Government Pension Scheme Regulations 2013 requires administering authorities to prepare, publish and maintain a policy statement setting out its communication strategy for communicating with:

- Scheme Members
- Members' representatives
- Prospective members
- Employers participating in the Fund

This is the Local Government Pension Scheme (LGPS) Communications Policy Statement for the London Borough of Hammersmith & Fulham (LBHF).

LBHF in its capacity as the Administering Authority engages with other employers (under their status as Admitted and Scheduled Bodies) and has 4,332 active members, 6,840 deferred members and 5,111 pensioners as at 31st March 2019

This policy document sets out the mechanisms that LBHF uses to meet their communication responsibilities.

2. ROLES AND RESPONSIBILITIES

Retained team within HR

The Retained Team are responsible for setting the pensions administration management strategy which includes the drafting of this document and the allocation of communication responsibilities, including those to third parties.

They are also responsible for the monitoring of the quality, timeliness and accuracy of pensions communications from third parties and for the periodic review of this document.

The Retained Team will approve significant communications prior to them being issued that have been drafted on behalf of LBHF by Surrey County Council (SCC) and Hampshire County Council (HCC).

Surrey County Council

SCC are responsible for the day to day transactional pensions administration service under a section 101 agreement with LBHF.

Under this agreement SCC are responsible for the quality, timeliness and accuracy of pensions communications within their normal business activities.

They are also responsible for communications within specific projects and tasks agreed and allocated to them by the Retained Team.

3. HOW INFORMATION IS COMMUNICATED

The table below shows the LBHF communication methods, the frequency of issue and the intended audiences.

Communication Type	Paper Based	Website	Intranet	Face to face	Electronic	Frequency of issue	Communication method	Active member	Deferred member	Pensioner	Prospective members	Employers	Union Reps	Pension fund committee	Pension Board	Residents and taxpayers	Media	Other stakeholders
Joiner information with Scheme details	✓	✓				During the recruitment process and upon request	Sent to home address/via employers				✓	✓	✓					
Newsletters	✓	✓				Annually and/or when the scheme changes	Sent to home address/via employers	✓	✓	✓	✓	✓	✓					
Fund Reports and Accounts			✓			Continually available	Link publicised	✓										
Annual Benefit Statements	✓					Annually and on request	Sent to home address and/or via employers for active members. Sent to home address for deferred members	✓	✓									
Factsheets	✓	✓				On request	On request	✓	✓	✓	✓	✓	✓					
Roadshows				✓		When major scheme changes occur	Advertised in newsletters, via posters	✓										
Personal discussions				✓		When required	Displayed in the workplace	✓	✓	✓	✓							
Posters	✓					Continually available	On request	✓			✓							
Employers Guide		✓				Annually	Annually					✓						

Communication Type	Paper Based	Website	Intranet	Face to face	Electronic	Frequency of issue	Communication method	Active member	Deferred member	Pensioner	Prospective members	Employers	Union Reps	Pension fund committee	Pension Board	Residents and taxpayers	Media	Other stakeholders
Employers meetings				✓		Annually	Notifications sent					✓						
Briefing papers	✓				✓	When required	Within Committee papers dispatch							✓	✓			
Committee Reports	✓				✓	With the committee cycle	Within Committee papers dispatch							✓	✓			
Training and Development				✓	✓	Available and/or as when requested	On request	✓			✓			✓	✓			
Press releases					✓	As required	Email										✓	
Other employers joining the fund					✓	As required	Email											✓
Pension disputes IDRP					✓	As required	Email											✓
Statutory returns and questionnaires					✓	As required	Email							✓	✓			✓

4. DETAILS OF WHAT IS COMMUNICATED

Joiner information with Scheme details

A document providing an overview of the LGPS, including who can join, the contribution rates, the retirement and death benefits and how to increase the value of benefits.

Newsletters

An annual newsletter which provides updates on changes to the LGPS as well as other related news, such as national changes to pensions regulations, forthcoming roadshows and contact details.

Fund Report and Accounts

Details of the value of the Pension Fund during the financial year, income and expenditure etc.

Annual Benefit Statements

For active members these include the value of current and projected benefits. The associated death benefits are also shown along with details of any individuals nominated to receive the lump sum death grant.

In relation to deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well as the associated death benefits.

Factsheets

Information that provides a summary in relation to specific topics, such as topping up pension rights, transfer values in and out of the scheme, death benefits and, for pensioners, annual pensions increases.

Roadshows

As required a representative from SCC and/or the Retained Team will visit a particular location to provide a presentation on a particular topic of interest.

Face to face/personal discussions.

Face to face discussions with a representative from SCC and/or the Retained Team to discuss personal circumstances.

Posters

These are to engage with staff that are not in the LGPS, to help them to understand the benefits of participating in the scheme and to provide guidance on how to join.

Employers' Guide

A detailed guide that provides guidance on the employer responsibilities including the forms and other necessary communications.

Employers meeting

A seminar style event with a number of speakers covering topical LGPS issues.

Briefing papers

Formal briefings that highlight key issues or developments relating to the LGPS and the Fund, these are used by senior managers when attending committee meetings.

Committee papers

Formal documents setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

Training and Development.

Pension issues are included in appropriate training and development events – specific pension training and development events are run at significant times such as when the scheme changes.

Press releases

Bulletins providing briefing commentary on LBHF's opinion on various matters relating to the Pension Fund, for example. the actuarial valuation results.

Other employers joining the fund

A legal requirement to notify both organisations of the name and type of employer entered into the Fund (e.g. following the admission of third party service providers into the scheme).

Pension disputes IDRP

Formal notification of pension dispute resolutions to the complainant, together with any additional correspondence relating to the dispute.

Statutory returns and questionnaires

Statutory and various questionnaires that are received, requesting specific information in relation to the structure of the LBHF fund or the composition of the Fund.

Communication Policy (continued)

FURTHER INFORMATION

If you need more information about the Scheme you should contact Surrey County Council at the following address:

Surrey County Council

Pension Services (LBHF Team)
Surrey County Council
Room G59, County Hall
Penrhyn Road
Kingston upon Thames
Surrey KT1 2DN
Email: *myhelpdeskpensions@surreycc.gov.uk*

General enquiries and complaints:
Helpdesk: 0208 231 2802
General enquiries and complaints: 0208 541 9293

RETAINED HR TEAM

Maria Bailey
Pensions Manager
Royal Borough of Kensington and Chelsea,
Town Hall,
Hornton Street,
London
W8 7NX

Email: Maria.Bailey@rbkc.gov.uk
Phone: 0207 361 2333

Appendix 3. Funding Strategy Statement

1. PURPOSE OF THE FUNDING STRATEGY STATEMENT

1.1 The purpose of this Funding Strategy Statement is to explain the funding objectives of the London Borough of Hammersmith and Fulham Pension Fund (the "Fund") and in particular:

- How the costs of the benefits provided under the Local Government Pension Scheme (the "Scheme") are met though the Fund in a prudent way;
- The objectives in setting employer contribution rates and the desirability of maintaining stability in the primary contribution rate; and
- Ensuring that the regulatory requirements to set contributions that will maintain the solvency and long-term cost-efficiency of the Fund are met.

2. AIMS AND PURPOSE OF THE FUND

2.1 The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible; and
- Seek returns on investment within reasonable risk parameters.

2.2 The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits under the Regulations;
- Meet the costs associated in administering the Fund;
- Receive monies in respect of contributions, transfer values and investment income.

3. RESPONSIBILITIES OF KEY PARTIES

3.1 The key parties involved in the funding process and their responsibilities are as follows:

The Administering Authority

3.2 The Administering Authority for the Pension Fund is the London Borough of Hammersmith and Fulham. The main responsibilities of the Administering Authority are:

- Operate a pension fund
- Collect employee and employer contributions investment income and other amounts due to the Fund, as stipulated in the LGPS Regulations;
- Invest the Fund's assets in accordance with the LGPS regulations;
- Pay the benefits due to Scheme members; as stipulated by the LGPS regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS, the SIP and ISS after consultation with other interested parties; and
- Monitor all aspects of the Fund's performance and funding, amending the FSS and ISS accordingly;
- Manage any potential conflicts of interest arising from the Borough's dual role as scheme employer and fund administrator
- Enable the pension board to review the valuation process as set out in their terms of reference.

Individual Employers

3.3 In addition to the Administering Authority, various scheduled and admitted bodies participate in the Fund.

The responsibilities of each individual employer that participates in the Fund, including the administering authority, are to:

- Deduct contributions from employees' salaries correctly and pay these, together with their own employer contributions as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of all changes in Scheme membership and any other membership changes promptly;
- Exercise any discretions permitted under the Regulations; and
- Meet the costs of any augmentations or other additional costs, such as early retirement strain, in accordance with agreed policies and procedures.

The Fund Actuary

3.4 The Pension Fund's Actuary is Barnett Waddingham LLP. Their main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency, after agreeing assumptions with the administering authority and having regard to the FSS and the LGPS regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit related matters, such as pension strain costs, ill health retirement costs, compensatory added years costs, etc.;
- Provide advice and valuations on the exiting of employers from the Fund;
- Advise the administering authority on Bonds and other forms of security against the financial effect on the Fund of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations, as permitted or required by the regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements that may be of relevance to the administrator's role in advising the fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

4. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

4.1 Given the statutory position of the LGPS administering authorities and the tax-backed nature of employing authorities who make up the core of the Scheme and the statutory basis of the Scheme, the LGPS remains outside the solvency arrangements established for private sector occupational pension schemes.

4.2 LGPS regulations require each administering authority to secure fund solvency and long-term cost efficiency by means of employer contribution rates established by mandatory valuation exercises.

4.3 Maintaining as nearly a constant a primary employer contribution rate is a desirable outcome, but not a regulatory requirement. It is for LGPS administering authorities to seek to achieve a balance between the objectives in a prudent manner.

4.4 Solvency is defined as meaning that the rate of employer contributions should be set at such a level as to ensure that the scheme's liabilities can be met as they arise. This does not mean that the Fund should always be 100% funded, but that the rate of employer contributions should be set to target a funding level for the whole fund of 100% over an appropriate time period and using an appropriate set of actuarial assumptions.

4.5 Employers should collectively have the financial capacity to increase employer contributions and/or the Fund should be able to realise contingent assets if future circumstances require, in order to continue to target a funding level of 100%. If these conditions are met, it is anticipated that the Fund will be able to pay scheme benefits as they fall due.

4.6 The rate of employer contributions shall be deemed to be set at an appropriate level to ensure long-term cost efficiency, if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to the rate for any surplus or deficit in the Fund. The Government Actuary's Department (GAD) will assess whether this condition is met.

5. PRIMARY RATE OF THE EMPLOYERS' CONTRIBUTION

5.1 The primary rate for each employer is that employer's future service contribution rate which is the contribution rate required to meet the cost of the future accrual of benefits, expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any specific employer circumstances.

5.2 The primary rate for the whole Fund is the weighted average, by payroll, of the individual employers' primary rates.

5.3 The secondary rate of the employer's contribution is an adjustment to the primary rate to arrive at the rate each employer is required to pay. It may be expressed either as a percentage adjustment to the primary rate and/or as a cash adjustment for each of the three years of the inter-valuation period. This will be set out in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the primary and secondary rates.

5.4 The actuary should disclose the secondary rates for the whole scheme in each of the three inter-valuation years. These should be calculated as a weighted average based on the whole scheme payroll. The purpose of this is to facilitate a single net rate of contributions expected to be received over each of the three years that can be readily compared with other rates and reconciled with actual receipts.

6. SOLVENCY ISSUES AND NON-LOCAL AUTHORITY EMPLOYERS

6.1 The number and type of non-local government bodies operating within the LGPS has grown considerably since 2004, when Funding Strategy Statements were first introduced. There are now many more private sector contractors, companies spun off from local authorities and academies which have employees who continue to qualify for membership by dint of transferred rights under the TUPE regulations. Employees in academies qualify for the scheme because of academies' scheduled body status. Key issues are:

- The need to set appropriate employer contribution levels and deficit recovery periods for these employers which do not have tax-raising powers and therefore have weaker covenants than local authorities;
- The underlying investment strategy of the assets backing the liabilities of these employers;
- The financial standing of those employers (or their parent companies or guarantors) and their ability to meet the cost of current membership, fund any deficit and ability to ensure against default;
- The long-term and short-term effects of high contribution rates on non-local authority employers in terms of their financial viability.

6.2 In the interests of transparency, the FSS should clearly set out the risk assessment methodology to assess the long-term financial health of employers and how this will be monitored. This is undertaken by:

- Having the correct Risk Assessments made when new Admitted and Scheduled bodies join the fund and security via a bond is requested;
- Admitted and Scheduled bodies being consulted on Triennial revaluation rates; and
- Pension contributions being monitored "in year" to ensure Admitted and Scheduled bodies are making the required payments.

7. VALUATION ASSUMPTIONS AND FUNDING MODEL

7.1 In completing the actuarial valuation, it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

7.2 The assumptions adopted at the valuation can therefore be considered as:

- The statistical assumptions which are essentially estimates of the likelihood of benefits and contributions being paid; and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current or present value.

Future Price Inflation

7.3 The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (or "RPI").

Future Pay Inflation

7.4 As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay inflation. Historically, there has been a close link between price and pay inflation with pay increases exceeding price inflation in the longer term. However, in recent years, this model has broken down due to pay freezes in the public sector and continuing restraint to restrict salary growth across many sectors.

Future Pension Increases

7.5 Pension increases are linked to changes in the level of the Consumer Price Index (or "CPI"). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. An adjustment is therefore made to the RPI assumption to derive the CPI assumption.

Future Investment Returns/Discount Rate

7.6 To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

7.7 The discount rate that is adopted will depend on the funding target adopted for each employer.

7.8 For open employers, the discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "on-going" discount rate.

7.9 For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected "termination date"), the employer either wishes to leave the Fund, or the terms of their admission require it.

7.10 The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.

7.11 The adjustment to the discount rate for closed employers is to set a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a "minimum risk" rather than on an on-going basis. The aim is to minimise the risk of deficits arising after the termination date.

Asset Valuation

7.12 For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date.

Statistical Assumptions

8.13 The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

8. DEFICIT RECOVERY/SURPLUS AMORTISATION PERIODS

8.1 Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly, the Fund will normally either be in surplus or in deficit.

8.2 Where the actuarial valuation discloses a significant surplus or deficit then the levels of required employers' contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.

8.3 The period that is adopted for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer and any limited period of participation in the Fund; and
- The implications in terms of stability of future levels of employers' contribution.

9. POOLING OF INDIVIDUAL EMPLOYERS

9.1 The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

9.2 However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small. This is the reason for pooling academies within the Fund.

9.3 The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst, recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

10. CESSATION VALUATIONS

10.1 On the cessation of an employer's participation in the Scheme, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.

10.2 In assessing the deficit on termination, the Fund Actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous valuation in order to protect the other employers in the Fund from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

11. LINKS WITH THE INVESTMENT STRATEGY STATEMENT

11.1 The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the underlying investment strategy as set out in the ISS.

11.2 As explained above, the on-going discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the underlying investment strategy. This ensures consistency between the funding strategy and investment strategy.

12. RISKS AND COUNTERMEASURES

12.1 Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

12.2 The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

13. FINANCIAL RISKS

13.1 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

13.2 The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5% per annum in the real discount rate will decrease/increase the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll.

13.3 However, the Pensions Sub-committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

13.4 The Pensions Sub-committee may also seek advice from the Fund Actuary on valuation related matters.

13.5 In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

14. DEMOGRAPHIC RISKS

14.1 Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will reduce the funding level by between 0.5 to 1%.

14.2 The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

14.3 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.

14.4 However, the Administering Authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

15. REGULATORY RISKS

15.1 The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by central government.

15.2 The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

15.3 However, the Administering Authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

16. GOVERNANCE

16.1 Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

16.2 However, the Administering Authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

16.3 In addition, the Administering Authority keeps in close touch with all individual employers participating in the Fund to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

Funding Strategy Statement (continued)

17. MONITORING AND REVIEW

17.1 This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

17.2 The Administering Authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

Investment Strategy Statement

1. PURPOSE OF THE FUNDING STRATEGY STATEMENT

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

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

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

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

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

We deal with each of these in turn below.

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

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

- To make all decisions under Regulations made pursuant to Sections 7, 12 or 24 of the Superannuation Act not otherwise falling to the Director of Finance to determine as set out in the officers' scheme of delegation.
- Consideration and approval of the authority statement of accounts in accordance with the relevant Accounts & Audit Regulations made from time to time.
- The Committee shall be a member of the Local Authority Pension Fund Forum. The role of the Pensions Sub-Committee is to have responsibility for all aspects of the investment and other management activity of the Fund:
- To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the Investment Consultant.
- To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable;
- To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Actuary, Custodians and Fund Advisers.
- To agree the ISS, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and to ensure compliance with these.
- To approve the final statement of accounts of the Fund and to approve the Annual Report.
- To receive actuarial valuations of the Fund regarding the level of employers' contributions necessary to balance the Fund.

- To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of the Council for the payment of pensions, and allowances to beneficiaries.
- To make and review an admission policy relating to admission agreements generally with any admission body.
- To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
- To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
- To receive and consider the Auditor's report on the governance of the Fund.
- To determine any other investment or pension fund policies that may be required from time to time so as to comply with Government regulations and to make any decisions in accordance with those policies.

The Pension Sub-Committee has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes
- Appointing the investment managers, an independent custodian, the actuary, the investment advisor(s) and any other external consultants considered necessary
- Reviewing on a regular basis the investment managers' performance against benchmarks, portfolio risk and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls
- Monitoring compliance with the ISS & Funding Strategy Statement (FSS) and reviewing its contents
- Reviewing social, environmental and ethical considerations policies, and the exercise of voting rights

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

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

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

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

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

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

- Exposure to a diverse range of sources of return, such as market, manager skill and through the use of less liquid holdings.
- Diversity in the asset classes used.
- Diversity in the approaches to the management of the underlying assets.

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

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

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

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

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

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

3.1 When assessing the suitability of investments, the Fund considers a number of factors:

- Prospective return
- Risk
- Concentration
- Risk management qualities the asset has, when the portfolio as a whole is considered
- Geographic and currency exposures
- Whether the management of the asset meets the Fund's ESG criteria

3.2 Suitability is a critical test for whether or not a particular investment should be made. Each of the Fund's investments has an individual performance benchmark which their reported performance is measured against

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

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

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

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

4.2 Geopolitical and currency risk:

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

4.3 **Manager risk:**

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

4.4 **Solvency and mismatching risk**

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

4.5 **Liquidity risk:**

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

4.6 **Custodial risk:**

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

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

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

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

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

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

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

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

Investment Strategy Statement (continued)

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

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

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

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

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

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

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

5.3 The Fund has already transitioned assets into the London CIV with a value of £625.8m or 59.7% of the assets and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

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

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

5.6 The Fund holds £76.4m or 7.3% of the Fund held in illiquid assets and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

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

Investment Strategy Statement (continued)

	Available on the London CIV	Transferred £m
Global Equities		
Majedie	Yes	125.2
UK Equities		
LGIM	Contract negotiated on behalf of LCIV clients	374.0
Multi Asset		
Ruffer	Yes	126.6
Fixed Income	No	
Partner Group –		
Multi-Asset Credit		
M&G Inflation Opportunities		
Oak Hill Advisors		
Infrastructure	No	
Aviva Investors		
Partners Group		
Long Lease Property	No	
Aberdeen Standard		

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

6. OBJECTIVE 7.2 (E)

HOW SOCIAL, ENVIRONMENTAL OR CORPORATE GOVERNANCE CONSIDERATIONS ARE TAKEN INTO ACCOUNT IN THE SELECTION, NON-SELECTION, RETENTION AND REALISATION OF INVESTMENTS

6.1 The Fund recognises that the neglect of corporate governance and corporate social responsibility may lead to poor or reduced shareholder returns. The Pensions Sub-Committee has considered how the Fund may best implement a corporate social responsibility policy, given the current resources available to the Fund. Accordingly, the Pensions Sub-Committee has delegated social, environmental and ethical policy to the investment managers, but also approved a Governance Strategy. The Pensions Sub-Committee believes this is the most efficient approach whilst ensuring the implementation of policy by each manager is consistent with current best practice and there is appropriate disclosure and reporting of actions taken. To that extent, the Pensions Sub-Committee maintains a policy of non-interference with the day-to-day decision making of the investment managers

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Strategy Statement (continued)

8. FEEDBACK ON THIS STATEMENT

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

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Investment Strategy Statement: Appendix A

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

DECISION MAKING

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

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

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

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

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

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

PRINCIPLE 1 – EFFECTIVE DECISION MAKING

Administrating authorities should ensure that:

- Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- Those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Full Compliance

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

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

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

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

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

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

PRINCIPLE 2 – CLEAR OBJECTIVES

An overall investment objective(s) should be set for the Fund that takes account of the pension liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Full Compliance

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

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

The Fund's strategy is regularly reviewed.

PRINCIPLE 3 – RISK AND LIABILITIES

In setting and reviewing their investment strategy, administrating authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Full Compliance

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

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

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

PRINCIPLE 4 – PERFORMANCE ASSESSMENT

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

Full Compliance

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

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

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

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

PRINCIPLE 5 – RESPONSIBLE OWNERSHIP

Administering authorities should:

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

Full Compliance

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

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

The ISS is publicly available to all scheme members.

PRINCIPLE 6 – TRANSPARENCY AND REPORTING

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives.
- Provide regular communications to scheme members in the form they consider most appropriate

Full Compliance

Links to the Governance Compliance Statement, the ISS, the FSS, the SRI Policy and the Communications Statement are all included in the Pensions Fund Annual Report which is published and is accessible to stakeholders of the Fund on the Council's web site, internal intranet and a website developed specifically for the Fund.

All Pensions Sub-Committee meetings are open to members of the public and agendas and minutes are published on the Council's website and internal intranet. The Fund's Annual Report includes an assessment of the Fund's performance and an extract from the accounts is sent to stakeholders annually.

Investment Strategy Statement: Appendix B

INVESTMENT AND ADMINISTRATION RISK REGISTER

London Borough of Hammersmith & Fulham Pension Fund Risk Register – Investment Risk Register							
Risk Group	Risk Description	Impact Total	Likelihood	Total Risk Score	Mitigation Actions	Revised Likelihood	Net Risk Score
Governance	That the London Collective Investment Vehicle (LCIV) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious.	12	3	**36**	TREAT - 1) Partners for the pool have similar expertise and like-mindedness of the officers and members involved with the fund, ensuring compliance with the pooling requirements. Ensure that ongoing fund and pool proposals are comprehensive and meet government objectives. Member presence on Shareholder Committee and officer groups.	2	**24**
Funding	Scheme members live longer than expected leading to higher than expected liabilities.	11	3	**33**	TREAT – 1) The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is going down	2	**22**
Funding	Transfers out of the scheme increase significantly due to members transferring their pensions to DC funds to access cash through new pension freedoms.	10	2	**20**	TOLERATE - Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. Evidence has shown that members have not been transferring out of the CARE scheme at the previously anticipated rate due to uncertainty in the economic environment	2	**20**
Funding	Employee pay increases are significantly more than anticipated for employers within the Fund.	10	3	30	TREAT - 1) Fund employers should monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer specific assumptions above the actuary’s long-term assumption would lead to further review. 3) Employers to made aware of generic impact that salary increases can have upon the final salary linked elements of LGPS benefits (accrued benefits before 1 April 2014).	2	20

Investment	Significant volatility and negative sentiment in global investment markets following disruptive politically uncertainty caused by the trade war been the US and China	10	3	30	TREAT- 1) Continued dialogue with investment managers re management of political risk in global developed markets. 2) Investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will follow post actuarial 2019 valuation.	2	20
Funding	Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 1.7%	10	3	30	TREAT- 1) The fund holds investment in index-linked bonds (RPI protection which is higher than CPI) and other real assets to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection.	2	20
Funding	Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	10	2	20	TOLERATE - 1) Political power required to effect the change.	2	20
Investment	Investment managers fail to achieve outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.1m.	9	3	27	TREAT- 1) The Investment Management Agreements (IMAs)clearly state WCC's expectations in terms of investment performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee should be positioned to move quickly if it is felt that targets will not be achieved. 4) Portfolio rebalancing is considered on a regular basis by the Pension Fund Committee. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.	2	18
Investment	Volatility caused by uncertainty regarding the withdrawal of the UK from the European Union, with the likelihood of a no-deal exit increasing	9	3	27	TREAT- 1) Officers to consult and engage with advisors and investment managers. 2) Future possibility of looking at move from UK to Global benchmarks on UK Equities and UK Property. 3) Possibility of hedging currency and equity index movements.	2	18
Investment	Increased risk to global economic stability likely to lead to heightened uncertainty and deterioration in economic outlook in advanced economies. This would setback growth and confidence leading to tightened financial conditions, reduced risk appetite and raised credit risks.	8	3	24	TREAT- 1) Increased vigilance and continued dialogue with managers as to events on and over the horizon. 2) Continued investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will follow post actuarial 2019 valuation.	2	16

Funding	Impact of economic and political decisions on the Pension Fund's employer workforce.	8	2	16	TOLERATE - 1) Barnet Waddingham uses prudent assumptions on future of employees within workforce. Employer responsibility to flag up potential for major bulk transfers outside of the Westminster Fund. The potential for a significant reduction in the workforce as a result of the public sector financial pressures may have a future impact on the Fund. 2) Need to make prudent assumptions about diminishing workforce when carrying out the triennial actuarial valuation.	2	16
Governance	London CIV has inadequate resources to monitor and implement the investment strategy and are unable to address underachieving fund managers.	8	3	24	TOLERATE - 1) Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV. 2) LCIV have recently appointed a new permanent CEO and CIO who will be key in shaping the pool's investment strategy	2	16
Operational	Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non-compliant process	7	2	14	TOLERATE - Ensure that assessment criteria remain robust and that full feedback is given at all stages of the procurement process.	2	14
Funding	Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	7	2	14	TOLERATE - Review "budgets" at each triennial valuation and challenge actuary as required. Charge capital cost of ill health retirements to admitted bodies at the time of occurring. Occupational health services provided by the Council and other large employers to address potential ill health issues early.	2	14
Funding	Impact of increases to employer contributions following the actuarial valuation	13	2	26	TREAT- 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.	1	13
Governance	Changes to LGPS Regulations	6	3	18	TREAT - 1) Fundamental change to LGPS Regulations implemented from 1 April 2014 (change from final salary to CARE scheme). 2) Future impacts on employer contributions and cash flows will considered during the 2016 actuarial valuation process. 3) Fund will respond to ongoing consultation processes. 4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored. Impact of Regulations 8 (compulsory pooling) to be monitored.	2	12

Governance	Failure to make difficult decisions inhibits effective Fund management	12	2	24	TREAT-1) Officers ensure that governance process encourages decision making on objective empirical evidence rather than emotion. Officers ensure that the basis of decision making is grounded in the Investment Strategy Statement (ISS), Funding Strategy Statement (/FSS), Governance policy statement and Committee Terms of Reference and that appropriate advice from experts is sought	1	12
Investment	Failure to keep up with the pace of change regarding economic, policy, market and technology trends relating to climate change	6	3	18	TREAT- 1) Officers regularly receive updates on the latest ESG policy developments from the fund managers. 2) The Pensions Fund is a member of the Local Authority Pension Fund Forum which engages with companies on a variety of ESG issues including climate change	2	12
Governance	Failure by the audit committee to perform its governance, assurance and risk management duties	6	3	18	TREAT- 1) Audit Committee performs a statutory requirement for the Pension Fund with the Pension Sub-Committee being a sub-committee of the audit committee. 2) Audit Committee meets regularly where governance issues are regularly tabled.	2	12
Governance	Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales	6	3	18	TREAT- 1) Officers consult and engage with MHCLG, LGPS Scheme Advisory Board, advisors, consultants, peers, various seminars and conferences. 2) Officers engage in early planning for implementation against agreed deadlines.	2	12
Funding	There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	11	2	22	TREAT - 1) Cashflow forecast maintained and monitored. Cashflow position reported to sub-committee quarterly. 2) The Fund receives quarterly distributions from some of its investments to help meet its pensions obligations.	1	11
Funding	Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy	11	2	22	TREAT- 1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants. 2) Investment strategy review is currently underway with an approved switch from equities to fixed income. 3) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 4) Fund manager targets set and based on market benchmarks or absolute return measures. Overall investment benchmark and out-performance target is fund specific.	1	11
Governance	Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	11	2	22	TREAT - Officers maintain knowledge of legal framework for routine decisions. Eversheds retained for consultation on non-routine matters.	1	11

Financial	Financial loss of cash investments from fraudulent activity	11	2	22	TREAT - 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Strong governance arrangements and internal control are in place in respect of the Pension Fund. Internal Audit assist in the implementation of strong internal controls. Fund Managers must provide annual SSAE16 and ISAE3402 or similar documentation (statement of internal controls).	1	11
Operational	Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation.	11	2	22	TREAT - 1) Data encryption technology is in place which allow the secure transmission of data to external service providers. 2) Phasing out of holding records via paper files. 3) Pensions Admin (Surrey County Council) manual records are locked daily in a secure safe. 4) WCC IT data security policy adhered to.	1	11
Funding	Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	11	2	22	TREAT - Transferee admission bodies required to have bonds in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds.	1	11
Operational	Inaccurate information in public domain leads to damage to reputation and loss of confidence	5	3	15	TREAT – 1) Ensure that all requests for information (Freedom of Information, member and public questions at Council, etc) are managed appropriately and that Part 2 Exempt items remain so. 2) Maintain constructive relationships with employer bodies to ensure that news is well managed.	2	10
Governance	Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	10	2	20	TREAT - At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. Committee and officers scrutinise, and challenge advice provided.	1	10
Operational	Financial failure of third-party supplier results in service impairment and financial loss	10	2	20	TREAT - 1) Performance of third parties (other than fund managers) regularly monitored. 2) Regular meetings and conversations with global custodian (Northern Trust) take place. 3) Actuarial and investment consultancies are provided by two different providers.	1	10
Governance	Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	5	4	20	TREAT - 1) Succession planning process in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer.	2	10
Investment	Failure of global custodian or counterparty.	10	10	20	TREAT - At time of appointment, ensure assets are separately registered and segregated by owner. Review of internal control reports on an annual basis. Credit rating kept under review.	1	10

Operational	Financial failure of a fund manager leads to value reduction, increased costs and impairment	10	2	20	TREAT - 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on LGIM as transition manager. 4) Fund has the services of the London Collective Investment Vehicle (LCIV).	1	10
Investment	Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers.	10	2	20	TREAT - 1) Proportion of total asset allocation made up of equities, bonds, property funds and fixed income, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal risk asset allocation. 3) Actuarial valuation and strategy review take place every three years post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance is regarded as achievable over the long term when compared with historical data.	1	10
Governance	Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves	10	2	20	TREAT - Person specifications are used at recruitment to appoint officers with relevant skills and experience. Training plans are in place for all officers as part of the performance appraisal arrangements. Shared service nature of the pensions team provides resilience and sharing of knowledge.	1	10
Governance	Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests	10	2	20	TREAT - 1) Publication of all documents on external website. 2) Managers expected to comply with ISS and investment manager agreements. 3) Local Pension Board is an independent scrutiny and assistance function. 4) Annual audit reviews.	1	10
Funding	Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	9	2	18	TREAT - Review maturity of scheme at each triennial valuation. Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. Cashflow position monitored monthly.	1	9
Governance	Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	9	2	18	TREAT - External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval)	1	9

Operational	Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage.	9	2	18	TREAT-1) Review ISS in relation to published best practice (e.g. Stewardship Code) 2) The Fund currently holds investments in the MSCI Low Carbon and Aviva Renewables Infrastructure Fund ISS. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors.	1	9
Financial	Inaccurate cash flow forecasts or drawdown payments lead to shortfalls on cash levels and borrowing becomes necessary to ensure that funds are available	9	2	18	TREAT - 1) Borrowing limits with banks are set at levels that are more than adequate should cash be required at short notice. 2) Cashflow analysis of pension fund undertaken at regular intervals.	1	9
Regulation	Loss of flexibility to engage with Fund Managers that the fund has not ‘opted up’ regarding new products, resulting in reduced knowledge about investment opportunities that may benefit the fund. (The Fund is a retail client to counterparties unless opted up)	9	2	18	TREAT - More reliance on investment advisor to keep Officers and Committee updated. Officers are considering other financial institution outside of the current mandates to ‘opt up’ with. Maintaining up to date information about the fund on relevant platforms. Fund can opt up with prospective clients.	1	9
Governance	Failure to comply with recommendations from the Local Pension Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	9	2	18	TREAT - 1) Ensure that an cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	9
Regulation	Loss of 'Elective Professional Status’ with any or all of existing Fund managers and counterparties resulting in reclassification of fund from professional to retail client status impacting Fund’s investment options.	8	2	16	TREAT - Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. There is a training programme and log in place to ensure knowledge and understanding is kept up to date. Existing and new Officer appointments subject to requirements for professional qualifications and CPD.	1	8
Funding	The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	7	2	14	TREAT - Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	1	7

Regulation	Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	7	2	14	TREAT - Maintain links with central government and national bodies to keep abreast of national issues. Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	7

London Borough of Hammersmith & Fulham Pension Fund Risk Register – Administration Risk							
Risk Group	Risk Description	Impact Total	Likelihood	Total Risk Score	Mitigation Actions	Revised Likelihood	Net Risk Score
Admin	Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond placement.	9	3	**27**	TREAT 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers planned to be part of 2019 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.	2	**18**
Admin	Concentration of knowledge in a small number of officers and risk of departure of key staff.	7	3	**21**	TREAT 1) Practice notes in place. 2) Development of team members and succession planning improvements to be implemented. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.	2	**14**
Admin	Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions.	11	2	**22**	TREAT 1) Update and enforce admin strategy to assure employer reporting compliance. 2) Implementation and monitoring of a Data Improvement Plan as part of the Service Specification between the Fund and Orbis. TOLERATE 1) Northern Trust provides 3rd party validation of performance and valuation data. Admin team and members are able to interrogate data to ensure accuracy.	1	**11**
Admin	Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	10	2	**20**	TREAT 1) Third parties regulated by the FCA and separation of duties and independent reconciliation processes are in place. 2) Review of third-party internal control reports. 3) Regular reconciliations of pensions payments undertaken by Pension Finance Team. 4) Periodic internal audits of Pensions Finance and HR Teams.	1	**10**

Admin	Failure of fund manager or other service provider without notice resulting in a period without the service being provided or an alternative needing to be quickly identified and put in place.	9	2	**18**	TREAT 1) Contract monitoring in place with all providers. 2) Procurement team send alerts whenever credit scoring for any provider changes for follow up action.	1	**9**
Admin	Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation.	8	2	**16**	TREAT 1) The Fund has generally good internal controls with regard to the management of the Fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches.	1	**8**
Admin	Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	8	2	**16**	TREAT 1) Contract in place with HCC to provide service, enabling smooth processing of supplier payments. 2) Process in place for Surrey CC to generate lump sum payments to members as they are due. 3) Officers undertaking additional testing and reconciliation work to verify accounting transactions.	1	**8**
Admin	Inability to respond to a significant event leads to prolonged service disruption and damage to reputation.	8	2	**16**	TREAT 1) Disaster recovery plan in place as part of the Service Specification between the Fund and Surrey County Council 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance.	1	**8**
Admin	Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	7	2	**14**	TREAT 1) In the event of a pension payroll failure, we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers.	1	**7**
Admin	Failure to pay pension benefits accurately leading to under or over payments.	6	2	**12**	TREAT 1) There are occasional circumstances where under/over payments are identified. Where underpayments occur, arrears are paid as soon as possible, usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted, and the pension corrected in the next month. Repayment is requested and sometimes we collect this over a number of months.	1	**6**

Admin	Bank reconciliations no longer carried out by BT. Income processing from the bank has been brought in house. HCC have agreed a new process of allocating income on to the ledger, however a steep learning curve still exists leading to misallocations and delay in the clearance of the suspense account.	6	2	**12**	TREAT 1) Pensions team to continue to work closely with staff at HCC to smooth over any teething problems relating to the newly agreed process	1	**6**
Admin	Administrators do not have enough staff or skills to manage the service leading to poor performance and complaints.	6	2	**12**	TOLERATE 1) Surrey CC administers pensions for Surrey, East Sussex, LB Hillingdon and the Tri-Borough. Service has been excellent since this change was made.	1	**6**
Admin	Unstructured training leads to under developed workforce resulting in inefficiency.	6	2	**12**	TREAT 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and Surrey County Council.	1	**6**
Admin	Failure to identify GMP liability leads to ongoing costs for the pension fund.	6	2	**12**	TREAT 1) GMP to be identified as a Project as part of the Service Specification between the Fund and Surrey County Council.	1	**6**
Admin	Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	3	3	**9**	TREAT 1) Pension administration records are stored on the Surrey CC servers who have a disaster recovery system in place and records should be restored within 24 hours of any issue, All files are backed up daily.	2	**6**
Admin	BT contract wind down could lead to problems for retirements in 18/19 where data is on two different systems. All returns must be completed prior to BT contract ceasing. The move to Hampshire CC due in December 2018 and ensuring that key working practices continue such as the pension interface will be a Key to reduce risks to members.	5	2	**10**	TREAT 1) The Bi-borough HR team are working with HCC and BT to ensure service transfer is smooth as possible. 2) 2018/19 LGPS files to be checked by the Bi-borough in June 2019.	1	**5**
Admin	Lack of guidance and process notes leads to inefficiency and errors.	5	2	**10**	TREAT 1) The team will continue to ensure process notes are updated and circulated amongst colleagues in the Pension Fund and Administration teams.	1	**5**

Admin	Lack of productivity leads to impaired performance.	5	2	**10**	TREAT 1) Regular appraisals with focused objectives for pension fund and admin staff.	1	**5**
Admin	Rise in ill health retirements impact employer organisations.	5	2	**10**	TREAT 1) Engage with actuary re assumptions in contribution rates.	1	**5**
Admin	Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs.	5	2	**10**	TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations.	1	**5**
Admin	Poor reconciliation process leads to incorrect contributions.	4	2	**8**	TREAT 1) Ensure reconciliation process notes are understood by Pension Fund team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process.	1	**4**

Agenda Item 5

London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 23 July 2019	h&f hammersmith & fulham
TREASURY OUTTURN REPORT 2018/19	
Report of the Cabinet Member for Finance and Commercial Services – Councillor Max Schmid	
Open report	
Classification: For Information **Key Decision: No**	
Wards Affected: All	
Accountable Director: Hitesh Jolapara, Strategic Director of Finance and Governance	
Report Author: Patrick Rowe, Acting Treasury Manager	**Contact Details:** E-mail: prowe@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1. The purpose of this report is to:

- present the Council's annual Treasury Management Outturn report for 2018/19 in accordance with the Council's treasury management practices. It is a regulatory requirement for this outturn report to be presented to Council by the 30 September of each year.

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 31 March 2019;

- ➢ a review of the Council's borrowing strategy for 2018/19;
- ➢ a review of compliance with Treasury and Prudential Limits for year to 2018/19.
- ➢ an economic update for 2018/19.

1.4 During 2018/19, the Council has complied with all elements of the Treasury Management Strategy Statement (TMSS).

2. RECOMMENDATIONS

2.1. That this report be noted.

3. INTRODUCTION AND BACKGROUND

3.1. Treasury management in this context is defined as:

The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.[1]

3.2. This annual treasury report covers:

- the treasury position as at 31 March 2019;
- the borrowing strategy for 2018/19;
- the borrowing outturn for 2018/19;
- compliance with treasury limits and prudential indicators;
- investment strategy for 2018/19; and
- investment outturn for 2018/19.

4. TREASURY POSITION AT YEAR END

4.1. The Council's debt, all held with the Public Works Loan Board (PWLB), and investment positions at the beginning and end of the year were as follows:

	31 March 2019 (£m)	Rate (%)	31 March 2018 (£m)	Rate (%)
General Fund (GF)	36.36	4.77	37.14	4.89
Housing Revenue Account (HRA)	176.48	4.77	180.27	4.89
Total Borrowing	**212.84**	**4.77**	**217.41**	**4.89**
Total Cash Invested	326.40	0.95	339.35	0.53
Net Cash Invested	**113.56**		**121.94**	

4.2. The table below shows the allocation of interest paid and received during the year:

[1] Treasury Management Policy Statement adopted by Cabinet on the 31 January 2012 and continues to be adhered too.

	Interest Paid £m	Interest Received £m	Net £m
General Fund (GF)	1.73	-1.77	-0.04
Housing Revenue Account (HRA)	8.76	-0.34	8.42
Other*	-	-0.33	-0.33
Total	10.49	-2.44	8.05

* Other – Interest paid on balances held for Section 106 and other deposits.

4.3. Following the implementation of the self-financing initiative for housing, the Housing Revenue Account (HRA) is responsible for servicing 83.5% of the Council's external debt and the General Fund is responsible for the remaining 16.5%.

4.4. The table below shows the split of investments by duration as at 31 March 2019:

Maturity Period	Call (£m)	Fixed (£m)	MMF (£m)	Total (£m)
Liquidity	56.00		57.90	113.90
< 1 Month		5.00		5.00
1 – 3 Months		13.00		13.00
3 – 6 Months		45.00		45.00
6 – 12 Months		132.50		132.50
1 – 3 Years		17.00		17.00
Total	56.00	212.50	57.90	326.40

The Treasury Management Strategy for 2018/19

4.5. The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by the Council on 21 February 2018.

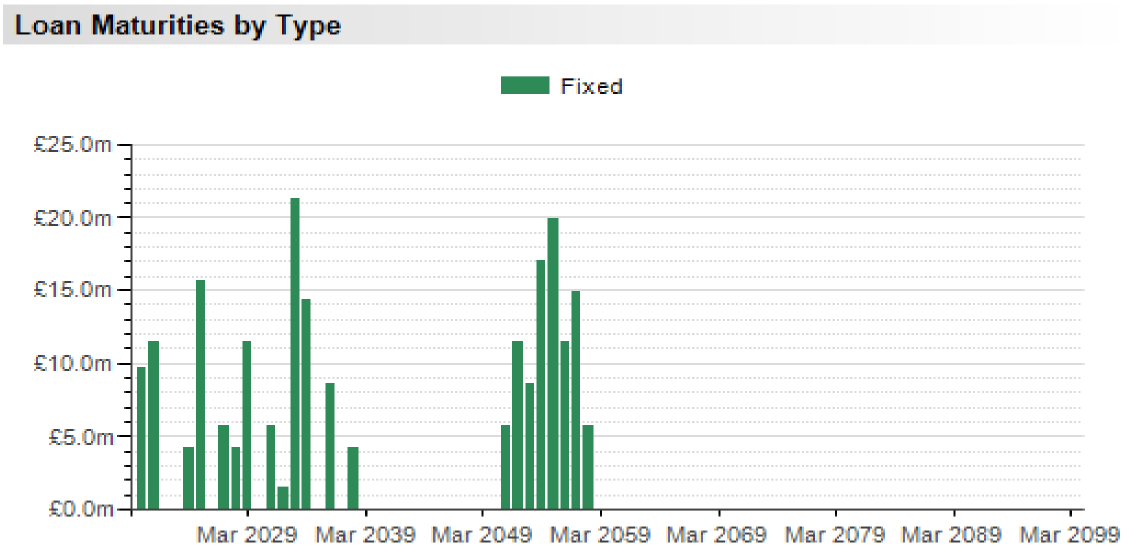
4.6. Taking into account the worldwide economic climate, it was considered appropriate to keep investments short-term and only invest with highly rated or UK Government backed institutions, resulting in relatively low returns compared with borrowing rates.

4.7. Due to the level of cash balances held by the Council at the start of the year (£339 million at 31 March 2018), it was anticipated that there would not be any need to borrow externally during 2018/19.

Treasury Borrowing

4.8. No new long-term borrowing was undertaken during the year. Public Works Loans Board (PWLB) debt maturing during the year, which was not refinanced, totalled £3.8 million with an average nominal interest rate of 8.9%. This resulted in a reduction in debt to £212.8 million and the average interest rate reduced from 4.89% to 4.77%.

4.9. All of the Council's loans are at a fixed rate of interest. The table below shows the debt profile as at 31 March 2018:



4.10. During 2018/19, most PWLB rates were on a general downward trend and reached lows for the year at the end of March.

4.11. **Housing Revenue Account (HRA) Self Financing**

4.12. In 2018/19, the HRA PWLB debt of £176.5 million remained below the HRA Capital Financing Requirement (CFR) of £210.46 million, which generates internal borrowing of £33.96 million. This difference does not, as yet, exceed the value of HRA working balances of £35.5m. As such, the HRA could be considered to be borrowing from itself. Moving forwards, a policy will need to be considered concerning the charging of interest in the event that the HRA is internally borrowing from the general fund. HRA reserves and working capital, in excess of the internal borrowing, represents cash balances on which interest is allocated from the general fund.

Capital Financing Requirement (CFR)

4.13. As at 31 March 2019, the Council had an under-borrowed position[2]. This means that the capital borrowing need was not fully funded by the existing external loan debt and the balance is funded by cash reserves (known as internal borrowing).

The Closing Capital Financing Requirement analysed between General Fund and Housing Revenue Account.

£'m	31st March 2018 CFR	31st March 2018 EXTERNAL DEBT	31st March 2019 CFR	31st March 2019 EXTERNAL DEBT
GF CFR (Excluding DSG funded Schools Windows borrowing)	50.48	-	70.85	-
GF CFR (DSG funded Schools Windows borrowing)	6.63	-	7.38	-
Total GF Headline CFR	**57.11**	**-**	78.23	**-**
Finance leases/PFI	10.33	**-**	9.78	**-**
Total Closing GF CFR	**67.44**	**37.14**	**88.01**	**36.36**
HRA TOTAL	204.85	-	204.85	-
Deferred Disposal Costs	5.42	-	5.62	-
HRA CFR Total Including Deferred Disposal Costs	**210.27**	**180.27**	**210.46**	**176.48**
TOTAL CFR/DEBT	**277.71**	**217.41**	**298.47**	**212.84**

NB: The 'headline' CFR shown above is the consistent with capital reports. The annual accounts disclose CFR of £298.47 million due to the inclusion of PFI, finance leases and deferred cost of disposal.

	General Fund £m	**Housing Revenue Account £m**	**Total £m**
Capital Expenditure 2018/19	(35.55)	(20.14)	**(55.69)**
Financed by:			
Government & Public Body Grants	4.65	-	**4.65**
S106 & Other Contributions	6.34	0.80	**7.14**
Leaseholder Contributions	-	2.55	**2.55**
Capital Receipts	2.05	3.65	**5.70**
Major Repairs Reserve (MRR)	-	8.17	**8.17**
Earmarked Reserve (revenue)	0.91	0.87	**1.78**
Internal Borrowing	21.6	4.10	**25.70**
Total Capital Financing	**35.55**	**20.14**	**55.69**

[2] The Capital Financing Requirement (CFR) represents the underlying cumulative need to borrow for the past, present and future (up to 2 years in advance) amounts of debt needed to fund capital expenditure (net of receipts). Debt can be met not only from external loans but also by the temporary use of internally generated cash from revenue balances i.e. internal borrowing.

Annual Investment Strategy for 2018/19

4.14. At the start of the year, over half of the Council's treasury investment portfolio (£185 million) was held in fixed term deposits with other local authorities, bank notice accounts and enhanced cash funds. Due to market rates remaining relatively low in the tradeable instruments sector, this strategy was maintained with a greater amount allocated to other Local Authority borrower's.

4.15. The Treasury Management Strategy allowed investment in the following areas:

- no limit with the UK Government (DMO) deposits, UK gilts, Repos and T/Bills.
- up to a maximum of £100 million per counterparty in supra-national banks, European agencies and covered bonds debt on a buy to hold basis with maturity dates of up to five years, Transport for London (TfL) and the Greater London Authority (GLA) bonds for up to three years;
- a limit of £30 million to be invested with any UK Local Authority (subject to internal counterparty approval by the Tri-Borough Director of Treasury and Pensions);
- no more than £30 million to be invested with any individual Money Market Fund;
- any financial instrument held with a UK bank limited to £70 million depending on Credit rating and Government ownership above 25 per cent (limit of £50 million was implemented);
- any financial instrument held with a Non-UK bank limited to £50 million.

Investment Outturn for 2018/19

4.16. The investments outstanding at 31 March 2019 amounted to £319 million invested in short-term deposits. This compares with £323 million short-term investments at 1 April 2018.

4.17. The table below provides a breakdown of the cash deposits, together with comparisons from the previous year:

(£m)	31/03/16	31/03/17	31/03/18	31/03/19
Liquid Deposits	0.90	2.35	-	-
Money Market Funds	33.70	38.10	83.85	57.9
Notice Accounts	19.90	33.00	70.00	56.00
Custodian Held Assets	204.74	208.06	30.00	-
Term Deposits	40.00	45.00	115.50	212.5
Enhanced Cash Fund	-	-	39.88	-
Total	**299.24**	**326.51**	**339.23**	**326.4**

4.18. The table below provides a breakdown of the cash investments, split between General Fund and Housing Revenue Accounts:

General Fund and Housing Revenue Account

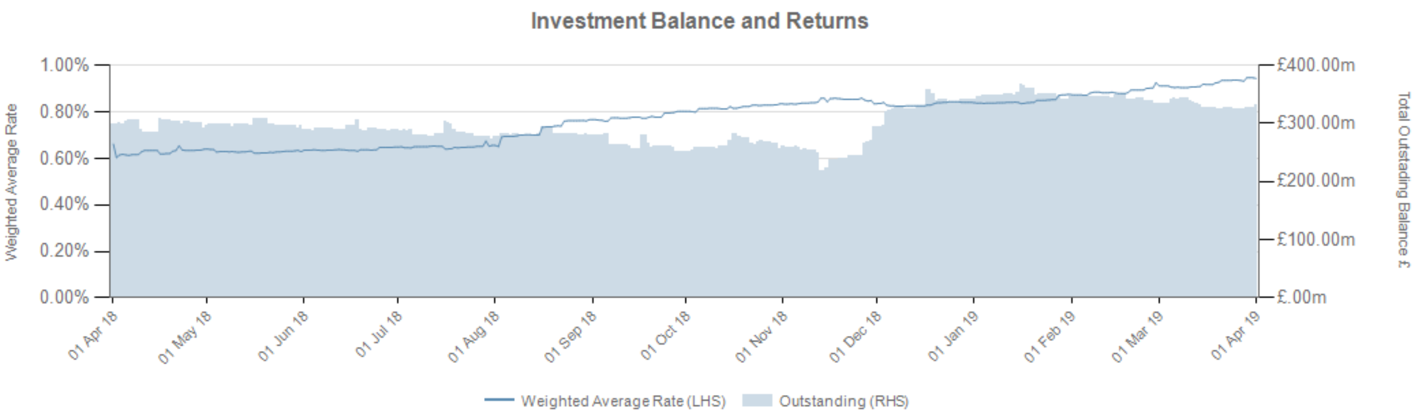
(£m)	31/03/16	31/03/17	31/03/18	31/03/19
General Fund (GF)	253.60	311.90	292.63	290.90
Housing Revenue Account (HRA)	45.60	14.60	46.60	35.50
Total	**299.20**	**326.50**	**339.30**	**326.40**

4.19. The investment balances during the year together with the average return are shown in the diagram below. Cash balances varied between £217 million and £366 million reflecting the timing of the Council's income (council tax, no-domestic rates, government grants and capital receipts, etc) and expenditure (precept payments, payroll costs, supplier payments and capital projects).

4.20. The average return achieved on investments managed internally for the year was 0.78 per cent compared to the average 7-day money market rate (uncompounded) of 0.51 per cent. The total interest received of £2.4 million (compared with a weighted average of 0.44 per cent and a total interest £1.42 million for 2017/18). Interest rates remained low throughout the year; the Council follows a low risk strategy and does not seek potential higher returns which would increase counterparty risk.

5. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

5.1. During the financial year the Council operated within the treasury limits set out in the Council's Treasury Policy Statement and Treasury Strategy Statement. The outturn for Treasury Management Prudential Indicators is shown in **appendix A**.



5.2. Non Treasury related Prudential Indicators are set and monitored as part of the Council's Budget process.

6. CONSULTATION

6.1. N/A.

7. EQUALITY IMPLICATIONS

7.1. N/A.

8. LEGAL IMPLICATIONS

8.1. There are no legal implications arising from this report.

8.2. Implications drafted by Rhian Davies, Assistant Director of Legal and Democratic Services. 07827 663794

9. FINANCIAL IMPLICATIONS

9.1. The report is wholly of financial nature.

10. RISK MANAGEMENT

10.1. The effective understanding, control and management of the many aspects of risk associated with treasury management is essential to achieving the council's objectives. Risk management is therefore embedded throughout treasury guidance, policies and practices. It is vitally important to remember that risk is constant, even doing nothing does not avoid or minimise risks. 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. In adopting a policy of managing Treasury risk, a council is determining its level of risk acceptance. The key challenge is to understand, identify, monitor and manage risks in a planned and effective way.

10.2. 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 its approach to treasury activity.

10.3. 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.

10.4. These are the most prominent risks that the council seeks to manage:

Credit and counterparty risk

Managing risk to principal sums deposited by setting a counterparty policy in respect of organisations it may deposit funds with, including restrictions to entity/banking group limits, instruments and methods used, and term of deposits.

Liquidity risk

Ensuring sufficient (though not excessive) cash resources are available to achieve business and service objectives, including understanding the immediate and medium-term cash flow profile, being able to react to change in forecasts or the economic outlook, and putting arrangements in place to safeguard public services.

Interest rate risk

Managing exposure to interest rate volatility, including the use of instruments and methods that provide stability and cost certainty, retaining flexibility to react to change in authorities and the economic outlook, and limiting lender options to increases.

The following are further risks that an authority seeks to manage:

Refinancing risk

Managing the maturity profile of investment and loan portfolios, as well as keeping under consideration options to repay loans/recall investments where favourable, including time-limits for loan/investment maturity, the regular review of settlement opportunities, and avoiding overreliance on any single source of financing.

Legal and regulatory risk

Ensuring that treasury activities comply with statutory powers and regulatory requirements, including ability to demonstrate compliance, evidence of authority to transact, and where possible, seeking to minimise the impact of any future legislative or regulatory changes.

Fraud, error and corruption, and contingency management

Identification of circumstances that may expose the authority to fraud, error and corruption, including systems to detect suspicious activity, procedures to deal with occurrences, and contingent arrangement to ensure service objectives are fulfilled.

Market risk

Managing the impact of a change in the economic climate including limiting exposure to instruments that may be subject to adverse market fluctuations, revaluation of financial instruments in times of market stress, and seeking to protect the authority from the effects of economic market volatility.

10.5. Implications verified by Michael Sloniowski Risk Manager tel 020 8753 2587.

11. IMPLICATIONS FOR BUSINESS

12.1 N/A.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. There are no procurement implications from the report. Verified by Andra Ulinov tel 07776 672876

LOCAL GOVERNMENT ACT 2000

LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None.

LIST OF APPENDICES:

Appendix A – Treasury Management Prudential indicators

APPENDIX A

LBHF – TREASURY MANAGEMENT PRUDENTIAL INDICATORS 2018/19

During the year the Council operated within the Treasury Limits and Prudential Indicators set out in the TMSS approved by Council on 21 February 2018.

Indicator	2018/19 Approved Limit	2018/19 Actual		Indicator Met?
Capital Financing Requirement	£322m	£210.46m		Met
Authorised Limit for external debt[3]	£345m	£212.84m		Met
Operational Dept Boundary[4]	£290m			Met
Interest Rate Exposure	**Lower Limit**	**Upper Limit**	**Actual at 31 Mar 2019**	**Indicator Met?**
Fixed Rate Debt	£0m	£345m	£212.84m	Met
Variable Rate Debt	£0m	£69m	£0m	Met
Maturity Structure of Borrowing				
Under 12 Months	0%	15%	4.56%	Met
12 Mths to within 24 Mths	0%	15%	5.36%	Met
24 Mths to within 5 years	0%	60%	2.01%	Met
5 years to within 10 years	0%	75%	17.42%	Met
Over 10 years	0%	100%	70.65%	Met

[3] The Authorised Limit is the maximum requirement for borrowing taking into account maturing debt, capital programme financing requirements and the ability to borrow in advance of need for up to two years ahead.

[4] The Operational Boundary is the expected normal upper requirement for borrowing in the year.

London Borough of Hammersmith & Fulham AUDIT PENSIONS AND STANDARDS COMMITTEE 23 July 2019	
CORPORATE ANTI-FRAUD SERVICE END OF YEAR REPORT – 1 APRIL 2018 to 31 MARCH 2019	
Report of the Strategic Director of Finance and Governance	
Open Report	
Classification - For Decision **Key Decision: No**	
Consultation: N/A	
Wards Affected: All	
Accountable Director: Hitesh Jolapara, Strategic Director of Finance and Governance	
Report Author: Andrew Hyatt, Head of Fraud	**Contact Details:** 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 2018 to 31 March 2019.

1.2 CAFS remains a shared service covering three councils and continues to reap several benefits, including the sharing of skills and expertise, a rolling "compare and contrast" review to identify the best practice and the streamlining of anti-fraud related policies and procedures.

1.3 CAFS continues to provide the London Borough of Hammersmith & Fulham with a full, professional counter fraud and investigation service for fraud attempted or committed against the Council.

1.4 For the period 1 April 2018 to 31 March 2019, CAFS identified 146 positive outcomes, including 39 recovered tenancies and stopped successions. Fraud identified has a notational value of over £782,000 and is detailed in the following table.

Activity	2017/18		2018/19	
	Fraud proved	Notional Values (£'s)	Fraud proved	Notional Values (£'s)
Housing Fraud (including Applications, assignments & successions)	25	38,600	**18**	126,800
Right to Buy	52	107,780	**16**	**29,800**
Advisory Reports (pro-active)	7	10,500	**6**	14,000
Prevention subtotal	84	156,880	**40**	**170,600**
Tenancy Fraud (Council and Registered Providers)	26	186,950	**37**	432,000
Internal Staff	2	1,500	**5**	20,500
High/Medium risk fraud (e.g. NNDR, Procurement, Blue Badge)	7	745,632	**35**	32,450
Low-risk fraud (e.g. Freedom passes, Council Tax SPD)	11	2,090	**21**	23,689
Detection subtotal	46	936,172	**98**	**508,639**
Proceeds of Crime (POCA)	7	78,907	**4**	33,581
Prosecution	1	3,000	**2**	58,300
Press releases and publicity	4	30,794	**2**	11,000
Deterrence subtotal	12	112,701	**8**	**102,881**
Total	142	1,205,753	**146**	**782,120**

1.5 Between 1 April 2018 to 31 March 2019, CAFS investigated 325 cases, including 182 new referrals, and concluded 205 investigations. Conclusion could mean support of a successful prosecution, successful prevention that stops fraud, a detection that identifies fraud and stops it continuing, an action that deters fraud, or no further action where there is no case to answer.

1.6 The table below shows this activity and details the fraud types that make up the closed cases and live cases as at the start of the current financial year.

Activity	Cases	Fraud types	Closed	Live
Live cases as at 01/04/18	143	Tenancy & Housing cases	135	88
New referrals received	182	Internal Staff	7	3
Closed investigations	205	High/Medium risk fraud	40	14
Positive outcomes	146	Low-risk fraud	17	7
Live cases as at 01/04/19	120	POCA	6	8

2. ANTI-FRAUD AND CORRUPTION STRATEGY

2.1 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.*

2.2 The strategy places emphasis on the following anti-fraud activities:

i. **Acknowledge:** recognising and understanding fraud risks and committing support and resource for tackling fraud to maintain a robust anti-fraud response.

ii. **Prevent:** preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.

iii. **Pursue:** punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.

3. ACKNOWLEDGE, PREVENT, PURSUE

(i) ACKNOWLEDGE

Committing support and resource to tackle fraud

3.1 A vital element of a counter-fraud strategy is the ability of an organisation to call upon competent, professionally trained officers to investigate suspected fraud, and through the resourcing and support for CAFS, the council demonstrates it is committed to tackling fraud.

3.2 As part of this commitment of professionalism, the head of service is working closely with the Cabinet Office to extend membership of the Government Counter Fraud Profession to local authorities.

3.3 Having received ministerial consent in January 2019 work is underway to map local authority standards to those of central government, and we expect the London Borough of Hammersmith & Fulham will be one of the first councils to qualify to join the profession by the end of this financial year.

3.4 In support of this CAFS has also become a founder member of a new Counter Fraud Apprenticeship Scheme in partnership with the Institute for Apprenticeships and Technical Education, HMRC, Cabinet Office and a selection of other local authorities.

3.5 The new counter fraud investigator apprenticeships will provide opportunities for individuals to forge a career path in counter fraud, with a practical approach to training that offers professional accreditation. The scheme is reaching its final sign-off stage, and it is expected to roll out in the autumn.

Maintain a robust anti-fraud response

3.6 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)*

3.7 Responding solely with reactive referrals often fails to provide the levels of coverage required to provide a robust anti-fraud response. Combining pro-active work plans with responsive capability increases the chances of fraud detection.

3.8 Details of actions, including engagement with services to review their fraud risks and anti-fraud controls, are reported in *Appendix 1*.

(ii) PREVENT

Whistleblowing

3.7 The Council's whistleblowing policy continues to be the primary support route for staff wishing to report a concern.

3.8 Since April 2018 CAFS received three referrals via the whistleblowing process. All have been investigated, although two were not deemed protected disclosures. A third remains under investigation:

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
iii	Data protection	An allegation regarding data protection breaches. Investigation remains on-going.	Ongoing

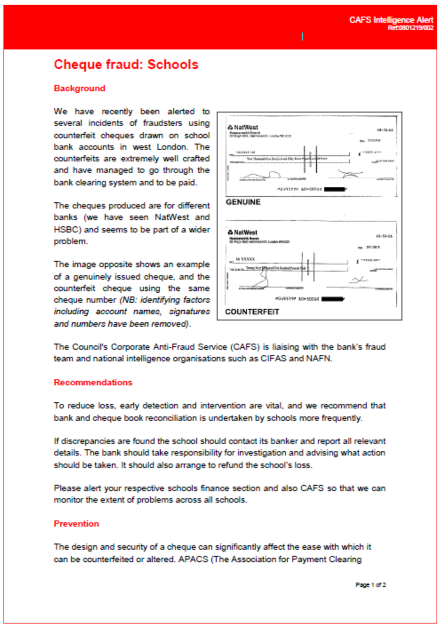
Corporate investigations

3.9 Corporate investigations are fraud cases which relate to employee fraud or more complex third-party fraud investigations.

3.10 CAFS continue to work closely with Council's People and talent 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

3.11 Since 1 April 2018 work in this area has included:

- Investigation of an agency employee who had submitted false timesheet recordings.
- Investigation of a maintenance employee who had failed to declare his directorship in a construction company
- Fraud alert to schools highlighting the risks of counterfeit cheques and cheque theft.
- Two employees detected misusing disabled blue badges to park their vehicles and avoid paying parking tariffs.
- Significant Proceeds of Crime investigations that remain on-going.



CAFS Intelligence Alert
Ref:0801219/002

Cheque fraud: Schools

Background

We have recently been alerted to several incidents of fraudsters using counterfeit cheques drawn on school bank accounts in west London. The counterfeits are extremely well crafted and have managed to go through the bank clearing system and to be paid.

The cheques produced are for different banks (we have seen NatWest and HSBC) and seems to be part of a wider problem.

The image opposite shows an example of a genuinely issued cheque, and the counterfeit cheque using the same cheque number *(NB: identifying factors including account names, signatures and numbers have been removed)*.

GENUINE

COUNTERFEIT

The Council's Corporate Anti-Fraud Service (CAFS) is liaising with the bank's fraud team and national intelligence organisations such as CIFAS and NAFN.

Recommendations

To reduce loss, early detection and intervention are vital, and we recommend that bank and cheque book reconciliation is undertaken by schools more frequently.

If discrepancies are found the school should contact its banker and report all relevant details. The bank should take responsibility for investigation and advising what action should be taken. It should also arrange to refund the school's loss.

Please alert your respective schools finance section and also CAFS so that we can monitor the extent of problems across all schools.

Prevention

The design and security of a cheque can significantly affect the ease with which it can be counterfeited or altered. APACS (The Association for Payment Clearing

Page 1 of 2

Housing/Tenancy Fraud

3.12 CAFS provides an investigative service to all aspects of housing, including the verification applications for housing support, as well as requests for the succession or assignment of tenancies. CAFS also investigate allegations of subletting or other forms of tenancy breaches as well as the checking of all right to buys.

3.13 For the period 1 April 2018 to 31 March 2019, CAFS had successfully prevented two successions/assignments recovering properties in each instance. CAFS also recovered 39 properties which were being misused, and these have now been allocated to those in genuine need of support.

3.14 Properties recovered include two four-bedroom and nine three-bedrooms which are in high demand by families needing support and assistance. Full details of successful investigation activity regarding social housing are detailed in the table below.

Landlord	Location	Postcode	Size (bedrooms)	Reason for recovery	Outcome
Council	Chesilton Road	SW6	3	Subletting	key returned
Council	Westway	W12	3	non-residency	key returned
Council	Poynter House	W11	1	Subletting	key returned
Council	Flora Gardens	W6	1	Subletting	key returned
Council	Poynter House	W11	2	Subletting	key returned
SBHG	Gledstanes Road	W14	2	Subletting	key returned
Council	Barton House	SW6	3	non-residency	possession hearing
Council	Donnelly Court	SW6	1	non-residency	possession hearing
Council	Margaret Hse	W6	Studio	non-residency	key returned
Council	Mortimer House	W14	3	non-residency	key returned
Council	Sulgrave Gds	W6	2	non-residency	succession stopped
Council	Benbow Court	W6	1	Subletting	key returned
Council	Aspen Gardens	W6	2	Subletting	key returned
Council	Poynter House	W11	1	Subletting	key returned
Council	Ivatt Place	W14	1	non-residency	key returned
Council	Lakeside Rd	W14	2	Subletting	key returned
Council	Calcott Court	W14	2	non-residency	key returned
Council	Cortayne Road	SW6	3	Subletting	key returned
Council	Nightingale Hse	W12	2	Subletting	key returned
Council	Ethel Rankin Hse	SW6	1	non-residency	key returned
Council	Lickey House	W14	1	Subletting	possession hearing
Council	Bush Court	W12	1	non-residency	key returned
Council	Sullivan Court	SW6	1	non-residency	possession hearing
Council	William Banfield Hse	SW6	Studio	Subletting	key returned
NHHG	Oaklands Grove	W12	1	Subletting	key returned
Council	Creighton House	W12	1	non-residency	assignment stopped
Council	Boswell Court	W14	2	non-residency	key returned
Council	Lawrence Close	W12	3	non-residency	key returned
Council	Elgar Court	W14	1	Subletting	possession hearing
NHHG	The Curve	W12	3	non-residency	possession hearing
Council	Tadmor Street	W12	4	Subletting	key returned
NHHG	Perham Road	W14	1	Subletting	possession hearing
Council	St Peter's Road	W6	4	Subletting	key returned
Council	Coningham Rd	W12	3	non-residency	possession hearing
Council	Sullivan Ct	SW6	1	non-residency	possession hearing
Council	Mitchell House	W12	3	Subletting	key returned
Council	Riverside Gdns	W6	1	Subletting	key returned
Council	Fairburn House	W14	2	Subletting	possession hearing
Council	Stowe Road	W12	1	Subletting	key returned

3.15 Cases of note are detailed at *Appendix 1.*

Right to Buy (RTB)

3.16 CAFS continue to apply an enhanced fraud prevention process to all new RTB applications, including anti-money laundering questionnaires as well as financial and residential verification.

3.17 For the period 1 April 2018 to 31 March 2019, CAFS have successfully prevented 16 Right to Buys from completion, where suspicion was raised as to the tenant's eligibility or financial status. In many instances, these have been as a result of the tenant voluntarily withdrawing their application once checking commenced.

3.18 The prevention work undertaken by CAFS in respect of RTB continues to protect valuable Council stock.

(iii) PURSUE

Deterrence

3.19 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)

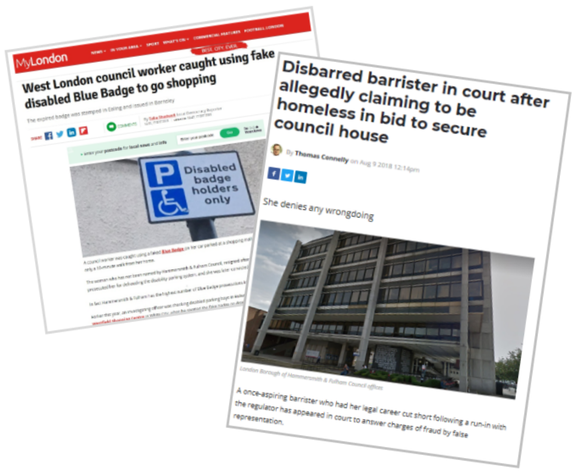
3.20 Prompt and efficient recovery of losses is an essential component in the fight against fraud, and the Proceeds of Crime Act is a crucial part of the Council's counter fraud strategy.

3.21 For the period 1 April 2018 to 31 March 2019, CAFS were awarded compensation of £33,581 of which £15,930 has been recovered. Currently, three cases are lodged with Legal Services.

3.22 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 releases

3.23 To deter fraud, it is important that the Council publicise the successful outcomes of their investigations. CAFS record a positive result 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.



4. LOCAL GOVERNMENT TRANSPARENCY CODE

4.1 The Local Government Transparency Code sets out key principles for local authorities in creating greater transparency through the publication of public data.

4.2 The Government believes that in principle, all data held and managed by local authorities should be made available to local people. The Government believes that local people are interested in how their authority tackles fraud and have introduced a mandatory requirement in respect of fraud data.

4.3 The table below shows current activity in respect of the required data for the financial year ending 31 March 2019.

Information	17/18	18/19
Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers	101	78
Total number (absolute and full-time equivalent) of employees undertaking investigations and prosecutions of fraud	6.5	7.5
Total number (absolute and full-time equivalent) of professionally accredited counter fraud specialists	4.5	6.5
Total amount spent by the authority on the investigation and prosecution of fraud, and	£445,600	£511,900
Total number of fraud cases investigated	174	325

5. FORWARD PLANNING

5.1 CAFS anti-fraud work plan for 2019/20 is aligned with the Council's anti-fraud strategy and aims to enhance the Council's overall fraud resilience. It is a risk-based programme of work that supports the assurance framework by focusing counter-fraud activity in areas of high fraud risks and on newly emerging fraud risks.

5.2 By introducing pro-active work with reactive capability improves fraud prevention, helps to identify fraud risks, and increases the chances of fraud detection.

5.3 The anti-fraud work plan for 2019/20 is briefly described in the table below.

Risk ref	Fraud risk	Current score	Activity timetable
G2	**Money laundering** – Using Council business or services to exchange money or assets that were obtained criminally for cash or other assets that are 'clean'.	**12**	**Q1 – 3**
G4	**Bribery and Corruption** – Review of risk across the Council including a risk survey by the head of service – quarterly gifts and hospitality reviews	**12**	**Q1 – 4**
G9	**Mandate Fraud and Fake Invoices** - A third party tries to change a direct debit, standing order or bank transfer mandate, by purporting to be an organisation that the Council uses.	**12**	**Q2 - 4**
S2	**Human Resources** – Assurance work regarding whistleblowing – enhanced process.	**12**	**Q2 – 3**
S6	**Schools** – Recruitment, procurement and control of assets (including cash)	**12**	**Q3 – 4**
S7	**Income collection frauds (CT, NNDR and Parking)** - Fraudulent refunds following payment with stolen credit cards or cheques	**12**	**Q2 – 3**
S9	**Welfare benefit**- Risk review of processing claims	**12**	**Q1 - 3**
S16	**Direct Payments/Personal Budgets** (Adult social care)- Review of payment process	**9**	**Q2 – 3**
S17	**Local Support Payments (LSP) -** Payments for emergency or crisis support to those in receipt of benefit.	**9**	**Q1 – 2**
S19	**Family & Childrens Services** - Section 17 of the Children Act 1989 & foster care and adoption.	**9**	**Q3 – 4**
S21	**Libraries** – review of fraud risks	**9**	**Q3 - 4**

Appendix 1

Anti-Fraud Activity 1 April 2018 to 31 March 2019

Source	Fraud Review	Details	Risk
Service Review	**DISABLED CHILDREN AND PREPARATION FOR ADULTHOOD TEAM: Asset controls** Following a referral regarding the theft of a pre-paid Oyster Card, CAFS undertook a service review to identify and test existing controls for any weaknesses.	**Investigation:** The incident was picked up through existing reconciliation controls, which identified a card that was registered to the Council not added to the control sheet – control sheets record all new cards as they are received and form part of the control environment when combined with online access to TFL records. The subsequent investigation identified usage of the H&F card along with evidence it had been sent to Hammersmith Town Hall and received in the ordinary course of business. However, there was no audit trail of receipt and delivery (items are sent by TFL in the unregistered post), and given the amounts involved, it was not in the public interest to pursue further travel details or request TFL CCTV. **Controls:** A review of the existing controls found them to be satisfactory. The reconciliation process had identified the anomaly and therefore minimised the loss. Additional controls were also identified that included dual control, staff signing for receipt and physical controls keeping the assets secure. One recommendation was made to only blank order cards and to only add funds upon receipt. This recommendation was accepted. **Conclusion:** Our review concluded that controls were satisfactory and that this theft was an isolated incident.	**Satisfactory asset controls in place** **Fraud risk unchanged** ⟵⟶

Anti-Fraud Activity 1 April 2018 to 31 March 2019

Pro-active	**LAND REGISTRY ACCOUNT, WHOLE COUNCIL: System access and user control** The Council's Land Registry account was overseen by Legal Services and held a series of sub-accounts which various services added users to. This is a web-based application, meaning that leavers would not automatically be removed via IT or through the normal HR leavers process. There is a risk that former employees with access could spend Council funds. Furthermore, this is a Government system, and the Council is contractually obliged to monitor user access to ensure the system's integrity regularly. A proactive exercise was undertaken to review the Council's administration of system access. Our review included • Users Groups • Business Users • General Users	**Methodology:** Our process for auditing involved checking all current users against HR records to identify any leavers who still had access or any users with non-Council contact details. This included business administrators, general users, and the Responsible Person role. Recent billing was also inspected for suspicious usage. **Findings:** A total of six users with business administrator access were identified as still with live accounts that should have been closed. This included one officer who resigned whilst under investigation for possible fraud. Three general users were leavers. Many users were attached to the wrong subaccount and invoicing the incorrect service budget. The Responsible Person had left their role in Legal Services and was no longer the appropriate officer to fulfil that function. **Conclusion:** Although a series of leavers were found to have access which should have been terminated, none of these logins appeared to have been misused. No suspect users were identified, and all incorrect users were deleted. The CAFS fraud manager has now adopted the role of Responsible Person for the Council.	**Revised controls introduced** **Reduced ↓**

Anti-Fraud Activity 1 April 2018 to 31 March 2019

Ref	Noteworthy cases
1.	**TENANCY FRAUD -** CAFS received a report from a Housing Officer, alleging that the tenant of a flat in Elgar Court, Blythe Road, was being illegally sublet. A complaint was received from a former subtenant who said they had evidence of rental payments as proof. CAFS officers arranged to meet the subtenant where a statement was taken and copies of financial records obtained. The information showed that the Elgar Court address had been sublet, and an investigation commenced. Investigators attended the property in Elgar Court and found two subtenants sleeping at the flat. The tenant was not present at the time. Photographs were taken. A further unannounced visit was made in the afternoon but when investigators returned they found that the flat was transformed and rearranged. The two subtenants had vacated, and it was evident that the tenant had gone to great lengths to conceal what was present during the early morning visit. The tenant's bank accounts were interrogated, and these showed further payments that contained such references as "Rent" or "Flat fees" and identified numerous subtenants. Because of this, the tenant was interviewed but denied the allegations. However, the tenant did reveal that his ex-wife had lived with him for almost three years whilst he was claiming a single person discount for Council Tax. Regardless of the tenant's denial, the investigation continued, and further evidence was obtained, including advertisements on the letting website Gumtree as well as the identification of more former subtenants who were willing to testify. Once this evidence was amassed, the case was pursued by Legal Services, and in June 2018, the evidence was presented at the County Court. The judge found in favour of the Council and LBHF were awarded a possession order for the flat. In addition to the repossession, the tenant was also charged with criminal offences and pleaded not guilty. Following a seven-day trial, which included video-link testimonies from several former oversea subtenants, the jury found the tenant guilty of subletting his flat as well as failing to declare his right circumstances regarding his claim for a Single Person Discount. In January 2019 at Isleworth Crown Court the tenant was sentenced to 18months imprisonment, suspended for 18 months. In summing up, the judge stated that the offences were well planned and sophisticated with a high degree of dishonesty. He also praised the Council investigators for a thorough investigation.

Anti-Fraud Activity 1 April 2018 to 31 March 2019

2.	**TENANCY FRAUD –** A referral suggested that the tenant of a 1-bedroom flat in Lickey House had vacated the property, and initial checks seemed to corroborate this. Credit searches revealed the tenant was linked to the Bristol area, and further enquiries revealed that they had purchased property there and was possibly living there now. However, when investigators took a closer look at local records, they discovered the property was being let through a managing agent and that our tenant had emigrated and was now living in the USA. Visits to the Lickey House address found unknown individuals in residency which suggested subletting, but they would not co-operate. Unable to speak to the tenant a Notice to Quit was served and repossession commenced. The tenant failed to communicate with the Council, but at the court hearing, they sent correspondence claiming that the person in residence at Lickey House was their partner, although the evidence amassed by CAFS was able to show this was implausible and the judge was not swayed by the letter. The Council were award possession forthwith, and the vacant property was recovered in November 2018.
3.	**TENANCY FRAUD -** Allegation received by CAFS that the tenant of a property in Tadmor Street, W12 had moved out to live with her daughter and allowed her son and daughter-in-law to take over the flat. Investigators visited the property and found the tenant's son and his family in residence. He allowed officers to inspect the rooms, and there was no evidence that his mother (the tenant) lived at the property, there were no belongings, and only one bedroom was made up for sleeping. Further checks linked the tenant to a property in leafy Orpington, and further enquiries revealed that this was her main and principal home. Officers recommended that a Notice to Quit be served, and invited the tenant for an interview. However, the tenant offered to return the four-bedroom property with immediate effect. The tenant did not contest the possession order and a highly sought after the four-bedroom property was returned to the Council for allocation to a family in genuine need of support.

Anti-Fraud Activity 1 April 2018 to 31 March 2019

4.	**NO RECOURSE TO PUBLIC FUNDS (fraud loss recovery)** - In early 2016, police were searching a property in Tunis Road, Shepherd's Bush, for an elderly woman missing for 15 years when they found human remains at the scene. The post-mortem failed to prove a cause of death, but the deceased's husband was interviewed by police in connection with preventing a lawful burial. He was not arrested nor charged, and the case remained unresolved when he passed away in December 2017. However, during the police enquiries, contact was made with CAFS to provide intelligence from Council records. It was during these enquiries that CAFS discovered the husband had been financially supported by the Council between 2002 and 2012 on the basis that he was an asylum seeker with no recourse to public funds. No recourse to public funds (NRPF) is a condition imposed on someone due to their immigration status. Section 115 Immigration and Asylum Act 1999 states that a person will have 'no recourse to public funds' if they are 'subject to immigration control'. Council records didn't align with the documentation found during the original police search, which included British passports and overseas bank accounts. A subsequent investigation by CAFS found that the husband had used false information, including an alias created by swapping his names around, to claim financial support under the NRPF scheme. Between 2002 and 2012 he had received a total of £10,332. However, the evidence gathered by CAFS, including forensic handwriting analysis showed he was already a British citizen when he first approached the Council in 2002. Action has commenced on the estate to make full repayment of the wrongfully claimed NRPF payments.
5.	**TENANCY FRAUD –** A request by the tenant of a Poynter House property raised suspicion when she requested her tenancy be assigned to her brother. A subsequent investigation revealed that the tenant was not using the Poynter House address as her main and principal home, and was privately rented accommodation with her husband in Chiswick. The assignment was refused, and repossession action commenced, however, the tenant agreed to relinquish the keys forthwith realising the weight of evidence against her that had been gathered during the investigation.

Anti-Fraud Activity 1 April 2018 to 31 March 2019

6.	**EMPLOYEE** - A member of the public alerted Council Investigators to the potential misuse of a Disabled Parking Permit (Blue Badge) by a Council member of staff. The allegations described a female parking her vehicle in the vicinity of Bagley Lane Deport, displaying a Blue Badge to avoid parking concessions, and then going to the Depot where she was employed as a Civil Enforcement Officer. Evidence gathered through observations, including officer's observations, photographic images and CCTV, showed the Council employee parking her vehicle alone in Cresford Road, displaying the Blue Badge and exiting the car to attend work. During the investigation, she was confronted by officers and initially gave a false name and denied she was a Council employee. But when faced with the evidence admitted her guilt, explaining that her identification was still with her uniform, which was in her locker at the Bagleys Lane site. On 22nd May 2019, the defendant pleaded guilty and was sentenced to a fine of £200, ordered to pay costs £495 and a victim surcharge £30.
7.	**TENANCY FRAUD –** Housing raised concerns when they found it extremely difficult to agree on maintenance appointments with the tenant of a first floor flat in Cortayne Road, SW6. On two separate occasions, officers were forced to liaise with unknown third parties to gain access to the property. The case was referred to CAFS. Having interrogated the Council records, the investigating officer discovered a possible link to Northamptonshire Borough Council and a housing application dating back to 2003. Further enquiries established that the tenant was known to them by another name; she had remarried. Searching records under this new name, the investigator was able to trace the tenant to an alternative address in Wandsworth and found the tenant living there. When confronted, she signed a vacation notice enabling the Council to recover this three-bedroom property and allocate it to a family in genuine need of assistance from the waiting list.

Anti-Fraud Activity 1 April 2018 to 31 March 2019

8.	**TENANCY FRAUD -** Housing officers had received information that the family living in a four-bedroom property in St Peter's Road was not in the UK but were living in Cairo, Egypt. The matter was passed to CAFS, and a review of the housing files showed little interaction between the named tenant (the mother of the household) and the housing department. This was not deemed too strange, although when officers conducted an unannounced visit to the address, they found the husband at home and he said that his wife was at work and the children at school. As the investigators were shown around the address, they saw no children's belongings and no signs of the mother's residency, and this further aroused their suspicions. Upon returning to the office, investigators checked travel details for the family, and this revealed that the mother and children were all out of the country and in Cairo, Egypt. It also showed she had spent the majority of her time, since 2015, living there. Given the above, the tenant was invited to attend an interview under caution, and during this meeting, she admitted she was not using the address as her sole and principal home. She agreed to relinquish the tenancy, and the valuable four-bedroom property was recovered forthwith for allocation to a family in genuine need of support and assistance.
9.	**TENANCY FRAUD –** A referral from the area housing office suggested that the tenant of a flat in Nightingale House, Du Cane Road, W12 was no longer resident, but that he had allowed other family members to live there. Initial enquiries by CAFS found the tenant linked to a property in the Essex area. These links included HM Land Registry, financial services, employment and education. An unannounced early morning visit was carried out simultaneously at the Nightingale House address and the Essex property. The tenant was found in residence in Essex, and when challenged about the Council address she confessed to no longer living there. At the same time, the visit to the Nightingale House address found a relative of the tenant who admitted living alone in the flat. The tenant signed a Notice to Vacate, and the keys to this two-bedroom property were handed back into the area office a few days later.

Appendix 1

Anti-Fraud Activity 1 April 2018 to 31 March 2019

10.	**HOUSING FRAUD** – A referral was made to CAFS when Housing officers were unable to complete background checks on a homeless applicant due to a lack of data being available. The application for housing support and assistance was from a 62year old female was living with her sister in Swanbank Court. However, the only information provided to verify her needs was a passport and letter from the sister saying that She allows the applicant to stay with her for three days a week. The rest of the time, she is in a friend's car or park bench. Initial enquiries discovered that the applicant had been living in America until the summer of 2018 when she first came to England. There was no trace of her in this country before this date. To clarify her address history and to understand her actual housing needs, she was invited to attend an interview but failed the appointment. The investigator followed this up with a telephone call, which was answered by a female with an American accent. She advised that the subject was in the hospital and "not to expect to hear from her for a while". No further contact has been made since and the application has been withdrawn and closed.
11.	**TENANCY FRAUD** – Housing received contact from the tenant that suggested he was no longer in the country, and that he may not be returning. A visit was conducted to the flat in Munster Road where officers found two subtenants. The first opened the door and cooperated with officers, but the second was only discovered when the investigator found a man hiding in a cupboard. The first subtenant allowed officers into the property, and while inspecting the rooms, the investigator saw a cupboard door ajar and initially thought it contained just a hanging T-shirt, but when the T-shirt moved the investigator realised it was a person. Both subtenants eventually cooperated with officers and provided a written statement. They said they had been staying with the tenant but that he stole £3,000 from them and that since then the tenant has not been seen, nor has he returned to the flat. The second tenant did not speak perfect English, but through the first subtenant he explained he was scared of authority which was why he hid when officers called at the address, he conferred the first subtenants account of events. A notice to quit was served, and when this expired, unchallenged, the vacant property was recovered forthwith.

Anti-Fraud Activity 1 April 2018 to 31 March 2019

12.	**TENANCY FRAUD –** A case referred to CAFS suggested that a one-bedroom flat in Hartopp Point, Dawes Road, SW6 was sublet. Investigators visited the address unannounced and found two subtenants in occupation. One was sleeping in the bedroom while the other was using the living room that had been converted into a bedroom. Investigation officers were busy questioning the subtenants when the tenant arrived. At first, he claimed he was living at the property, but once challenged as to where he slept, and he conceded that he was not resident. He went on to explain that he kept his possessions in a cupboard and was living at his mother's address. He agreed to relinquish the tenancy and not to dispute any repossession action.
13.	**TENANCY FRAUD (Succession)** – CAFS were asked to review the application of succession on a flat Ethel Rankin Court, Landridge Road, SW6. A succession occurs when a council tenant dies, and the tenant's husband or wife, partner or a family member apply to pass the tenancy into their name. The person who gets the tenancy is called the successor. To fulfil the criteria for succession, the successor must have been living at the property as their only or main home for at least 12 months before the tenant died. A succession of a tenancy can happen only once. The son of the tenant applied to succeed although there was minimal evidence of him living at the property, and while his application also included his ascertain that he had been caring for the tenant before his death, there was information to suggest this care was being provided overseas. CAFS investigation officer met with the applicant to interview to clarify the circumstances. Through questioning, it transpired that the applicant had taken his father to America to care for him. The applicant has a family in America, and he was able to provide the care needed. His father became too ill to travel and never returned to the UK. The son came back to put his late father's affairs in order and was ill-advised by friends to apply for the flat. He withdrew the application in the presence of the investigator, and the keys were returned to this one-bedroom property without the need for lengthy legal action.

Anti-Fraud Activity 1 April 2018 to 31 March 2019

14.	**TENANCY FRAUD and POCA (Shepherds Bush Housing Group) -** A case was initially referred by Shepherd's Bush Housing Group (SBHG) for investigation when concerns were raised as to the whereabouts of their female tenant who resided in St Hilda's Close, W14. The investigation undertaken by CAFS failed to trace the legitimate female tenant but found a male suspect who claimed to be the tenant's partner. This claim to the tenancy was weak, but the investigation then discovered that he didn't even live at the address but had been subletting it to a couple. He had told them that he was the rightful landlord and had been charging them £1,200 PCM. Evidence, including a tenancy agreement signed by the suspect and his bank statements, showing rental payments from the couple, was gathered and he was charged under the Fraud Act 2006, and a restraint order enforced to freeze all his assets. Ahead of his first court appearance the suspect then telephoned SBHG to say he was innocent but returned the keys to the property enabling SBHG to obtain vacant possession. He then attended Court and pleaded not guilty to the fraud charge claiming that he had not sublet the property, and a trial date was set. Ahead of the trial, the Council's financial investigator uncovered a previously unknown bank account which had a turnover of approximately £70,000. The suspect had been using these accounts after the date of the restraint order, a further offence under the Proceeds of Crime Act. During the trial, the suspect denied the allegations and said that the payments into his account were for work he carried out on the property. However, the jury did not believe his explanation and gave a unanimous guilty verdict. In December 2018 at Isleworth Crown Court, Her Honour Judge Paneth, sentenced the individual to 12months imprisonment, suspended for 18months, and ordered him to perform 200 hours of unpaid work. For breaching his restraint order, he was sentenced to custody for three months suspended for 18months. Proceeds of crime timetables were set for the restrained assets, and this action continues.

Anti-Fraud Activity 1 April 2018 to 31 March 2019

15.	**TENANCY FRAUD (Notting Hill Genesis)** – Following a tip-off from a member of the public, the housing association asked CAFS to investigate on their behalf. CAFS has an arrangement with several housing associations across the borough, including Notting Hill, that any properties recovered as a result of our fraud investigation will be given to the Council for allocation. The information in this instance suggested a property in Oaklands Grove, W12 was unlawfully sublet by the tenant's son. CAFS investigation revealed that the tenant had been unwell and required continuous 24hrs care and support. She had been moved to a private residential care home. However, her son appeared to have taken control of the address rather than return it to Notting Hill Genesis. This was confirmed when investigators found sub-tenants at the property. The subtenant, who had only been in residence a few weeks, stated that the property was advertised online via Spare Rooms. They showed investigators a copy of a tenancy agreement which declared the tenant's son as the landlord of the property. They were quite shocked to discover the property belonged to Notting Hill Genesis. With evidence of sub-letting, the son was invited to attend an interview under caution which he did, accompanied by a solicitor. He gave a pre-prepared statement in which he denied subletting his mother's social tenancy. He also stated that he suffered from mental health. After the meeting efforts were made to obtain further witness statements from possible subtenants but investigators were unable to track any down. Two of the subtenants identified were overseas students who had returned home and attempts to contact them failed. With an insufficient amount of evidence to mount a criminal prosecution, the case was readied for a repossession hearing, but shortly after the interview, the keys to the property were returned. CAFS action had led to the recovery of a Notting Hill Genesis property which has since been offered to the Council for letting.

Anti-Fraud Activity 1 April 2018 to 31 March 2019

16.	**HOUSING APPLICATION FRAUD** - A case was referred to CAFS by the Homeless Team when a homeless applicant failed to answer questions regarding capital and savings fully. Concerned the individual may have been lying the matter was referred to CAFS. The applicant was a former homeowner who had sold her property and made almost £50,000 from the sale. However, she could not fully explain what had happened to these funds. CAFS investigators undertook several financial checks and discovered what seemed like a reckless pattern of spending. When challenged, the individual said that they had needed to buy new clothes and spent money to help decorate her mother's home. Details of the investigation were passed to the Homeless Team who decided that the applicant had deliberately depleted her assets and capital in an attempt to claim she was financially destitute, and the Council's duty to provide support and assistance was discharged.

Agenda Item 7

London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 23 July 2019	
RISK MANAGEMENT UPDATE	
Report of the Director for Audit, Risk, Fraud and Insurance	
Open Report	
Classification: For review and comment **Key Decision: No**	
Consultation: All service departments were consulted as part of the quarterly review	
Wards Affected: None	
Accountable Director: David Hughes, Director for Audit, Risk, Fraud and Insurance	
Report Author: Michael Sloniowski, Risk Manager	**Contact Details:** michael.sloniowski@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1. The purpose of this report is to provide members of the Audit, Pensions and Standards Committee with an update on risk management within the Council and present them with a revised sovereign strategy and corporate risk register for consideration.

2. RECOMMENDATIONS

The Members of the Audit, Pensions and Standards Committee are requested to:

1. note the contents of this report and the updated sovereign strategy
2. 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 eliminated entirely 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.

Furthermore, the work of the Council's Policy and Accountability Committees is acknowledged as a robust and additional form of assurance for the management of risk across its services.

4. PROPOSAL AND ISSUES

4.1. Risk management is the application of council strategies, governance, policies and processes to identify and manage risks that are unacceptable to the Council. Managing risk processes effectively enables the Council to safeguard against potential threats and exploit potential opportunities to improve services and provide better value for money for residents, visitors, local businesses and service users.

4.2. 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.

4.3. This report provides the Committee with an updated sovereign risk management strategy statement, **Appendix 1**, and the updated corporate risk register presenting a suite of 28 corporate risks as reviewed by the Council's Strategic Leadership in July. The full suite of corporate risks is listed in **Appendix 2.**

Risk Management Strategy Statement 2019 2022

4.4. The council has a vision to improve people's lives, and to do this, objectives are set in the business plan that are intended to deliver this vision. It is essential that risks to the Council delivering these objectives are identified, monitored and managed.

4.5. The Council's previous risk strategy was developed during a period that covered Shared Services, since this time, there have been legislative and organisational changes and a new sovereign approach has been agreed. It is timely that the corporate risk strategy be revised to support the delivery of the H&F Vision as well as to consider the impact of legislative changes, new threats and opportunities and potential effect of Brexit on the way council supports communities and delivers services. This simplified strategy attached at appendix 1, sets out the Council's aim to embed risk management into the day to day activities that deliver the outcomes of the Council's Vision.

4.6. For a number of years, the Council has been working towards a comprehensive and integrated approach to risk management and to further embed this approach the following areas will be focused on where:

- employees are clear about what risk management is intended to achieve;
- significant risks are being identified, escalated, reported and managed effectively;
- training and guidance in all forms of risk management are easily accessible;
- a consistent corporate approach is followed using a common 'risk language'; and
- it is seen as an integral part of good corporate governance.

4.7. The council is accountable to the public for its performance and financial management. This means that the Council naturally has a low appetite for risk, however as austerity continues the Council will need to take carefully considered risks to develop new and innovative ways to deliver services, support communities and ensure the long-term wellbeing of communities is not impaired by decisions made in the short term. This makes good risk management essential.

Corporate risk register

4.8. Risks are represented in the following Heat Maps, Chart 1 illustrates the previous position for Quarter 4 for 2018/2019 and Chart 2 illustrates the Quarter 1 position for 2019/2020.

OVERVIEW RISK HEAT MAPS

Chart 1:

Quarter 4 2018/2019

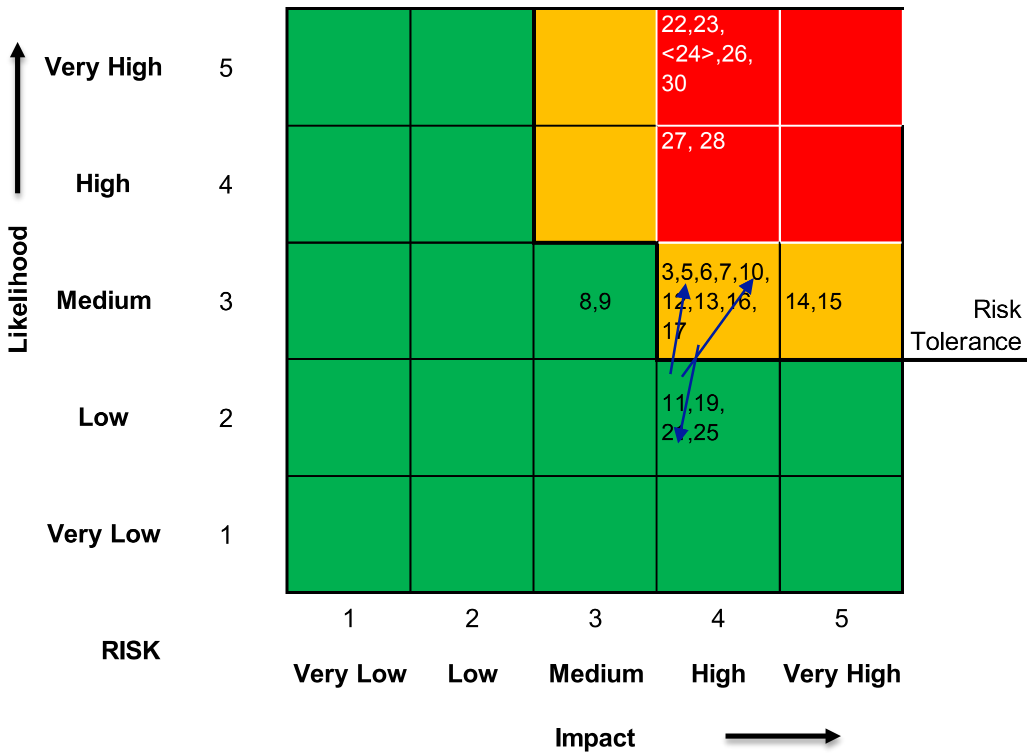
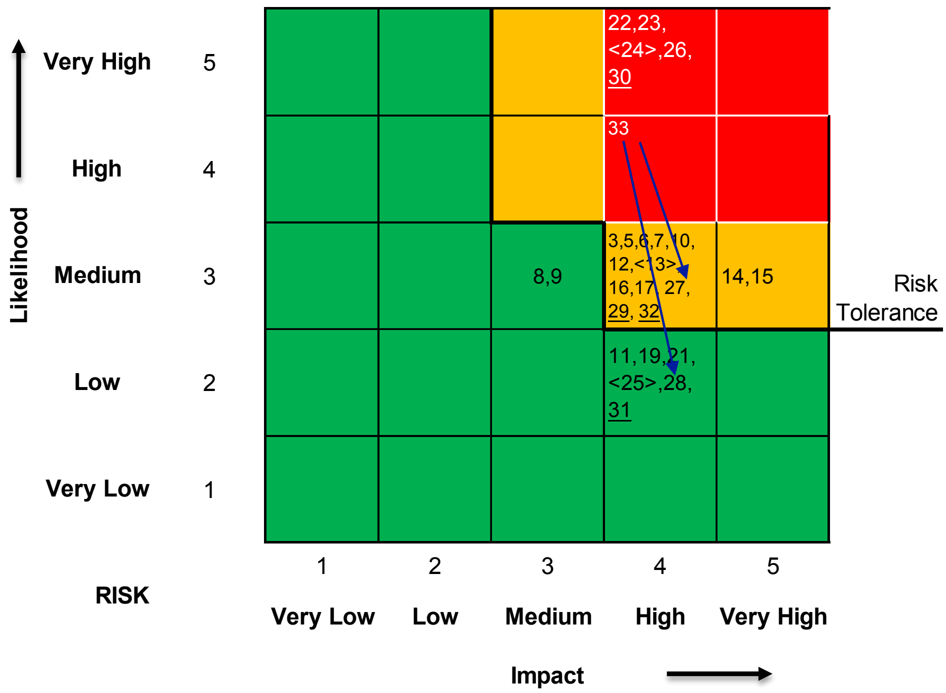


Chart 2:

Quarter 1 2019/2020



Proposed to close < >

Closed ( )

New _

Summary

4.9. There will remain 25 active corporate risks on the register in Q1, including;

- 5 new risks (Risk 29) Management of complaints, (Risk 30) Financial Management in year budget 2019 2020 (Risk 31) Adult Social Care balanced budget pressure in 2019 2020 (Risk 32) Corporate management of health and safety (Risk 33) Hammersmith Bridge, funding from Transport for London.
- 3 risks are being closed from the previous quarter and include;
- (Risks 24 and 25) Financial management risks associated with the financial year 2018 2019 and (Risk 13) as this has become part of the business as usual activity.

4.10. Movement from Quarter 4 2018/2019 to Quarter 1 2019/2020 is as summarised as follows:

- 7 High Risks at Q4 2018/2019 down to 6 in Q1 2019/2020
- 11 Medium Risks at Q4 2018/2019 up to at 14 in Q1 2019/2020
- 6 Low Risks at Q4 2018/2019 up to 8 from Q1 2019/2020

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:

Risk Narrative

4.12. 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).

New risks created for Q1 are:

- (Risk 29) Management of complaints, requests for information, members enquiries, added at the request of the Council’s Strategic Leadership Team.
- (Risk 30) Financial Management in year budget 2019/2020 and Medium-Term Planning, and;
- (Risk 31) Adult Social Care balanced budget pressure in 2019/2020 and over the medium term, both included for this year’s financial challenges.
- (Risk 32) Corporate management of Health and Safety. This risk has been separated out from the Statutory Duty (Risk 7) for closer monitoring by the newly appointed Head of Corporate Health and Safety.
- (Risk 33) Hammersmith Bridge repairs, funding from Transport of London.

4.13. It is also proposed to close the following risk as this has now being integrated into business as usual activity.

- (Risk 13) Managed Services (Existing Human Resources and Financial Transactional Service).

4.14. With the Council's accounts for 2018/19 now closed and subject to audit the following risks are also closed. The outcome of the audit will be reported to the July Audit, Pensions and Standards Committee.

- (Risk 24) Financial Management in year budget 2018/2019 and Medium-Term Planning.
- (Risk 25) Adult Social Care balanced budget pressure in 2018/2019 and over the medium term.

4.15. All Corporate risks continue to be reviewed and, in this period, were subject to more stringent internal Officer challenge in accordance with the Being Ruthlessly Financially Efficient Priority, enhanced Programme Management and Governance and strategic leadership from the Chief Executive and Strategic Leadership Team. Hence some further downward movement (trend) from Q4 at the end of 2018 2019 to Q1 2019 2020. This, along with a range of management actions implemented, has resulted in an improved outlook from Q4 to Q1 for 2 Risks (Risks 27 and 28).

4.16. Additional mitigations are also expected to influence positive movement in the next period for:

- **Risk 3: Commercial & Procurement.** Work is progressing in support of the objectives stated in the Council's Ruthlessly Financially Efficient Action Plan including forward planning of procurement activity, checking expiry dates for existing contracts, cross-service contracts reviews and commercial and contract managers training. Additional activity undertaken includes, continuing to improve the content on the Council's contracts register. Training for the Council's contract managers has taken place through March into July covering such areas as insurance indemnities, legal and contract risk, fraud, Information technology, key performance indicators, TUPE and risk in the supply chain. This has been well attended, 166 officers to date, with the offer being made in through the IBC Learning Zone. Additionally, sessions have been provided through the Social Value commitment from current suppliers, Mazars, Sharpe Pritchard and Protector Insurance.

- **Risk 6: Information Management, digital continuity and regulations, legislation and compliance.** The Statutory Officers Accountability Board in June 2019 considered a report setting out performance and inappropriate disclosures in respect of handling personal data for LBHF residents and agreed to a proposal that a joint programme be trialled in Children's Services which would involve the Children's Services staff, management, Information Strategy and Internal Audit and Risk Management. The activities and timescales for the programme of work, would then be used as a base for carrying out similar programmes in other Council directorates.

As an additional measure an all-council briefing regarding keeping data safe via email was cascaded in February 2019 to staff. This was received positively. However, while incidents reported by Children's Services have reduced, email and human error remains a risk to protecting our residents' data.

Members of the Children's Services management team completed a 'Protecting Residents Data' survey which highlighted areas on which future workshop activity will be focused. Additional drop-in sessions were being booked to ensure the widest management representation is captured. Children's Services and Adult's Social Care management have agreed to have all their data classified as 'sensitive' in the migration to SharePoint. This further mitigates the risk of inappropriate sharing of resident information by means other than email. Additionally, a new Caldicott Support Manager has been recruited within Children's Services to provide additional face-to-face training, support, and guidance on information security.

- **Risk 11: Decision making and Corporate Governance.** Additional work to review the Council's procurement regulations (Contract Standing Orders) is nearing completion, with input from the Council's Legal Services Team. Improved governance in reporting has also been driven partly by the increased scrutiny of report content and implications resulting from the Ruthlessly Financially Efficient priority.

- **Risk 14: Compliance with statutory duties.** As recently reported to the June 2019 meeting of the Economy, Housing and the Arts, Policy and Accountability Committee a range of measure has been implemented that includes assurance through;

  Specialised teams with fire and associated systems expertise to undertake fire risk assessment, fire incident investigation, training, fire engineering solution, testing and maintenance and to deliver an extensive work programme of fire safety capital works. The newly formed H&F Maintenance which began operating on the 17th April 2019 has a bespoke team dedicated to undertaking fire safety works. The team will deliver a programme over 36 months of fire detection upgrade to over 1,000 converted street properties and undertake compartmentation and firestopping identified in fire risk assessment. Works will be quality checked by qualified in-house staff and third-party accredited organisations. The team also undertakes works identified through the proactive fire safety plus visit, over 1,000 to date, such as upgrading internal kitchen doors. As part of the Fire Safety Plus commitment an extensive fire door enhancement programme has been commissioned, and two contractors will start to deliver from Autumn over 4,000 doors to blocks of 10 or more storeys, sheltered homes, hostels and premises identified through fire risk assessment.

Four separate contractors for asbestos consultancy, display energy certificates, water risk assessments contracts have been selected and let to cover the maintenance and repairs which were previously undertaken under the TFM contract in all categories of corporately managed buildings. The contractors' systems for safe working and associate training regimes / tradespersons qualifications have been reviewed in line by the in-house FM Service with both legislative and good industry practice to ensure conformity. This form of contract allows the Council to appraise the contractors efficiently, whilst providing the flexibility of employing competent contractors with a single communication channel. This will provide the speed of response which is necessary for this type of work, whilst providing economy of scale in pricing of works and ensure effective spend of funding.

- **Risk 23: High needs budget pressure in the Direct school block.** The Corporate Revenue Outturn July 2019 report to Cabinet for the period 2018/ 2019 noted that the Dedicated Schools Grant (DSG) High Needs Block funding has come under increased pressure in recent years across the country, and the Council had a cumulative overspend at the start of the year due to insufficient government funding. An earmarked reserve has been set aside to offset the deficit. Officers are working to reduce this overspend and modelling forecasts a decrease in the in-year overspend in 2019/20. At the same time, representations are being made to Government to demonstrate how they are underfunding the High Needs Block.

- **Risk 26: The likelihood of a 'No-deal Brexit' Risk remains the same.** Each Service was requested to monitor and note council activity that may have increased leading into the initial Brexit period and subsequent extensions. All services entered into conversations with their critical suppliers to ascertain their preparedness. The Council's Service Resilience Group completed reviews of existing Service Continuity Plans and completed Brexit Plan appendices to the main plan. Liaison with the Metropolitan Police took place on a fortnightly basis with the Public Disorder Division. The Business Continuity Manager continues to actively monitor the situation.

Reduced Risks in Quarter 1:

4.17. This, along with a range of management actions implemented, has resulted in an improved outlook from Q4 to Q1 for 2 Risks (Risks 27 and 28).

- **Risk 27: Digital Accessibility.** The EU Web Accessibility Directive is a radical overhaul of the structure and content of public bodies websites and mobile apps that will transform the way 13 million disabled people in Britain access the Internet. It requires 'that public sector bodies take the necessary measures to make their websites and mobile applications more accessible by making them perceivable, operable, understandable and robust.' The web team have been working to establish which of the Council's digital services are in scope of the regulations and are engaging with council services and suppliers about this to get the sites audited and fixed.

- **Risk 28**: **Mosaic/Business Objects.** A mitigation plan was swiftly developed to minimise the risk to which the Council may have been exposed to associated with the failure of the management information reporting systems for Children's Services Social Care. The management reporting system is a part of a management control system that provides business information. This information can be in the form of reports and/or statements. The system is designed to assist members of the management team and staff by providing timely and pertinent information. The plan has been monitored periodically by Business Intelligence staff in the Public Services Reform department and resources allocated and deployed promptly in response.

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 Audit, Pensions and Standards Committee.

6.2. Equality implications verified by Fawad Bhatti, Policy and Strategy.

7. LEGAL IMPLICATIONS

7.1. There are no direct Legal implications associated with the presentation of Risk Registers to the Audit, Pensions and Standards Committee.

7.2. Legal implications verified by: Rhian Davies, Assistant Director, Legal and Democratic Services.

8. FINANCIAL IMPLICATIONS

8.1. There are no direct Finance implications associated with the presentation of Risk Registers to the Audit, Pensions and Standards Committee.

8.2. Financial implications verified by: Emily Hill, Assistant Director, Corporate Finance.

9. IMPLICATIONS FOR BUSINESS

9.1. There are no direct implications for business associated with the presentation of Risk Registers to the Audit, Pensions and Standards Committee.

9.2. Business implications verified by: Albena Karameros, The Economy Department.

10. COMMERCIAL IMPLICATIONS

10.1. There are no direct procurement implications for business associated with the presentation of Risk Registers to the Audit, Pensions and Standards Committee.

10.2. Commercial implications completed by: Joanna Angelides, Procurement Consultant.

11. IT IMPLICATIONS

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

11.2. IT implications verified by: Karen Barry, Strategic Relationship Manager.

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.

13. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name of responsible officer	Department/ Location
	Risk registers	Michael Sloniowski, Risk Manager	Internal Audit, Risk, Fraud and Insurance

LIST OF APPENDICES
Appendix 1 – Risk management strategy 2019 2022
Appendix 2 – List of Corporate risks

Risk Management Strategy Statement 2019 – 2021. Inspiring Improvement.

Appendix 1

PURPOSE

To realise opportunities and manage risk effectively for residents, borough businesses, people who work in our borough, visitors and the environment.

VISION

A risk culture that supports Our Vision, to be the Best Council.

VALUES

To embed the identification and management of risk to support the achievement of the Council's Priorities by developing a risk culture that;

- uses risk management as an enabler to take challenges which are well managed;
- takes responsibility and ownership for decisions based on risk;
- promotes trust and confidence.

Context

The demand for council services continues to grow while financial resources are decreasing. Effective risk management is an integral part of ensuring the continued delivery of our services and providing organisational resilience during major change and transformation.

This Risk Management Strategy supports the achievement of our key priorities, goals and service delivery to residents. It is supplemented by our risk management plan that sets out our key risk actions for the coming year.

INTEGRATED APPROACH:

Risks are continually discussed and considered in the context of financial and performance management.

RISK PROCESS:

We have a consistent, iterative process of risk identification, risk assessment, risk monitoring and reporting.

GOVERNANCE:

Risk management roles and responsibilities are clearly defined and regularly reviewed.

Our strategic approach to risk management

1. Principles

Our approach to risk management is built on the following principles:

- It is dynamic, iterative and reacts to change
- It is open, transparent and consistently applied
- It provides risk information that objectively informs decision making and creates value
- It is integrated into our processes and aligns with our objectives
- It ensures lessons are learnt and actions for improvement are identified and implemented

2. Benefits

Through our risk management approach, the following benefits are realised:

- Enhanced organisational resilience through facilitating continuous improvement and innovation
- Residents confidence and trust
- Flexibility to positively respond to new and continued pressures and challenges
- Strengthened governance to enable informed decision making
- Proactive and balanced management of risk and opportunities

3. Realisation

Realisation of the principles and benefits will be achieved through:

- Strong risk leadership that ensures the effective operation of the Council's risk approach and arrangements
- Consistent compliance with the risk strategy and framework
- Staff and members being equipped to work with and support the risk culture
- Clear communication of the Council's risk approach to our stakeholders
- Strong and transparent risk governance arrangements, including reporting and escalation of risk.

Appendix 2, List of Corporate risks at Q4 2018/19

Priority	Risk	No.	Likelihood	Impact	Likelihood	Impact	Movement	Exposure	Officer
			Q4 18/19	Q4 18/19	Q1 19/20	Q1 19/20			
Being ruthlessly financially efficient	Commercial contract management and procurement risks, rules, outcomes, social value, management.	3	3	4	3	4	Stable, and the direction of travel is improving. Work continues in support of the Ruthlessly Financially Efficient Action Plan. Commercial training has been undertaken with more planned. Contract management and social value reports have both been prepared and presented to Business Delivery Team. Additional learning and development sessions for the community of contract managers has been delivered. Posts for the Head of Contracts and Commercial Sales have been advertised and interviews are being held.	M	HJ
Being ruthlessly financially efficient	Business resilience risks, systems, processes, resources, IT and preparation for accommodation moves.	5	3	4	3	4	Stable. A new Chief Officer for Safer Neighbourhoods is in post. The Internal Audit of the Business Continuity systems and processes across the departments was recently completed and the service attained a satisfactory level of assurance for the current arrangements. Work will begin to move to a new IT based platform for future planning, assessment and scenario/exercise needs. The outcome of the recent Emergency Planning audit resulted in a substantial assurance following review.	M	SL
Being ruthlessly financially efficient	Information management and digital continuity, regulations, legislation and compliance.	6	3	4	3	4	Stable and the direction of travel is improving. Additional mitigations delivered updating the scheme of delegation to include Information Asset ownership and ensuring PSN compliance by conducting a health check. Roll out of laptops under the TECHTONIC Programme includes staff re-signing of a Personal Commitment Statement. 'Protecting Residents Data' a project with Children's Services. Management questionnaire defined, timeline agreed and is in progress. A plan has been agreed by the Strategic Leadership Team to manage and reduce Information in the off-site records storage facility.	M	VB
Creating a compassionate council	Managing statutory duties, equalities, human rights, duty of care regulations, highways. * Health and Safety moved to new Risk 32	7	3*	4	3	4	Stable* at risk of increasing if a bad Brexit or No deal is reached as there may be changes to the regulatory environment.	M	SL/HJ
Creating a compassionate council	Standards and delivery of care, protection of children and adults.	8	3	3	3	3	Stable	L	LR/SM

Appendix 1, List of Corporate risks

Creating a compassionate council	Failure of partnerships and major contracts (Commercial Providers, Family Support Service, New Housing, FM and School related contractors and suppliers, IBC)	9	3	3	3	3	Stable. A managed ending of FM and Housing Repairs and Maintenance Contracts has taken place with improved resilience and a blend of in-house and contracted services. Outcomes of a review of the Family Support Service are being considered by SLT and Moving On 2 is being implemented. Work continues over future models for providing FM functions in H&F corporate properties. Termination of the previous Amey contract has enabled remodelling of FM to deliver a combination of in-house contract managed hard FM and direct labour for soft FM functions. Corporate H&S continues to work closely with colleagues in Commercial Management and Corporate Property Services providing competent advice and operational support whilst future resource requirements are considered as part of the remodelling of FM functions.	L	SLT
Creating a compassionate council	Increase in complexity of working with Health partners.	10	3	4	3	4	Stable - H&F CCG must deliver £300m savings in 19/20, Financial Recovery Plan and Planning.	M	LR
All Council Priorities	Decision making and maintaining reputation and service standards. Good Governance, conduct, external inspections.	11	2	4	2	4	Stable. The new Corporate Induction for Managers has commenced with further sessions planned. Decision Making Training completed, Positive Ofsted Outcomes - quality of support for care leavers, Complaints and Ombudsman's reviews have been separated out and a new risk created for monitoring improvements, Programme Management, Review of Contract Standing Orders and Code of Conduct, Local Code of Corporate Governance Drafted and Draft Annual Governance Statement 2019 2020 approved by Cabinet Member for Finance and Commercial Services and Strategic Leadership Team.	L	HJ/RD
Being ruthlessly financially efficient	Failure to identify and address internal and external fraud.	12	3	4	3	4	Stable. Policies reviewed and approved at Audit Pension and Standards Committee. A refresh of the bribery risk assessment is being undertaken. New Fraud Awareness training is available on the Learning Platform and delivered to the Contract Managers Forum. End of Year report to Strategic Leadership Team and Audit Pensions and Standards Committee.	M	HJ/DH
Being ruthlessly financially efficient	Managed Services (Existing Human Resources and Financial Transactional Service)	13	3	4			Proposed to close as now becoming business as usual. Improved as former contract ends and the new IBC Managed Service is bedding down.	L	HJ/DA
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, a fire safety update was provided to the June meeting of the Economy, Housing and the Arts Policy and Accountability Committee indicating a range of measures implemented in accordance with the Fire Safety Plus objective. New contracts are being let by the now in-house FM Service to cover the non-housing assets.	M	HJ/JR

Appendix 1, List of Corporate risks

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, the Council recently participated in a simulation across London known as the Safer City exercise.	M	SL
All Council Priorities	Change Readiness e.g. Agile Working, TechTonic, New systems.	16	3	4	3	4	Programme management and reporting, some new systems are operating now as business as usual. Reviews conducted at Major Programmes Board and dashboard reporting to Strategic Leadership Team. Techtonic recently reviewed at Finance, Commercial Revenue and Contracts, Policy and Accountability Committee.	M	DA
All Council Priorities	Challenges in Recruitment and retention.	17	3	4	3	4	Stable. People Strategy covers the longer-term approach to the recruitment and retention of staff, including creating attractive workplaces, Agile Working, and developing our own. Agency Reduction programme and improvement of recruitment process, employee experience within the People Strategy. Potential changes in the external labour market that could impact of supply and competitive pay levels e.g. Brexit.	M	SLT
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. A key part of the improvement plan was to procure a new case management system, this is now being implemented.	L	RD
Doing things with, not to residents	King Street Regeneration Programme	21	2	4	2	4	Stable. WKSR programme board and highlight report reviewed at Programme Management Board overall is reported as Green. Some dependency risk is noted here for ICT infrastructure requirements, which are dependent upon third parties, to deliver appropriate ICT cabling to allow full connections to be present within the decant spaces at Clockworks and Shortlands Buildings. There is some risk that macroeconomic forces (e.g. Brexit) have a detrimental effect on the supply chain, construction workforce, interest rates, borrowing and inflation, CIL income or rate of sales. June update to Finance, Commercial Revenue and Contracts Policy and Accountability Committee.	L	JR
Creating a compassionate council	Children's services placements. 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	5	4	5	4	Stable risk assessed. As with other London Boroughs, we are seeing a rise in demand from adolescents at risk due to knife crime, child sexual exploitation and children being used for drug trafficking (County lines). Work continues to ensure that the forecast is robust, and that young people are placed in the most appropriate placement for their need.	H	SM

Creating a compassionate council	High needs budget pressure in the Direct school block.	23	5	4	5	4	As above (R22) Stable. Corporate Revenue Outturn 2018 2019 - Dedicated Schools Grant (DSG) High Needs Block funding has come under increased pressure in recent years across the country, and the Council had a cumulative overspend of £7m at the start of the year due to insufficient government funding. An earmarked reserve has been set aside to offset the deficit. Officers are working to reduce this overspend and modelling forecasts a decrease in the in-year overspend to £4.5m in 2019/20. At the same time, representations are being made to Government to demonstrate how they are underfunding the High Needs Block.	H	SM
Being ruthlessly financially efficient	Financial Management in year budget 2018/2019 and Medium-Term Planning.	24	5	4			Proposed to close. Corporate Revenue Outturn 2018/2019 report to Cabinet 01 July 2019. The Councils' accounts for 2018/19 are closed and subject to an audit. The statutory deadline for closure was 31 May with external audit complete by 31 July. The outcome of the audit will be reported to the July Audit Committee.	M	HJ
Being ruthlessly financially efficient	Adult Social Care balanced budget pressure in 2018/2019 and over the medium term.	25	2	4			Proposed to close.	L	LR
All Council Priorities	Impact of a 'no-deal' Brexit (Workforce, Housing, Contracts, Residents, Finances)	26	5	4	5	4	Stable. Brexit briefing notes, Service resilience group meetings and refreshing business continuity plans.	H	SLT
Doing things with not to residents	Digital Accessibility, public sector websites and apps will have to meet minimum accessibility standards. Just as all government buildings must legally be accessible to all who wish to access them, so too must their digital gateways.	27	4	4	3	4	The web team have been working to establish which of the Council's digital services are in scope of the regulations and are engaging with council services and suppliers about this to get the sites audited and fixed.	M	LR
All Council Priorities	Failure of the Management Information reporting systems for CHS	28	3	4	2	4	Improved. Review undertaken, and immediate risk is now considered low following mitigation; Independent review of the short- and long-term services reporting, development of live reporting dashboards that monitor performance and data quality, temporary data entry resource used to support and improve data entry. Additional mitigation strategies underway in CHS include, data cleansing in MOSAIC, introducing a new data quality review and data entry accountability.	L	JS
All Council Priorities	Management of complaints, requests for information, members enquiries	29			4	4	New. Risk proposed for inclusion by Strategic Leadership Team.	H	SLT
Being ruthlessly financially efficient	Financial Management in year budget 2019/2020 and Medium-Term Planning.	30			5	4	New. Ruthlessly Financially Efficient Action Plan. Zero Based Budgeting. New IBC Managed Service controls.	H	HJ
Being ruthlessly financially efficient	Adult Social Care balanced budget pressure in 2019/2020 and over the medium term.	31			2	4	New, The Strategic Director has a monthly budget monitoring board meeting which will monitor each savings programme and identify compensating actions for potential non-delivery of savings.	L	LR

Appendix 1, List of Corporate risks

All Council Priorities	Corporate management of Health and Safety	32			3	4	New, A new Head of Corporate Health and Safety has been appointed and has started. An update on previous activity has been provided in summary to the Strategic Leadership Team at the July meeting with an outline vision. A more comprehensive review and statement will be provided to the Audit Pensions and Standards Committee in September 19.	M	HJ
Doing things with not to residents	Transport for London funding for renovation of the Hammersmith Bridge and the consequence of delays impacting on our residents, businesses, visitors and users.	33			4	4	New. A team of 18 world-class specialist engineers from both TfL and H&F Council are currently undertaking the most comprehensive engineering review the bridge has ever seen. There have been emergency service contingency plans in place before the bridge was closed. Hammersmith & Fulham Council is in regular dialogue with all emergency service providers. Pedestrians and cyclists are still able to cross. Diversions are in place for motorists and the bus routes which use the bridge.	H	SL

Agenda Item 8

London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 23 July 2019	
HEAD OF INTERNAL AUDIT ANNUAL REPORT 2018/19	
Report of the Strategic Director of Finance and Governance	
Open Report	
Classification: For Information **Key Decision: No**	
Wards Affected: None	
Accountable Director: Hitesh Jolapara, Strategic Director of Finance and Governance	
Report Author: David Hughes, Director of Audit, Fraud, Risk and Insurance	**Contact Details:** Tel: 0207 361 2389 E-mail: David.HughesAudit@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report summarises the work of Internal Audit in 2018/19 and provides the opinion of the Director of Audit, Fraud, Risk and Insurance on the adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion is provided for the use of the London Borough of Hammersmith and Fulham and is used to support its Annual Governance Statement.

1.2. The work undertaken by Internal Audit supports the Council's priority of being Ruthlessly Financially Efficient, helping to ensure that management have robust controls and practices in place to safeguard the Council's assets, controlling expenditure and maximising potential income to protect and invest in essential frontline services which are in place to meet the Council's priorities.

1.3. The report sets out a continuing trend of improvement in assurance being obtained and provided for 2018/19 through the work of internal audit. The reflects the commitment to a robust assurance framework being led by the Chief Executive, through monthly SLT Assurance meetings, and through the delivery of the Ruthlessly Financially Efficient programme led by the Strategic Director of Finance and Governance.

1.4. From the Internal Audit work undertaken in the financial year 2018/19, reasonable assurance can be provided that systems of internal control in place are effective with 88% of the audits undertaken receiving a positive assurance opinion (81% in 2017/18), with over one-fifth of all audits receiving the highest assurance rating of Substantial assurance (19% in 2017/18 and 8% in 2016/17).

1.5. There are some areas where control improvements are required and compliance with agreed systems could be improved. In each case, action plans are either in place, or have already been implemented, to remedy the weaknesses identified. These will be followed up by the internal audit team until they are completed.

1.6. The Council was found to be effective, in most areas, at implementing recommendations where concerns in respect of controls were identified.

1.7. The report is a key element of the evidence supporting the Annual Governance Statement (AGS), which will be presented elsewhere on the agenda with the Annual Accounts.

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

Background

4.1. The Audit and Accounts Regulations 2015 require the Council to conduct a review of effectiveness of the system of internal control. This contributes to the Council priority of being Ruthlessly Financially Efficient. Detailed reports on the performance and outcomes of the internal Audit work undertaken, have been presented monthly to the Council's Section 151 Officer and at each meeting of the Audit Pensions and Standards Committee.

4.2. Wherever possible, when planned audits have to be postponed, alternative audit work is identified or alternative sources of assurance are sought, for example, through external inspections and reviews of Council services. During the past year, the Council has secured positive outcomes from a number of external inspections and reviews including the Community Independence Service and the Rivercourt Project Short Breaks Service both being rated Outstanding by the Care Quality Commission. The recent SEND inspection also highlighted a number of strengths in the leadership and delivery of services. The outcome of these and other inspections also supports the Annual Governance Statement.

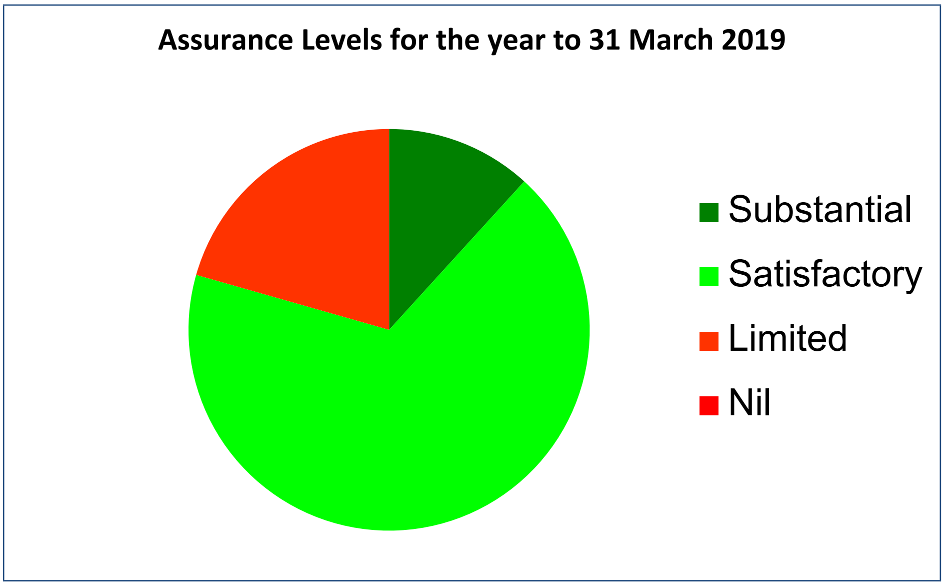
4.3. The internal audit service has been provided in accordance with the UK Public Sector Internal Audit Standards (PSIAS). Under these Standards, internal audit services are required to have an external quality assessment at least once every five years and this is likely to be undertaken during 2019/20. During 2018/19 the Internal Audit Service undertook a self-assessment to verify PSIAS compliance which has identified general compliance with the Standards with minor improvements which will be addressed during 2019/20.

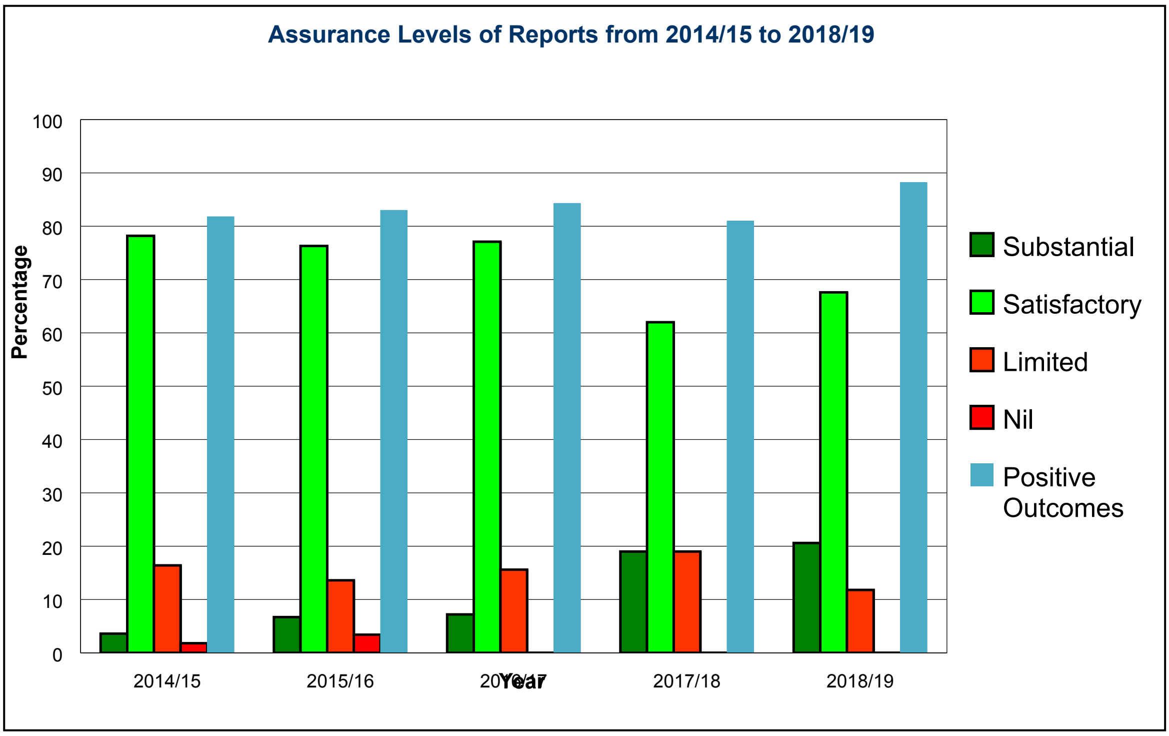
4.4. As part of the 2018/19 internal audit plan, reviews of the role of both the Head of Internal Audit and Section 151 Officer against CIPFA standards were undertaken. The results of these reviews have been considered as part of this report.

Internal Audit Opinion

4.5. As the provider of the internal audit service to the London Borough of Hammersmith and Fulham, the Director of Audit, Fraud, Risk and Insurance is required to provide the Section 151 Officer and the Audit Pensions and Standards Committee with an opinion on the adequacy and effectiveness of the Council's governance, risk management and control arrangements. In giving this opinion it should be noted that assurance can never be absolute. Even sound systems of internal control can only provide reasonable and not absolute assurance.

4.6. The opinion is that, at the time of preparing this report and based upon the work completed this year, the Council's governance, risk management and internal control systems in the areas audited were adequate with the exception of those areas detailed as Limited assurance (see paragraph 4.11 below), all of which have been reported to the Audit, Pensions and Standards Committee. This is a positive opinion which means that the Council generally has effective internal control systems with 88% of audits receiving a positive assurance opinion, including over 20% receiving a Substantial assurance rating. This is an improvement from 2017/18 when 81% of audits received a positive assurance opinion.





4.7. In the above context it should be noted that:

- This opinion is based solely upon the areas reviewed and the progress made by the Council to action internal audit recommendations;
- Assurance can never be absolute neither can internal audit work be designed to identify or address all weaknesses that might exist;
- Responsibility for maintaining adequate and appropriate systems of internal control resides with Council management, not internal audit.

Managed Services and replacement of Finance, HR and Payroll systems

4.8. Internal Audit has been actively involved in the programme since commencement, providing independent assurance and ongoing constructive challenge through the planning, delivery and governance/oversight of the programme and has been satisfied that the programme has been robustly planned, well-resourced to ensure delivery of plans, and has been subject to good programme governance and oversight.

4.9. Internal Audit undertook an independent review of programme governance which found that there was structured governance and control framework in place and the project was on track. The review found there was a good working relationship between all parties involved in the implementation.

4.10. Testing and review has been undertaken at key stages of the programme, including the Fit-Gap process, data migration and data verification, development of organisation structure and data required to enable work flow and approvals in the new system, system integration testing and user acceptance testing. No significant issues were identified in the processes established to undertake these activities or from testing of transactions to ensure that processes were being correctly applied.

4.11. Appropriate arrangements had also been put in place to establish and maintain an archive of data held on the BT Agresso system, to enable access to the external auditor and others in respect of historic queries.

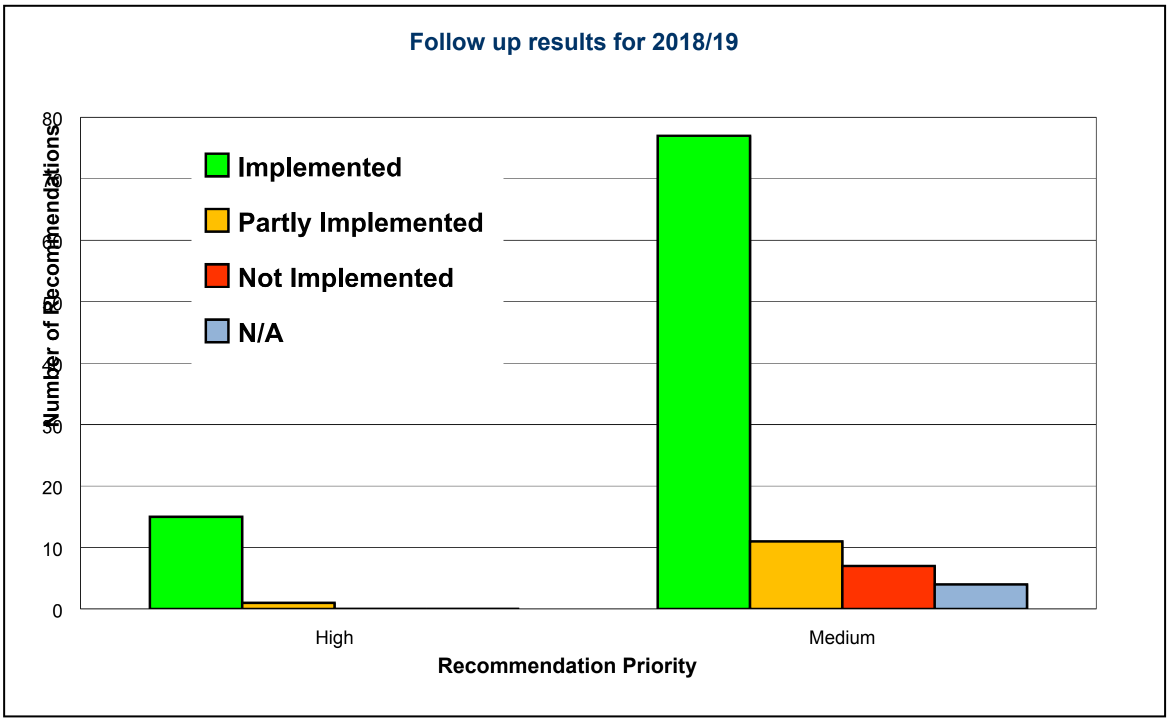
4.12. The Director of Audit was a member of the Sponsor Board which provided good oversight to the programme, including the development and implementation of programme plans, monitoring and tracking of key programme activities and the identification, management and mitigation of programme risks.

Follow ups

4.13. From December 2018, Internal Audit began reporting in more detail to Committee on the outcome of our follow up of recommendations raised and actions agreed with management. This followed on from increased focus by SLT Assurance and the wider business on implementation of recommendations and improvements in performance over the past 18 months.

4.14. 115 recommendations were followed up in 2018/19 and confirmed that the implementation of medium and high priority recommendations has been consistently effective:

- 80% of medium and high priority recommendations followed up in 2018/19 were fully implemented with a further 10% partly implemented.
- 94% of high priority recommendations followed up were found to be fully implemented with the remaining 6% partly implemented.



4.15. Issues arising from Internal Audit work which have significant implications for the Council's control assurance framework have been included in the Annual Governance Statement which is reported separately to this Committee. The monitoring process in respect of the Annual Governance Statement also ensures that follow up action is taken to remedy the key control weaknesses found.

Limited assurance reviews

4.16. There were a number of areas where improvements in compliance with controls were needed with a total of four audits being designated as limited assurance as set out in the table below:

Service Area	Audit	Reported to APSC
Public Services Reform	LBHF Ventures Ltd	September 2018
Public Services Reform	LBHF Joint Ventures Ltd	March 2019
Resident's Services *(now Environment)*	Members & MP Enquiries, Freedom of Information, Subject Access Requests and Complaints	March 2019
Growth and Place *(now Economy)*	Section 106 Agreements	July 2019

The findings from the first three of these audits have been reported to the Audit, Pensions and Standards Committee as indicated above and the implementation of recommendations arising from these audits will reviewed during 2019/20. The fourth Limited assurance review, Section 106 Agreements, is summarised in Appendix 4 of the report and the full internal audit report is also included as a separate report on the agenda.

5. OPTIONS AND ANALYSIS OF OPTIONS

5.1. Not applicable as the Head of Internal Audit is required to produce an annual report and opinion under the Public Sector Internal Audit Standards.

6. CONSULTATION

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. To enable this, an annual Internal Audit Plan covering the Council's key risks is devised in consultation with the Strategic Leadership Team and the work performed through this plan forms the basis of the annual opinion.

6.2. The report has also 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 Fawad Bhatti, Social Inclusion Policy Manager.

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.

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 Andre Mark, Finance Business Partner and verified by Emily Hill, Assistant Director, Corporate Finance.

10. IMPLICATIONS FOR BUSINESS

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

Implications verified by Albena Karameros, Programme Manager, Economic Development.

11. COMMERCIAL IMPLICATIONS

11.1 There are no commercial implications arising from this report.

Implications verified by Andra Ulianov, Procurement Consultant.

12. IT IMPLICATIONS

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

Implications verified/completed by: Veronica Barella, Chief Information Officer.

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.

LOCAL GOVERNMENT ACT 2000
BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name of holder of file	Department/ Location
1.	Full audit reports covered in this report	David Hughes	Corporate Services, Internal Audit Town Hall, King Street Hammersmith W6 9JU

LIST OF APPENDICES:

Appendix 1 – A summary of audits completed in 2018/19 with assurance opinions
Appendix 2 – A summary of changes to the agreed 2018/19 audit plan
Appendix 3 – A summary of the Internal Audit Service performance indicators
Appendix 4 – Limited Assurance reports issued since the previous meeting

Appendix 1

Audits completed in 2018/19 with assurance opinions

Department	Audit	Audit Opinion: Nil	Limited	Satisfactory	Substantial	Issued
FINAL REPORTS ISSUED						
Children's Services	Kenmont Primary School					26/03/2019
Children's Services	Leaving Care					08/06/2018
Children's Services	Frameworki to Mosaic Application Upgrade (Adults)					25/06/2018
Finance and Governance	H&F Bridge Partnership Dissolution					04/01/2019
Finance and Governance	ICT Procurement and Contract Management					18/02/2019
Finance and Governance	Office 365					22/08/2018
Finance and Governance	Network Security Compliance					19/09/2018
Growth and Place * *(now Economy)*	Cleaning and Caretaking Contract Management					27/03/2019
Growth and Place *	Section 106 Agreements *(See Appendix 4)*					01/04/2019
Growth and Place *	Community Infrastructure Levy					01/04/2019
Growth and Place *	Universal Credit Trusted Partner Status					09/10/2018
Growth and Place *	Implementation of the Homelessness Reduction Act					12/04/2019
Public Services Reform	LBHF Ventures Ltd					21/05/2019
Public Services Reform	LBHF Joint Ventures Ltd					11/02/2019
Residents Services # *(now Environment)*	Members/MPs Enquiries; FOI, SARs and Complaints					16/01/2019
Residents Services #	On-Street parking (Parking income)					01/02/2019
Residents Services #	Community Safety					31/11/2018
Residents Services #	Building Control					28/02/2019
Residents Services #	Business Continuity					16/05/2019
Residents Services #	Housing Benefit					05/06/2019
Residents Services #	Council Tax					05/06/2019
Residents Services #	NNDR					05/06/2019
Residents Services #	Emergency Planning					25/06/2019

		Audit Opinion				
Department	**Audit**	**Nil**	**Limited**	**Satisfactory**	**Substantial**	**Issued**
Social Care	Ellerslie Day Centre					18/09/2018
Social Care	Imperial Wharf Day Centre					20/08/2018
Social Care	Nubian Day Centre Contract Management					28/02/2019
Social Care	Shanti Day Centre Contract Management					01/04/2019
Social Care	Emergency Duty Team					10/04/2019
Social Care	Frameworki to Mosaic Application Upgrade (Adults)					25/06/2018
DRAFT REPORTS ISSUED						
Finance and Governance	Savings Management					20/11/2018
Finance and Governance	Coroners					w/c 8 July
Finance and Governance	BT and Agilisys Contract Management					13/03/2019
Resident's Services #	Cemeteries and Crematoria					w/c 8 July
Growth and Place *	Housing Rents					09/05/2019

Audits In Progress (to be updated prior to APSC in July)	
Children's Services	Engaging Support Workers Through Agencies
Children's Services	Departmental Risk Management
Finance and Governance	Corporate Debt Management
Finance and Governance	Bank Reconciliations
Finance and Governance	Capital Programme
Finance and Governance	Commercial Services
Finance and Governance	Budgetary Control
Growth and Place *	Departmental Risk Management
Growth and Place *	Health and Safety Compliance
Public Services Reform	Commissioning
Public Services Reform	Commissioning – Contract Management
Social Care	Departmental Risk Management

Audit work requested by departments (carried out as advisory reviews, where no assurance rating was provided)

Department	Audit	Issued
Children's Services	Queensmill School	In progress
Children's Services	Protecting Resident's Data	In progress
Corporate Services	MSP transfer to IBC solution	29/11/2018
Corporate Services	Desktop Strategy Programme Assurance	25/06/2018
Corporate Services	Family Support Service Programme Assurance	26/10/2018
Finance and Governance	GDPR Programme Assurance	08/08/2018
Finance and Governance	Role of the Head of Internal Audit	19/07/2018
Finance and Governance	Role of the Section 151 Officer	10/04/2019
Finance and Governance	Key Financial Controls Testing	In progress
Growth and Place *	King Street Programme Assurance	20/09/2018
Public Services Reform	Advertising Hoarding Income	21/06/2019
Resident's Services #	Parks Sports Facilities Bookings	23/05/2019
Resident's Services #	Revenues and Benefits	w/c 8 July
Social Care	Client Affairs	23/10/2018

Appendix 2 - Changes to the 2018/19 Internal Audit Plan

Audits added to the 2018/19 audit plan are included in the table in Appendix 1. The table below shows any audits removed from the 2018/19 plan, following discussions with management, or deferred to 2019/20.

Department	Auditable Area	Reason Audit not Undertaken
Children's Services	Family Support and Safeguarding	Deferred to 2019/20 due to internal reviews taking place
Children's Services	Early Help 6-9 months (including Youth Offending Team, Troubled Families)	Consolidated into the Family Support and Safeguarding review (above) to be undertaken in 2019/20. Good outcome from YOT inspection so assurance already obtained. Risk workshop to be run on Troubled Families due to uncertainties around continuation of programme.
Finance and Governance	Public Sector Network Compliance	To be covered in 2019/20 Cyber Security audit
Growth and Place	Regeneration – Earl's Court	Deferred until programme in a suitable position for audit coverage.
Public Sector Reform	Residents Commissions	Not considered high risk following discussion with management. Advisory work being done to ensure appropriate tracking of recommendations is in place for reporting to SLT/Members
Public Sector Reform	Health Intelligence and Joint Strategic Needs Assessment	Removed due to uncertainty of future funding from CCG.
Public Sector Reform	Partnership working with Health & CCGs	Removed due to uncertainty of future funding from CCG.
Public Sector Reform	Community Investment	Not considered high risk following discussion with management
Resident's Services	Hammersmith Bridge	Deferred until programme in a suitable position for audit coverage.
Social Care	Community Independence Service (CIS)	Removed due to uncertainty of future funding from CCG.
Social Care	Mental Health	Deferred to 2019/20 due to consideration of service delivery options – audit will be undertaken in Quarter 2

Appendix 3 – Internal Audit Performance Indicators

The majority of internal audit work for the London Borough of Hammersmith and Fulham is undertaken by Mazars. The performance of Mazars is summarised below against a range of performance indicators:

Performance Indicators	Annual Target	Performance	Variance	Notes
% of deliverables completed (2018/19)	95%	94%	-1%	31 out of 33 deliverables issued
% of planned audit days delivered (2018/19)	95%	96%	+1%	512 out of 533 days delivered
% of audit briefs issued no less than 10 working days before the start of the audit	95%	100%	+5%	14 out of 14 briefs issued on time
% of Draft reports issued within 10 working days of exit meeting	95%	91%	-4%	20 out of 22 draft reports issued on time
% of Final reports issued within 5 working days of the management responses	95%	94%	-1%	15 out of 16 final reports issued on time

Summary of Limited and Nil Assurance Reports since last meeting

APPENDIX 4

Audit and Scope	Details	Rating
Section 106 Agreements The objectives of this review were to assess and evaluate the controls in the following areas: • Corporate Oversight • External Policy and Guidance • Development of S106 Agreements • Receipt of S106 Income • Monitoring and Completion/ Delivery of Non-financial Obligations • Enforcement of S106 Agreements • Utilisation and Monitoring of S106 Expenditure	S106 of the Town and Country Planning Act 1990 allows a local planning authority to enter into a legally-binding planning obligation with a developer in association with the granting of planning permission. The obligation is termed a S106 Agreement. Agreements under S106 are normally required to mitigate impacts arising from large scale developments and provide the means of ensuring the provision of necessary services and infrastructure, such as highways, recreational facilities, education, health and affordable housing to support new large-scale developments. Two high and five medium recommendations were raised as follows: 1) Procedural guidance covering the whole process should be developed and made readily available to all officers/staff involved in operations relating to S106 agreements. Procedures should be version controlled and set out when and by whom they should be reviewed. 2) Roles and responsibilities should be defined and documented for all teams involved in the administration and oversight of S106 agreements. 3) Internal approval of S106 agreements should be obtained and clearly evidenced before the agreements are signed. 4) A reconciliation or review of payment records should be undertaken to confirm that payments are accurately allocated and that outstanding demand notices and payments can be identified. A single control document, containing sufficient detail, should be put in place to monitor when financial obligations are due and payments made. This will help ensure consistent recording of information and more effective monitoring of outstanding payments. 5) Non-financial obligations should be document, including key trigger dates, and tracked to enable effective monitoring of the completion/ delivery of non-financial obligations and to identify cases that require enforcement action. 6) The S106 spreadsheet should be updated and amended to clearly show allocations of funds to specific projects. This will help maintain an adequate audit trail to demonstrate that funds have been allocated to specific themes as per agreements and as approved by Cabinet. 7) Project owners should provide evidence of S106 funds expenditure to confirm that the funding has been spent as per agreed terms. Specific projects should be assigned to S106 funds (for each pot / financial obligation) to enhance transparency when documenting S106 spend and commitments. All recommendations were agreed to be implemented by the end of November 2019. At the time of the final report being issued three recommendations had been confirmed by management as being implemented (1 High and 2 Medium).	**Limited Assurance**

Management Update:

- There has been a significant amount of work between planning and finance colleagues to ensure existing s106 data and information is improved and that record keeping of s106 clearer, including the recording of non-financial obligations;
- Finance systems have now been put in place to reconcile individual s106 agreements with receipts;
- The restructure is in place ensuring greater clarity about roles and responsibilities with job descriptions reviewed as per the management response. The recruitment process has begun to fill these key roles;
- The s106 Board has been established, and has met, to provide appropriate governance and oversight;
- Governance arrangements and procedural guidance are being established to effectively manage, in a clear and auditable way, the s106 process from start to finish, including: identifying the infrastructure needs of development (specific projects or pooled contributions towards a project); the negotiation of obligations from individual developments; standardised clause in agreements & triggers for payment; the recording of obligations; monitoring of triggers and payments; the issuing of demand notices or enforcement of obligations or payments; the receipt of payments; informing service areas of funding and delivery requirements; the monitoring and reporting of the completion of obligations; the reporting of balances including commitments; forecasting of future s106 monies;
- The above will also clarify the role and responsibilities of the various Council services involved in the management of s106 agreements and the delivery of planning obligations;
- Planning and finance teams are currently on track to deliver all improvements by November;
- A series of workshops will be held with officers and members to improve the understanding of the legal requirements and management processes for the securing, use and spending of s106. The aim will be to be ensuring all parties are informed of the new governance arrangements to be put in place, including administration, authorisations and transparent reporting

Agenda Item 8a

London Borough of Hammersmith and Fulham

Final Internal Audit Report

Section 106 Agreements

April 2019

Contents

1 Introduction

As part of the internal audit plan for 2017/18, agreed by the Audit, Pensions and Standards Committee, we have undertaken an internal audit of Section 106 (S106) Agreements in the London Borough of Hammersmith and Fulham.

S106 of the Town and Country Planning Act 1990 allows a local planning authority to enter into a legally-binding planning obligation with a developer in association with the granting of planning permission. The obligation is termed a S106 Agreement.

Agreements under S106 are normally required to mitigate impacts arising from large scale developments, and provide the means of ensuring the provision of necessary services and infrastructure, such as highways, recreational facilities, education, health and affordable housing to support new large scale developments.

S106 agreements can be used for the following purposes:

- To restrict the development or use of land;
- To require specific operations or activities to be carried out in relation to the land;
- To require payment of a sum or sums of money - e.g. towards future maintenance costs; and
- To require land to be used in a certain way.

The obligation can either be a bilateral agreement between the Council and the land owner or unilateral undertakings by the land owner or developer. The scope of such agreements must meet the following three tests as set out in the Community Infrastructure Regulations 2010:

- Necessary to make the development acceptable in planning terms;
- Directly related to the development; and,
- Fairly and reasonably related in scale and kind to the development.

As described in the April 2018 report to Cabinet, the following are some of the projects that are funded from S106 monies in the London Borough of Hammersmith and Fulham to address needs generated by the developments taking place:

- £9,380,000 towards school projects;
- £1,627,001 towards enhanced Policing across the borough;
- £1,325,106 towards Parks and Environmental improvement;
- £2,652,018 towards highway projects in the borough directly required as a result of developments taking place; and,
- £2,141,452 towards the delivery of Genuinely Affordable Housing Projects.

This audit was carried out to ensure that S106 agreement opportunities are appropriately identified and agreed, amounts are collected in full and developer obligations are met.

2 Executive Summary

2.1 Assurance Opinion

	Nil	Limited	Satisfactory	Substantial
Audit Opinion		Li		

2.2 Recommendations Summary

The following table highlights the number and categories of recommendations made.

Area of Scope	Adequacy	Effectiveness	Recommendations Raised		
			High	Medium	Low
Corporate Oversight			0	2	0
External Policy and Guidance			0	0	0
Development of S106 Agreements			0	1	0
Receipt of S106 Income			1	0	0
Monitoring Completion/Delivery of Non-Financial Obligations			1	0	0
Enforcement of S106 Agreements			0	0	0
Utilisation and Monitoring of S106 Expenditure			0	2	0
		Total	2	5	0

Please refer to the Appendix 2 for a definition of the audit opinions and recommendation priorities.

3 Summary of Findings

In Internal Audit's opinion, **Limited Assurance** can be given to Members, the Chief Executive and other officers that the controls relied upon at the time of the audit were suitably designed, consistently applied and effective in their application.

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

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

- Procedural guidance has not been developed and made available to officers/staff involved in the administration and oversight of S106 agreements. There are a number of teams involved in processes relating to S106, however roles and responsibilities are not clearly communicated to the different teams involved.
- A Local Plan, last reviewed in February 2018, is in place and includes relevant information for third parties on S106 Planning Obligations. The Local Plan makes reference to S106 and details its key objectives, such as addressing skills shortages, when negotiating the S106 agreements with the developer.
- Guidance is available to developers on the Council's website, including the Supplementary Planning Document, which provides additional detail to policies concerned with S106 and a variety of topics within LBHF's Local Plan and to any neighbourhood plans that may come into effect in the Borough.
- We tested a sample of 10 agreements and identified that the Planning Committee or officers (with delegated authority) discuss and agree on the Heads of Terms for each S106 agreement. Planning permissions are granted subject to a satisfactory legal agreement covering the matters outlined in the Planning report prepared to support to the application and subject to the conditions of the report.
- Legal Services had archived all the S106 application documents, but these were retrieved for our work and email trails were seen for all 10 agreements showing negotiations had taken place between the developer and the Council.
- Based on a sample of 10 cases tested, we confirmed that agreements were signed by all relevant parties: the Council, the owner and the mortgagee (where applicable).
- Through discussions with Legal Services, we were informed that any changes that need to be made to previously agreed planning obligations would require approval from either the Planning Committee or officers (with delegated authority). From the sample of 10 S106 planning applications tested, there were six Deed of Variation applications attached to the original agreement and in all cases we confirmed that an officer's report was developed and the changes appropriately authorised.
- We tested a sample of 10 S106 agreements, to confirm whether the Case Officer's approval was obtained before the final agreement was signed by the relevant parties:
  - In seven cases, we were able to confirm the case officer approved the final S106 draft before it was signed by the relevant parties;
  - In three cases (Bechtel House, Hammersmith Palais and 84 - 90B Fulham High Street), we were unable to obtain evidence of the case officer approving the final draft agreement before it was signed by the relevant parties. In one of these cases (Hammersmith Palais), although there was an email to suggest it was approved by the case officer, there was no evidence of explicit approval.
- Based on a sample of 10 cases tested, we confirmed that Demand Notices were issued to inform the developer of the due payment, in line with agreement obligations.

- S106 income is ring fenced in the Council's accounts. We established through discussions with the S106 Monitoring Officer that, when a payment for a Demand Notice is received, a member of the Finance team notify the S106 Monitoring Officer who then inform Finance of the 'AKA' number, which is a unique S106 agreement number assigned to each agreement for easy identification.
- Monthly reconciliations are completed by the Infrastructure Delivery Officer in the Development Management between S106 income collected and S106 financial contributions that are triggered but still to be received.
- Three spreadsheets are in use for the monitoring of financial obligations and recording of payments received:
  - 'Outstanding Contributions' is a log of all financial obligations identified in S106 agreements and the relevant trigger points attached to these obligations;
  - 'Monitoring' Spreadsheet which is a record of payments made and payments outstanding; and
  - 'S106 Funds Data' which tracks all financial obligations and records of payments received (as per Agresso) and is also used for tracking the spending of S106 income.

  We identified that the spreadsheets are not being updated consistently and accurately to reflect the status of the financial obligations, which made it difficult to establish financial obligations that were being fulfilled and those still outstanding.
- Furthermore, we tested a sample of 10 payments to check the accuracy of payment recording and found in three cases, that, whilst the payment was correctly posted in Agresso, in the 'S106 Funds Data' spreadsheet, the payment was recorded against a different S106 agreement reference and address. Exceptions are detailed below:

Agresso	**S106 Funds Data**
Harbour Avenue	Kings Mall
73 to 77 Britannia Road	Lands North of Westfield
Land North of Westfield	Service Station on Du Cane

- The reconciliations performed between Agresso and the S106 Funds Data spreadsheet are based on the payment references which would not necessarily highlight if the payment had been allocated to the wrong site and therefore against a different financial obligation.
- We found that currently there are no formal procedures for monitoring non-financial obligations. We were informed that non-financial obligations may be looked at on an ad hoc basis when the officer is monitoring financial obligations; however, this is not documented to confirm it takes place. As non-financial obligations are not monitored for completion, officers may not identify cases where enforcement action is required.
- The 'S106 Funds Data' spreadsheet, lists all of the triggered S106 financial obligations and risks that are assigned to each financial contribution (likeliness of receiving the money). The status of the funds is updated to indicate if payment is outstanding, received but not yet allocated, or has been committed to a plan for expenditure.
- A Drawdown report is presented to Cabinet which sets out the recommended use of funds received through Section 106 agreements and also as a result of the Community Infrastructure Levy (CIL) and seeks authority for the spend. A drawdown template is available for all departments to submit a proposal for expenditure. The Principal Accountant will confirm whether there are sufficient S106 funds available for the proposal before it is included in the final Drawdown report that is presented to the Cabinet.

- Based on a sample of five payments tested from the Drawdown report, we confirmed the funds were appropriately approved to fund projects as per agreement terms. However, in three cases (Chelsea Creek, 77-89 Glenthorne Road and 271-281 King Street), we were unable to confirm the specific financial obligation (theme) the developer had made payment for and therefore unable to confirm if the funds received were eligible for the projects they had been allocated to. This was due to the issues identified and mentioned above regarding the recording of income.
- Once payment is approved, and released, expenditure is not verified. Whilst we could confirm for each drawdown transaction, that in Agresso these had been correctly allocated to the proposed project as per the Drawdown report, these allocations are generic. For example, the allocations are posted under themes (Schools, Parks, Highways, CCTV) so we were unable to confirm if the funds were spent for the intended purpose.

4 Acknowledgement

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

- Ellen Whitchurch – Head of Development Management
- Peter Kemp – Former Planning Change Manager
- Seamus Thornton – Planning Obligations Monitoring Officer
- Asif Huq – Infrastructure Delivery Officer
- Trina Tali-Zekaj – Principal Accountant
- Adesuwa Omoregie – Principal Solicitor

Appendix 1: Management Action Plan

1. Corporate Oversight – Policies and Procedures

Priority	Issue	Risk	Recommendation
Medium	Procedural guidance for managing S106 agreements, income and expenditure has not been developed and made available to staff involved in the process. After the S106 agreements have been formulated by the Legal team, the responsibilities for monitoring and implementing the contributions are shared between officers in the Planning and Finance Teams. The tasks range from: • Documenting and maintaining records of S106 agreements; • Calculating the monies due from the developer with the appropriate uplift for inflation; • Monitoring obligations (financial and non-financial); • Issuing Demand Notices; • Accounting and reconciling receipts and the general ledger; and • Maintaining records of S106 funds and expenditure.	Where procedural guidance is not available, there is a risk that staff carry out their duties inconsistently or not in accordance with Council or legislative requirements. Furthermore, there is a risk of a single point of failure where administration and processing of S106 is reliant on one or two individuals without any formal guidance to revert to in their absence.	Procedural guidance should be developed and made readily available to all officers/staff involved in operations relating to S106 agreements. Formal documented procedures should include the process of: • Documenting and maintaining records of S106 agreements in place including the different control spreadsheets; • Monitoring S106 financial obligations and documenting the relevant triggers; • Managing S106 income and expenditure; and • Monitoring completion/delivery of non-financial obligations, including supporting documentation that can be used to verify the developer's compliance. The procedures developed should be version controlled to detail the date of review, name of the officer carrying out the review and date of next review.

Management Response	
S106/CIL board established with officers from Finance, Growth, Legal and Chaired by Chief Planning and Economic Development Officer to oversee all processes and scrutinise drawdown requests. The terms of Reference were agreed by both the Cabinet member and Strategic Leadership Team. The Board meets monthly and has agenda and minutes to track actions and decisions. the final version of the S106/CIL Protocol and Guidance Notes for services and external parties seeking S106/CIL funds was approved by the S106/CIL Board at its meeting on the 3rd December 2018.	
Responsible Officer	**Deadline**
Joanne Woodward, Chief Planning and Economic Development Officer	Started and on-going

2. Corporate Oversight – Roles and Responsibilities

Priority	Issue	Risk	Recommendation
Medium	Through discussions with the Head of Development Management, we established that there are a number of teams involved in processes relating to S106: • The Legal team are responsible for the drafting of the agreements, including negotiations with the developer. • The Finance team are responsible for the recording of income, ensuring the monies are ring-fenced in the finance system. • The S106 Monitoring officer is responsible for checking compliance with the S106 agreements. • The Accounting team are responsible for tracking S106 funds available, probability of receiving future funds and providing this information when proposals are made for spending S106. Currently, the roles and responsibilities have not been defined to clearly show the teams involved in the different processes for S106 administration and oversight.	Where staff are not aware of the roles and responsibilities of the different teams involved in the S106 agreement administration and oversight, there is an increased risk of not being able to identify if a process is missing or work is overlapping with another team. Furthermore, with the different offices involved there is an increased risk of not having clearer channels of communications to share/obtain information about particular S106 agreements and their status.	Roles and responsibilities should be defined and documented for all teams involved in the administration and oversight of S106 agreements Consideration should be given to developing a process map to break down the processes and indicate the responsible teams/officers. This could be combined with the procedural guidance included in recommendation 1 of this report.

Management Response
The restructure of Planning Service includes establishment of dedicated infrastructure Delivery Team. The team has clearly established roles and responsibilities which are written in to Job Descriptions, so that management responsibility for S106 and CIL is clear. The restructure is agreed and will be implemented during the Summer 2019

Responsible Officer	Deadline
Joanne Woodward, Chief Planning and Economic Development Officer	July 2019

3. Development of S106 Agreements – Explicit Approval of Agreement by Case Officer

Priority	Issue	Risk	Recommendation
Medium	The Case Officer must review and explicitly approve the final agreements (post negotiations), before these are signed by the relevant parties. From a sample of 10 agreements we selected to review email trails with developers and relevant paperwork, we found: • In three cases (Bechtel House, Hammersmith Palais and 84 - 90B Fulham High Street), we were unable to obtain evidence of the Case Officer approving the final draft agreement before it was signed by the relevant parties; and • In one of these cases (Hammersmith Palais), although there was an email to suggest that it was approved by the Case Worker, there was no evidence of explicit approval. We found that the Legal Services team who draft up the agreements, use checklists to ensure that the relevant tasks have been undertaken. Review of this checklist identified that a check of Case Officer approval was missing.	Where the S106 Agreements have not been approved by the Case Officer before these are signed by the relevant parties, there is an increased risk that incorrect or incomplete obligations are applied, resulting in the impact of the developments not being fully mitigated.	The approval of the S106 agreement by the Case Officer should be obtained and clearly evidenced, before the agreements are signed. The proof of explicit approval should be retained with all relevant paperwork associated with the development of the agreement. The Legal team should update their checklist to include a requirement for documenting the Case Officer's approval.

Management Response
Case officers in the planning team now approve final agreements. Work is underway as part of techtonic programmme to improve digital filing arrangements so that record keeping is improved and it is clear who the accountable case officers are. This work will be completed by the end of 2019.

Responsible Officer	Deadline
Joanne Woodward, Chief Planning and Economic Development Officer	November 2019

4. Receipt of S106 Income: Updating spreadsheets in use consistently

Priority	Issue	Risk	Recommendation
High	Three spreadsheets are in use for the monitoring of financial obligations and recording of payments received: • 'Outstanding Contributions' is a log of all financial obligations identified in S106 agreements and the relevant trigger points attached to these obligations; • The 'Monitoring' spreadsheet which is a record of payments made and payments outstanding; and • 'S106 Funds Data' which tracks all financial obligations and records of payments received (as per Agresso) and is also used for tracking the spending of S106 income. We identified that the spreadsheets are not being updated consistently and accurately to reflect the status of the financial obligations, which made it difficult to establish which financial obligations were being fulfilled and those outstanding. For example, in the 'Monitoring' spreadsheet, we identified that some contributions had been received but payment is recorded as a total, with no breakdown to indicate which financial obligations the collected amount relates to. When cross checking against the 'Outstanding Contributions' spreadsheets which list the financial obligations individually, we noted that this is not consistently updated to reflect the payments made, which could help identify what the payment was. With more recent payments, the breakdown of the money received had been recorded, but for majority of the spreadsheet this was not the case. Furthermore, we tested a sample of 10 payments to check the accuracy of payment recording and found in three cases, whilst the payment was correctly posted in Agresso, in the 'S106 Funds Data' spreadsheet, the payment was showing against a different S106 agreement reference and address.	The monitoring spreadsheets are an important tool for monitoring the contributions due and monies received. Where the spreadsheets are not accurate, there is an increased risk of financial loss if the Council are unable to identify and recover outstanding payments. Additionally, where income has not been recorded correctly, there is a risk of expenditure being used for invalid purposes in breach of the S106 agreement.	A reconciliation or review of payment records should be undertaken to confirm that payments are accurately allocated and that outstanding demand notices and payments can be identified. The data from both monitoring spreadsheets used by the S106 Monitoring Officer should be combined and a single control document for monitoring both financial obligations due and payments made. This will help ensure consistent recording of information and more effective monitoring of outstanding payments. Consideration should also be given to including details of the commencement date (if known) and the date when the commencement notice was received next to the trigger date, to establish and track any surcharges which might be applicable.

	The reconciliations performed between Agresso and the S106 Funds Data spreadsheet are based on the payment references which would not necessarily highlight if the payment has been allocated to a different site and therefore against a different financial obligation.		

Management Response	
There is now a single shared data base now in use with Finance and Planning services. This is to ensure consistency of information and spreadsheets are updated in real time. The already established S106/CIL Board receives monthly updates of financial position and can interrogate the data and track movements.	
Responsible Officer	**Deadline**
Joanne Woodward, Chief Planning and Economic Development Officer	Implemented and on-going

5. Monitoring Completion/Delivery of Non-Financial Obligations

Priority	Issue	Risk	Recommendation
High	There are currently no formal procedures for monitoring non-financial obligations. We were informed that non-financial obligations may be looked at on an ad hoc basis when the officer is monitoring financial obligations, however this is not documented. As non-financial obligations are not monitored for completion, cases where enforcement action is required may not be identified.	Where monitoring of non-financial obligations is not undertaken, there is an increased risk that obligations are not completed in line with the deed of agreement, resulting in the impacts of the development not being fully offset. Where enforcement activity for non-financial obligations is not undertaken, there is an increased risk that obligations remain uncompleted and the deed of agreement between the Council and the developer is not complied with.	Non-financial obligations should be logged and tracked to enable effective monitoring of the completion/ delivery of non-financial obligations and to identify cases that require enforcement action. This monitoring should be documented. In order to facilitate effective monitoring, the spreadsheet for monitoring non-financial obligations should be updated to include dates that the obligations are to be triggered. Where is not considered practical to monitor all non-financial obligations, they should be monitored on a risk basis.

Management Response
We have focussed on improving robustness of receipt and management of financial obligations and a number of changes and controls established to address the issues identified in the audit. We have commenced a review of non- financial obligations. This will be completed by Autumn 2019

Responsible Officer	Deadline
Joanne Woodward, Chief Planning and Economic Development Officer	November 2019

6. Utilisation and Monitoring of S106: Use of Funds

Priority	Issue	Risk	Recommendation
Medium	We selected a sample of five payments and checked the S106 Funds Data spreadsheet for the allocations, as per approved allocations in the Drawdown Report. With reference to the issues identified in Recommendation 4 above, due to the recording of S106 payments, it was difficult to confirm in three cases which financial obligation the payment had been received for and therefore difficult to determine if the funds collected were then allocated to an appropriate project. The exceptions were: • Chelsea Creek • 77-89 Glenthorne Road • 271 - 281 King Street This is more difficult in cases where a large sum of money is collected as a result of the S106 agreement but this is split between different eligible projects and themes.	Where the Council are unable to demonstrate that the S106 funds have been used for the intended purpose and in line with regulations, there is an increased risk of reputational damage for the Council and financial loss where further the expenditure is required to offset the development and meet the terms of the agreement.	The S106 spreadsheet should be updated and amended to clearly show allocations of funds to specific projects. This will help maintain an adequate audit trail to demonstrate that funds have been allocated to specific themes as per agreements and as approved by the Cabinet.

Management Response
This recommendation has been completed. All spend has been reviewed and verified.

Responsible Officer	Deadline
Joanne Woodward, Chief Planning and Economic Development Officer	Complete

7. Utilisation and Monitoring of S106: Monitoring of S106 Spend

Priority	Issue	Risk	Recommendation
Medium	Once payment is approved, and released, expenditure is not verified. Whilst we could confirm for each drawdown transaction, that these had been correctly allocated to the proposed project as per the Drawdown report, allocations are generic. For example, the allocations are posted under themes (Schools, Parks, Highways, CCTV) so we were unable to confirm if the funds were spent for the intended purpose.	Where the Council is unable to demonstrate that the S106 funds have been used for the intended purpose, there is an increased risk of reputational damage for the Council and financial loss where further the expenditure is required to offset the development and meet the terms of he agreement. Where the Council are not maintaining adequate records of S106 balances, there is an increased risk that the Council are unaware of S106 funds available for expenditure and is unable to deliver policy objectives which could be delivered if appropriate records were maintained.	Project owners should provide evidence of S106 funds expenditure to confirm that the funding has been spent as per agreed terms. Specific projects should be assigned to S106 funds (for each pot / financial obligation) to enhance transparency when documenting S106 spend. The S106 Funds Data spreadsheet has a column to state 'Proposals for use' which should be utilised.

Management Response	
This recommendation is already implemented. All services are required to provide evidence of Cabinet Member approval in order to draw down of S106 funds. In addition, evidence of spend is also required.	

Responsible Officer	Deadline
Joanne Woodward, Chief Planning and Economic Development Officer	Completed

Appendix 2: Definition of Assurance Opinions and Recommendation Priorities

In order to help put the audit opinion and recommendation priority ratings in context the following tables detail the current ratings used by Internal Audit.

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

Priority	Description
High	Recommendation addresses fundamental weaknesses, which seriously compromise the effective accomplishment of the system's objectives. Risks presented by the control weaknesses could be damaging in the short term. The management action required should be implemented as soon as possible, certainly within 0-3 months.
Medium	Recommendation addresses serious weakness, which affect the reliance to be placed on the system. Risks presented by control weaknesses could be damaging in the medium term. Management action is required within 0-6 months.
Low	Recommendation addresses minor weaknesses, or suggests a desirable improvement. Risks presented by control weaknesses are unlikely and inconsequential. Management action is recommended to address concerns within 0-9 months.

Appendix 3: Audit Scope, Limitations & Inherent Risks

This audit was a full risk based review of the arrangements for Section 106 Agreements and included the following areas:

Ref	Audit Area - Description	Comments on Coverage / Area Objectives
1	Corporate Oversight	An adequate governance structure is in place to ensure a coordinated approach to S106 funding across the Council and that accountability for S106 funding has been clearly defined and communicated. Furthermore, there is a system in place to monitor compliance with procedures and legislation relating to S106 funding.
2	External Policy and Guidance	The criteria on which S106 contributions are determined are transparent, so as to aid developer's understanding of the approach and to aid the negotiation process.
3	Development of S106 Agreements	The likely level and type of pressure that a development would generate is accurately identified in a full and timely manner, and that an appropriate contribution to help mitigate this is agreed with the developer.
4	Receipt of S106 Income	All income due from developers is received in a full and timely manner in line with the agreement, and is completely and accurately accounted for.
5	Monitoring Completion/Delivery of Non-Financial Obligations	Any non-financial obligations agreed with the developer are completed / delivered in a full and timely manner and only valid changes to the agreed obligation are accepted. Regular and timely monitoring of project status is undertaken.
6	Enforcement of S106 Agreements	Where the developer fails to meet the obligations set out in the S106 agreement - financial or non-financial - appropriate and timely action is taken to enforce the obligations, in accordance with the Planning and Compensation Act 1991.
7	Utilisation and Monitoring of S106 Expenditure	The income received from developers, where applicable, is appropriately utilised, in a full and timely manner, so as to target the relevant local infrastructure which is under the greatest pressure from the development. Furthermore, there is on-going monitoring of ring fenced and time bound income to ensure that it is spent appropriately and in a timely manner.

Limitations to the Scope of the Audit

- The audit focussed on evaluating the controls put in place to identify and prevent overspends going forward and does not provide assurance that previous overspends had been resolved or that all current or historical overspends have been identified and authorised appropriately;
- This audit was undertaken using a risk based approach and any testing undertaken as part of this audit was compliance based and sample testing only; and
- Our work does not provide an absolute assurance that material error; loss or fraud does not exist.

Inherent Risks

The risks listed below are **potential** inherent risks which are common for any system of this type:

- Non-compliance with regulatory requirements and recommended practice;
- CIL income is not maximised where eligible developments are not identified for CIL charges and/or charges are incorrectly;
- Invalid exemptions are applied for and granted;
- Inefficient and ineffective charge collection and debt recovery, leading to a loss of income; and
- Planned benefits derived from CIL income are not delivered

Appendix 4: Timetable and Distribution List

Stage	Date
Exit Meeting/ End of Fieldwork	16/08/2018
Draft Report Issued	18/09/2018
Responses Received	29/03/2019
Final Report Issued	01/04/2019

Audit Team
Client Engagement Manager: James Graham
Auditor: Rupinder Singh
Auditee
Ellen Whitchurch - Head of Development Management
Peter Kemp - Planning Change Manager
Seamus Thornton – S106 Monitoring Officer
Client Sponsor
Jo Rowlands – Executive Director of Planning and Borough Development