London Borough of Hammersmith & Fulham

Audit Committee

Agenda

Wednesday 23 November 2022 at 7.00 pm

Meeting Room 1 (2nd Floor) - 3 Shortlands, Hammersmith, W6 8DA

Watch the meeting live: youtube.com/hammersmithandfulham

MEMBERSHIP

Administration	Opposition
Councillor Patrick Walsh (Chair) Councillor Paul Alexander Councillor Florian Chevoppe-Verdier Councillor Ashok Patel	Councillor Adrian Pascu-Tulbure

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Members of the public are welcome to attend, but spaces are limited so please contact David.Abbott@lbhf.gov.uk if you'd like to attend. The building has disabled access.

Date Issued: 15 November 2022

Audit Committee
Agenda

Item		**Pages**
1.	**APOLOGIES FOR ABSENCE**	
2.	**DECLARATIONS OF INTEREST**	
3.	**MINUTES**	4 - 14

1. **APOLOGIES FOR ABSENCE**

2. **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 Standards Committee.

3. **MINUTES** 4 - 14

To approve the open and exempt minutes of the previous meeting and to note any outstanding actions.

Exempt minutes
Discussion of the exempt minutes will require passing the proposed resolution below to exclude members of the public and press.

Proposed resolution to exclude the public
The Committee is invited to resolve, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

12. **DATE OF NEXT MEETING**

The next meeting will be held on 14 March 2023.

London Borough of Hammersmith & Fulham

Audit Committee

Minutes

Tuesday 13 September 2022

PRESENT

Committee members: Councillors Patrick Walsh (Chair), Paul Alexander, Florian Chevoppe-Verdier, Adrian Pascu-Tulbure and Ashok Patel

Other Councillors
Councillor Rowan Ree (Cabinet Member for Finance and Reform)
Councillor Alexandra Sanderson (Cabinet Member for Children and Education)

Officers
Sharon Lea (Interim Chief Executive)
David Hughes (Director of Audit, Fraud, Risk and Insurance)
Moira Mackie (Head of internal Audit)
Lisa Redfern (Strategic Director of Social Care)
Jon Pickstone (Strategic Director of Economy)
Mark Lowthian (Director of Housing Transformation)
Phil Triggs (Director of Treasury and Pensions)
Craig Tucker (Head of Finance)
Andre Mark (Head of Finance)
Yvonne Hadlames (Head of Contacts)
David Abbott (Head of Governance)

Guests
Paul Dossett (Grant Thornton)

Death of Queen Elizabeth II
At the start of the meeting, the Chair express the Committee’s sadness at the passing of Queen Elizabeth and members observed a minute of silence in her memory.

1. **APOLOGIES FOR ABSENCE**

Councillor Paul Alexander gave apologies for lateness (he entered the meeting at 7.14pm).

2. **DECLARATIONS OF INTEREST**

There were no declarations of interest.

3. MINUTES OF THE PREVIOUS MEETING

Councillor Ashok Patel noted that he had not yet received a copy of the business plan requested at the previous meeting.

ACTION: David Abbott / David Hughes

RESOLVED
The Committee approved the open and exempt minutes of the previous meeting held on 21 June 2022.

4. ANNUAL AUDIT REPORT 2020/21

David Hughes (Director of Audit, Fraud, Risk and Insurance) introduced the report and welcomed Paul Dossett (Grant Thornton) to the meeting.

Paul Dossett presented the Council's 2020/21 Statement of Accounts, including the Pension Fund Accounts and Annual Governance Statement. He noted that Grant Thornton had not identified any significant weaknesses, or made any key recommendations, but had identified twelve opportunities for improvement, which were set out in the report.

Councillor Adrian Pascu-Tulbure, in reference to page 19, asked how confident officers and the auditors were about the assumptions relating to the pay freeze, a limited increase in business rates, and inflation pressures. Andre Mark (Head of Finance) said the Council's medium term financial strategy included contingencies for worst case scenarios. Pay inflation was a concern but the Council had options in the budget to address it.

Councillor Florian Chevoppe-Verdier, in reference to page 17, asked what the methodology and processes were for information review. He also asked if there were examples of cases where information was left out. Paul Dossett said the auditor's role was to consider the arrangements the Council had in place, not deep dive into specific areas. The auditors looked at how reports were brought to committees, whether the information in reports was sufficient for decision-makers. It was not a data sufficiency audit.

Lisa Redfern (Strategic Director of Social Care) added that each Cabinet Member had regular budget update meetings with senior officers, in addition to Cabinet level monthly budget updates. There were also challenge sessions with members and officers as part of the budget setting process. Sharon Lea (Interim Chief Executive) noted all reports followed detailed templates and guidance – governance processes were thorough, and officers were fully transparent with members.

Councillor Chevoppe-Verdier noted the suggestion to reduce the size of the risk register and asked what the suggested scale of the reduction was. Paul Dossett said his view was that the risk register should be around 6 to 10 key issues. David Hughes said he was working with SLT colleagues to review the corporate and directorate level registers to ensure SLT had visibility of the key issues in departments.

The Chair asked if a more concise central register risked reducing the ability of SLT to have oversight of risk management at the corporate level. Paul Dossett said their thinking was that the corporate centre was managing too many risks. SLT should manage corporate level risks and departments should manage the risks relevant to them.

Councillor Pascu-Tulbure, in reference to page 39, asked why the unit costs were so high in a number of areas, if there was a plan to get costs down, and what an acceptable benchmark would be. Councillor Rowan Ree (Cabinet Member for Finance and Reform) said benchmarking did not account for H&F's policy choices like free homecare, free meals for school children, and council tax freezes.

Councillor Chevoppe-Verdier asked for more information on the Section 151 Officer referenced in the report. Paul Dossett said it was a statutory role all Councils had, and they provided a risk commentary on the budget setting report. If they considered the Council was about to act illegally by not setting a balanced budget, they had a duty to say that in a Section 114 report.

Councillor Chevoppe-Verdier asked what proportion of boroughs had set up partnership registers. Paul Dossett said he was not sure, but it was good practice as it provided clarity, particularly for members to allow them to scrutinise and challenge.

Councillor Chevoppe-Verdier noted the report referred to Contract Assurance Board, but it was not a public board and asked why. David Hughes explained that it was an internal officer board to review procurement reports to ensure all matters had been considered and it complied with procurement requirements.

Councillor Chevoppe-Verdier asked officers to consider whether the papers for the board should be made public.

ACTION: David Hughes

The Chair asked, in reference to recommendation 12, if officers were content the Council remained compliant with its legal obligations around procurement. David Hughes said they were and internal meetings like Contract Assurance Board gave assurance.

Councillor Pascu-Tulbure, noting the Government funding the Council received in the form of Covid grants, asked officers to comment on the negotiations mentioned in the report. David Hughes said the audit team assisted with payment of grants to businesses. They followed the pre and post payment checks the Government recommended and worked with Government on recovery where necessary. H&F had robust process for managing the payment of grants.

Councillor Chevoppe-Verdier asked about the two documents noted as missing in the report – the People Strategy and the Housing Transformation Programme. Sharon Lea said the Council did have a published People Strategy which included achievements such as reducing the agency bill by £12m and increasing the number of apprentices. David Hughes noted that it had been sent to an auditor, but it coincided with a period of absence and wasn't included in the final report. Members asked for the final report to be updated to reflect that. Jon Pickstone said Housing would engage with Grant Thornton and send the Housing Transformation Programme to them.

ACTION: Jon Pickstone / Paul Dossett

Councillor Chevoppe-Verdier asked why the Commercial Revenue Committee had not met. Councillor Ree noted that the committee was convened on an ad hoc basis but had not met since the election. Commercial revenue issues were discussed regularly in Cabinet.

RESOLVED

The Committee noted the content of the external auditor's 'Annual Audit Report 2020/21', including the auditor's findings, recommendations, and the Council's response to those recommendations.

5. TREASURY MANAGEMENT OUTTURN REPORT 2021/22

Phil Triggs (Director of Treasury and Pensions) presented the report on the Council's annual Treasury Management outturn for 2021/22. He noted that cash remained steady throughout the financial year with balances increasing from £297.4m at 31st March 2021 to £328.9m at 31st March 2022 and no new borrowing was undertaken during the 2021/22 financial year.

Councillor Florian Chevoppe-Verdier asked if the Council had any investment in supra-national banks that had been affected by the war in Ukraine. Phil Triggs confirmed that the Council had not invested with supra-national entities during that period.

Councillor Chevoppe-Verdier asked what the level of inflation officers expected in light of the new energy package announced by the Government. Phil Triggs said a recent Goldman Sachs forecast showed expected inflation of below 11 percent.

Councillor Ashok Patel asked for a breakdown of the counterparty investments Phil Triggs said they had used The Australia and New Zealand Banking Group, The Debt Management Office, Goldman Sachs Bank, and Lloyds Bank. And in terms of money market funds they used Morgan Stanley, Aberdeen, BNP Paribas, Goldman Sachs Sterling Liquid Reserve, Blackrock Sterling Liquidity Fund, Heritage Fund Insight Liquidity Sterling, and Federated Prime Rate Sterling (all AAA rated).

The Chair asked if the Council would incur costs for early repayment of debt. Phil Triggs confirmed it would. The Public Works Loan Board made it very expensive to reschedule debt because the premiums were prohibitively high but that may change, and officers kept watch to take advantage of any future opportunities.

Councillor Rowan Ree noted that, as the Country entered a difficult financial situation, the Council was in a stronger position because of the good work of Phil Triggs and his team and thanked them for their efforts.

RESOLVED
The Committee noted the annual Treasury Management Outturn Report for 2021/22.

6. LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN ANNUAL REVIEW LETTER 21/22 AND HOUSING OMBUDSMAN MALADMINISTRATION FINDINGS

David Hughes (Director of Audit, Fraud, Risk and Insurance) and Yvonne Hadlames (Head of Contacts) introduced the report on the Local Government and Social Care Ombudsman (LGSO) Annual Review Letter and the findings of maladministration by the Housing Ombudsman in 2020/21.

The following officers also attended for the item:

- Lisa Redfern (Strategic Director of Social Care)
- Jon Pickstone (Strategic Director of Economy)
- Mark Lowthian (Director of Housing Transformation)

Councillor Adrian Pascu-Tulbure asked what could be done to prioritise cases where people had died as it was so important to get it right for families. Yvonne Hadlames said the team had put robust processes in place for when those cases came in. A link officer would contact the family and offer extra support. They were also trialling a new risk assessment template to help coordinate across multiple services.

Lisa Redfern noted that for Social Care the period covered Covid and the demand and volume of referrals was huge. The department had tightened up its systems and practice, and closed the loopholes that allowed these cases to happen. She noted that Social Care had put together a chart of learning record and said she could circulate it to members for information.

ACTION: Lisa Redfern

Sharon Lea (Interim Chief Executive) noted that the Council's approach to dealing with complaints at stage 1 and stage 2 was fundamental. The Strategic Leadership Team had been focused on those complaints, including interrogating them at management team level if they go to the Ombudsman. Yvonne Hadlames noted that a new quality assurance tool was about to go live that would help officers assess and review complaints.

Councillor Ashok Patel, noting the case of a Social Care provider that failed to notify the Council of a complaint, asked if the Council was still working with the provider. Lisa Redfern said it was a serious issue and was picked up with them as part of the contract monitoring process.

Councillor Florian Chevoppe-Verdier, in reference to page 60, asked why the Ombudsman was not required to publish a housing letter. David Hughes said he would check.

ACTION: David Hughes

The Chair asked why Social Care did not have any stage 2 complaints. Lisa Redfern said her team ensured complaints were resolved early. Staff were clear that they were not allowed to go over time on responses. Yvonne Hadlames noted that people could go to the Ombudsman at any time or stage of the process.

The Chair asked if Ombudsman cases incurred costs. Yvonne Hadlames said there was no charge but the Ombudsman could order the Council to give compensation in some cases.

Councillor Patel asked why the recommendation for ‘Economy - Allocations & Lettings case number 20013155’ was N/A despite it having the highest amount of compensation. Yvonne Hadlames said she would find out.

ACTION: Yvonne Hadlames

Councillor Chevoppe-Verdier asked why the Ombudsman stopped accepting complaints during the pandemic. Lisa Redfern said it was not clear what the rationale was.

Councillor Paul Alexander asked if there was a new set of expected repair timescales for tenants. He noted it used to be in the tenants handbook but no longer appeared there. Jon Pickstone said repairs were categorised based on their level of urgency. He noted the Council had invested a lot in call centres and its aftercare team. There was an issue with the timeliness of one of our contractors and they were working on that but the number of complaints over the past 6 months had been falling.

Councillor Alexander asked how many of the complaints were still live by time they reached the Ombudsman. He also asked what plans there were for staff training and actions to improve resident satisfaction in the repairs service. Mark Lowthian said there was a cultural necessity to treat residents with respect and capture issues on first contact and resolve them quickly. The main drivers for resolving that was around contractor performance. There had been issues including late delivery by one contractor and there had been some poor management of more complex repairs. The team had been focused on resolving complaints at first stage and since then there had been a 68% reduction in stage 2 complaints.

Jon Pickstone added that a lot was down to planned preventative maintenance. Work on damp and mould had reduced the number of leaks complaints for example. The team had also improved out of hours service at weekends and provided empathy training to ensure customer service improved.

Councillor Chevoppe-Verdier noted that members would appreciate more details in future reports (around the reason for delay for example).

The Chair asked what the average length of time for stage 2 to be reviewed was. Yvonne Hadlames said 20 working days is target. It had been significantly longer in the past but that target was now being met. Complaints were regularly reported to directorates and SLT to ensure they were kept on track.

Councillor Alexander, in reference to housing repairs, asked if the person dealing with the complaint had the freedom to contact a repairs manager directly to get it resolved. Yvonne Hadlames said the complaints team worked closely with the repairs team and could prioritise sensitive cases. Where necessary she would escalate cases to managers and contractors.

Sharon Lea added that issues did go straight to the repairs team. The corporate team worked on behalf of residents. She noted that the pandemic had created a backlog due to access issues and furloughed contractors, but the service was investing in a major transformation across housing to address the problem. She said officers would keep members updated on the work.

Councillor Patel asked if an independent informal arbitration stage could be explored. Sharon Lea said it would be considered. Councillor Chevoppe-Verdier noted concern about adding more complexity and more stages to an already complex process.

ACTION: Yvonne Hadlames

Councillor Chevoppe-Verdier asked if there was a timeline of when residents were followed up with on repairs issues. Sharon Lea said soon after a repair they were phoned to see if the service met their expectations. Councillor Chevoppe-Verdier suggested there was an opportunity to reduce stress on the complaints system if residents were made aware there would be a follow-up call. Sharon Lea said complaints gave the Council useful information and she did not want to discourage that at present.

RESOLVED

1. The Committee noted the content of the review letter.

2. The Committee noted the findings of maladministration by the Housing Ombudsman.

CHANGE OF AGENDA ORDER

Members agreed to move Item 7 to the end of the agenda to allow discussion of exempt information related to the Disrepairs Audit to take place if required.

7. <u>RISK MANAGEMENT HIGHLIGHT REPORT</u>

David Hughes (Director of Audit, Fraud, Risk and Insurance) presented the update on risk management across the Council.

Councillor Adrian Pascu-Tulbure asked for more information on Risk 18 and the Housing Ombudsman's severe maladministration finding. Jon Pickstone said officers had been arranging support for the tenant and were working to ensure it did not happen again. They would be going back to the Ombudsman on all points. Sharon Lea added that the issue had been a roof repair and window repair but the roof was not repaired to the correct standard which had caused damp. The Council had given heartfelt apologies to the tenant and was paying compensation. The tenant was satisfied with the actions taken.

Councillor Paul Alexander asked for more information on how the Council managed standards across a diverse housing stock. Sharon Lea said compliance standards had been exceeded on fire safety but in general work was completed to current building standards. Repairs were overseen by surveyors and a sample of them were inspected to ensure the quality was consistent.

Councillor Ashok Patel said in Sands End Ward housing repairs were a common source of common complaints. He had received reports of workmen not showing up and a general lack of communication from the Council. Jon Pickstone apologised and noted similar issues had been raised by other Councillors. Officers were working hard to improve customer service. The contractor responsible had invested more resources to improve and officers had seen the impact of that. The service took residents feedback seriously and they were clear with contractors about the standards expected.

Councillor Paul Alexander said there was a long list of issues reported by residents. He noted that the first responder needed to be able to capture all of the issues so they could be dealt with in a timely manner. Jon Pickstone agreed and said officers were working with one of the contractors on their information management system to ensure they got it right.

Councillor Chevoppe-Verdier suggested Risk 14 should be reworded to, ‘Failure to deliver the Civic Campus Programme on time’. David Hughes said he would take the suggestion away for consideration.

ACTION: David Hughes

Councillor Pascu-Tulbure asked what the mitigations for Risk 20 (Social Care overspend) were. Lisa Redfern said there were budget challenges because of premature hospital discharges. During and post-Covid people were coming home from hospital with a high level of need – effectively requiring hospital care at home. To combat this, officers were lobbying the NHS to pay for ‘Discharge to Assess’. Some other boroughs were already getting money to do this. In addition, the service was working with the market and looking at how to improve commissioning and contracting. Though this was difficult due to care reforms which had led to big increases in costs. Andre Mark noted that this was an issue across the country. Councils were hoping the new Local Government Financial Settlement would include some additional Social Care support.

Recommendations

1. The Committee noted the report.

8. DATES OF FUTURE MEETINGS

To note the dates of future meetings:

- 23 November 2022

- 13 March 2023

9. EXCLUSION OF THE PUBLIC AND PRESS (IF REQUIRED)

RESOLVED
The Committee resolved, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

10. INTERNAL AUDIT UPDATE

Moira Mackie (Head of internal Audit) presented the report which summarised the status of work included in the 2022/23 Internal Audit Plan as at the end of August 2022. She noted that eight audits had been finalised, three of which had been given a Substantial assurance opinion, four received Satisfactory assurance and one Limited assurance.

Councillor Florian Chevoppe-Verdier noted that the scale of assurance was not clear in the appendix. David Hughes said there were four levels which, from lowest to highest, were ‘Nil assurance’, ‘Limited assurance’, ‘Satisfactory’, and ‘Substantial’.

RESOLVED
The Committee noted the report.

Meeting started: 7.04 pm
Meeting ended: 10.00 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.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Audit Committee

Date: 23 November 2022

Subject: Treasury Management Strategy: Mid-Year Review 2022/23

Report author: Sophie Green, Treasury Manager

Responsible Director: Sukvinder Kalsi, Director of Finance

SUMMARY

This report provides an update on the implementation (six months to 30 September 2022) of the 2022/23 Treasury Management Strategy, approved by Council on 24 February 2022 and presents the Treasury Management Strategy 2022/23 mid-year review.

Treasury management comprises the management of the Council's cash balances and borrowing to ensure that funding of the Council's future capital programme is at optimal cost and investing surplus cash balances arising from the day-to-day financial operation of the Council to obtain an optimal return, while ensuring security of capital and liquidity.

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 2022/23 to include the treasury position as at 30 September 2022;
- a review of the Council's borrowing strategy for 2022/23;
- a review of compliance with Treasury and Prudential Limits for the first six months of 2022/23;
- an economic update for the first part of the 2022/23 financial year.

RECOMMENDATIONS

1. The Committee is asked to note the Treasury Management Strategy 2022/23 mid-year review.

Wards Affected: None

Our Priorities	Summary of how this report aligns to

	the H&F Priorities
Building shared prosperity	Achieve best value for money in investment and borrowing decisions.
Being ruthlessly financially efficient	Effective management of the Council's cash flow resources.

Financial Impact

This report is wholly of a financial nature.
Verified by: Sukvinder, Director of Finance

Legal Implications

There are no legal implications in respect of this report.
Verified by Jade Monroe, Chief Solicitor Social Care

Background Papers Used in Preparing This Report

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
	Treasury Management Strategy Statement 2022/23	Phil Triggs	Tri-Borough Treasury and Pensions

DETAILED ANALYSIS

Proposals and Analysis of Options

Background and Treasury Position

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."

2. This treasury monitoring report covers:
   - the treasury position as at 30 September 2022;
   - the borrowing strategy for 2022/23;
   - the borrowing position at 30 September 2022;
   - compliance with treasury limits and prudential indicators;
   - the investment strategy for 2022/23; and
   - the investment position at 30 September 2022.

3. The Council's debt, all held with the Public Works Loan Board (PWLB), and investment positions at the beginning of 2022/23 and at the six month point were as follows:

	31 March 2022 (£m)	Rate (%)	30 September 2022 (£m)	Rate (%)
General Fund (GF)	52.8	3.71	52.8	3.71
Housing Revenue Account (HRA)	218.9	3.77	218.9	3.77
Total Borrowing	**271.7**	**3.76**	**271.7**	**3.76**
Total Cash Invested	328.9	0.54	334.4	1.91
Net Cash Invested	**57.2**		**62.7**	

4. The Housing Revenue Account (HRA) is responsible for servicing 80.6% of the Council's external debt and the General Fund is responsible for the remaining 19.4%.

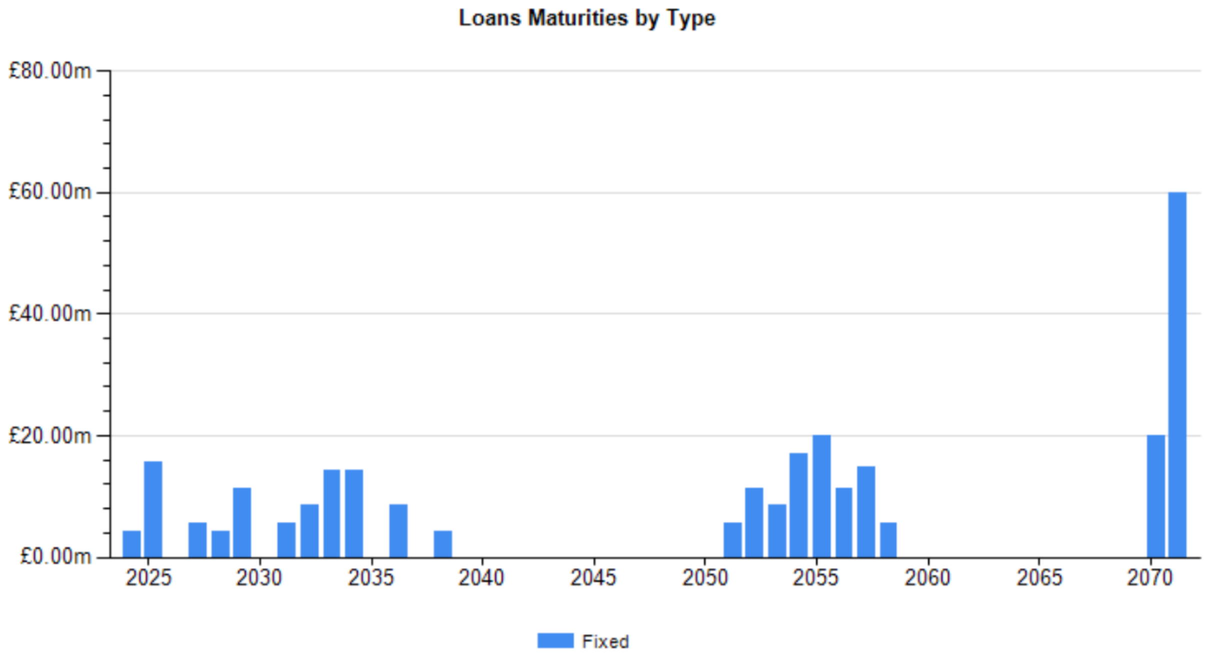
5. The table below shows the split of investments by duration as at 30 September 2022:

Maturity Period	Call (£m)	Fixed (£m)	MMF (£m)	Total (£m)
Liquidity	25.0	0.0	145.6	**170.6**
< 1 Month	0.0	38.8	0.0	**38.8**
1 – 3 Months	0.0	45.0	0.0	**45.0**
3 – 6 Months	0.0	80.0	0.0	**80.0**
6 – 12 Months	0.0	0.0	0.0	**0**
Total	**25.0**	**163.8**	**145.6**	**334.4**

6. The Treasury Management Strategy Statement (TMSS) for 2022/23 was approved by Full Council on 24 February 2022. The TMSS has kept investments short-term and invested with highly rated or UK Government backed institutions, resulting in low returns compared with borrowing rates.

Treasury Borrowing

7. No borrowing has been undertaken or repaid in the first half of 2022/23.Total borrowing therefore remained at £271.7m at an average interest rate of 3.76%. All of the Council's loans are at a fixed rate of interest. The table below shows the debt profile as at 30 September 2022:



8. In the first six months of 2022/23, the HRA PWLB debt of £218.9 million remained below the HRA Capital Financing Requirement (CFR) of £304.8m, which generates internal borrowing of £85.9m. This difference does not as yet exceed the value of HRA working balances. HRA reserves and working capital, in excess of internal borrowing, represent cash balances, on which interest is allocated from the general fund. As at 30 September 2022, the HRA held loans of £218.9m over and above the internal borrowing of £85.9m.

9. As at 30 September 2022, the Council had an under-borrowed position. This means that the capital borrowing requirement was not fully funded by the existing external loan debt and the balance is funded by cash reserves (known as internal borrowing).

Closing Capital Financing Requirement analysed between General Fund and Housing Revenue Account

	31 Mar 2022 CFR £m	31 Mar 2022 External Debt £m	30 Sep 2022 CFR £m	30 Sep 2022 External Debt £m
GF (Excluding DSG funded Schools Windows borrowing)	128.9	0	151.1	0.0
GF (DSG funded Schools Windows borrowing)	28.7	0	78.3	0.0
Total GF Headline CFR	**157.6**	**0**	**229.4**	**0.0**
Finance leases/PFI	8.5	0	7.1	0.0
Total Closing GF CFR	**166.1**	**52.8**	**236.5**	**52.8**
HRA	257	0	304.8	0.0
HRA CFR Total	**257**	**218.9**	**304.8**	**218.9**
Total CFR/External Debt	**423.1**	**271.7**	**541.3**	**271.7**

Treasury Investments

10. At 30 September 2022, a significant part of the Council's treasury investment portfolio (£163.8m) was held in fixed term deposits with the Debt Management Agency Deposit Facility (DMADF) and banks.

11. The TMSS allowed investment in the following areas:

- an unlimited investment limit with the UK Government (DMO) deposits, UK gilts, repos and treasury bills;
- up to a maximum of £100m per counterparty in supra-national banks, European agencies and covered bonds debt on a buy to hold basis with maturity dates of up to five years, and the Greater London Authority (GLA) bonds for up to three years;
- a limit of £30m to be invested with any UK Local Authority (subject to internal counterparty approval by the Director of Treasury and Pensions and Director of Finance);
- no more than £45m to be invested with any individual Money Market Fund;
- any financial instrument held with a UK bank limited to £70m depending on the credit rating and Government ownership above 25% (limit of £50m);
- any financial instrument held with a non-UK bank limited to £50m.

12. The investments outstanding at 30 September 2022 amounted to £334.4m invested in short-term deposits. This compares with £328.9m short-term investments at 31 March 2022.

13. The table below provides an analysis of the cash deposits, together with comparisons from the previous year:

	31 March 2022 £m	**30 September 2022 £m**
Liquid Deposits	0.0	0.0
Money Market Funds	204.4	145.6
Notice Accounts	25.0	25.0
Custodian Held Assets	0.0	0.0
Term Deposits	99.5	163.8
Enhanced Cash Fund	0.0	0.0
Total	**328.9**	**334.4**

14. During the first six months of 2022/23, cash balances varied between £330.3m and £349.1m, reflecting the timing of the Council's income (council tax, national non-domestic rates, government grants and capital receipts, etc) and expenditure (precept payments, payroll costs, supplier payments and capital projects).

15. The average return achieved on investments managed internally for the first six months was 1.06% compared with the average 7-day money market rate (uncompounded) of 2.12%. Interest rates remained low throughout the period with the Council following a low risk strategy and avoiding potentially higher returns which would increase counterparty risk.

Prudential Indicators

16. During the year the Council operated within the Treasury Limits and Prudential Indicators set out in the TMSS approved by Council on 24 February 2022.

17. The table below provides a breakdown of the indicators and actual position for the year ending 30 September 2022:

<table>
<tr><th>Indicator</th><th>2022/23 Approved Limit</th><th>2022/23 Actual at 30th September 2022</th><th>Indicator Met</th></tr>
<tr><td>Capital Financing Requirement</td><td>£557m</td><td>£541m</td><td>Yes</td></tr>
<tr><td>Authorised Limit for external debt[1]</td><td>£650m</td><td rowspan="2">£272m</td><td>Yes</td></tr>
<tr><td>Operational Debt Boundary[2]</td><td>£570m</td><td>Yes</td></tr>
<tr><td>Capital Expenditure</td><td>£191m</td><td>£44m</td><td>Yes</td></tr>
</table>

[1] 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.

[2] The Operational Boundary is the expected normal upper requirement for borrowing in the year.

Working capital balance	£0m	£0m		Yes
Limit on surplus funds invested for more than 364 days	£120m	£0m		Yes
Maturity Structure of Borrowing	**Minimum**	**Maximum**	**Actual**	**Indicator Met**
Under 12 Months	0%	15%	3%	Yes
12 Mths to within 24 Mths	0%	15%	3%	Yes
24 Mths to within 5 years	0%	60%	9%	Yes
5 years to within 10 years	0%	75%	8%	Yes
Over 10 years	0%	100%	77%	Yes

Reasons for Decision

18. The Council's treasury management activity is underpinned by the CIPFA's Code of Practice on Treasury Management, which recommends that members are informed of treasury management activities at least twice a year.

Equality Implications

19. There are no direct negative implications for protected groups, under the Equality Act 2010, arising from the information presented in this report.

Risk Management Implications

20. The purpose of this report is to present the Council's mid-year Treasury Management Report for 2022/23 in accordance with the Council's treasury management practices. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities is measured.

21. Risk levels were set in accordance with the approved Treasury Management Strategy Statement (TMSS). The Council continues to recognise that effective treasury management provides support towards the achievement of its business and service objectives, specifically, being ruthlessly financially efficient.

22. The identification, monitoring and control of risks are central to the achievement of the treasury objectives. Potential risks are identified, mitigated and monitored in accordance with treasury practice. It is also worthwhile in noting that this covers a period that included considerable uncertainty, both at national and global level, during the Covid-19 outbreak.

23. Implications verified by: David Hughes, Director of Audit, Fraud, Risk and Insurance, tel. 07817 507 695

LIST OF APPENDICES
None.

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 23/11/2022

Subject: Statement of Accounts 2020/21, including Pension Funding Accounts and Annual Governance Statement

Report of: Craig Tucker, Finance Manager (Corporate Accountancy)

Responsible Director: Sukvinder Kalsi, Director of Finance

SUMMARY

This report presents the revised London Borough of Hammersmith & Fulham's 2020/21 Statement of Accounts, and the Audit Findings Report, following further audit work.

RECOMMENDATIONS

1. To note the revised Statement of Accounts for 2020/21, (Appendix 1).

2. To note that the accounts remain 'unaudited' until final sign-off by the external auditor.

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

4. To approve the 2020/21 management representation letters (Appendices 3 and 4)

Wards Affected: All

H&F Values

Our Values	Summary of how this report aligns to the H&F Values
Being ruthlessly financially efficient	The Statement of Accounts details the authority's financial activity for the year and forms the cornerstone of fiscal responsibility and control together with the attainment of value for money.

Financial Impact

This report presents the annual accounts for approval and is wholly of a finance nature.
Craig Tucker, Interim Finance Manager – Corporate Accountancy

Legal Implications

There are no direct legal implications in relation to this report. The accounts are prepared and audited in accordance with The Accounts and Audit Regulations 2015 (as amended). In accordance with the Accounts and Audit Regulations 2015 (as amended), the Council's audited year end Statement of Accounts must be approved by the Audit Committee.

Angela Hogan, Chief Solicitor (Contracts and Procurement)

Background Papers Used in Preparing This Report
None.

Statement of Accounts 2020/21

1. The revised 2020/21 Statement of Accounts, for approval by the Audit and Pensions Committee, is attached at Appendix 1.

2. These accounts were presented to the Committee on the 15 March 2022 and were approved. The Audit Findings Report identified a number of issues that were still outstanding, and these have now been addressed.

3. There was an adjustment of £4m between debtors and creditors following the identification of one error following further audit work in this area. No other numbers in the statements have changed. There were a few other minor disclosure amendments made in the notes to the accounts.

4. There is still a national issue relating to the valuation of infrastructure assets. This is due to be resolved via a statutory override, but this is unlikely to be before January 2023. Until then the audit opinion cannot be signed.

5. 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. The Committee will be updated on the progress of the audit at its meeting in March 2023. In the event of any further changes, it is requested that these be approved by the Chair of the Committee, in consultation with the Director of Finance; and any significant changes will be notified to Committee.

Report to those charged with governance (ISA260)

6. 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.

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

8. 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 letters of representation (Appendices 3 and 4).

Reason for decision

9. The Audit Committee is required to approve the Council's audited year-end Statement of Accounts in accordance with the Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021.

LIST OF APPENDICES:

Appendix 1 – London Borough of Hammersmith and Fulham Annual Statement of Accounts 2020/21 (including Pension Fund)

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

Appendix 3 – Draft Letter of Representation 2020/21 – LBHF Main Accounts

Appendix 4 – Draft Letter of Representation 2020/21 – Pension Fund

STATEMENT OF ACCOUNTS
2020/21

Draft subject to final audit opinion and certification

Hammersmith & Fulham Council

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CONTENTS

The Director of Finance’s Narrative Report, the Council's Statement of Accounts for the Year Ended 31 March 2021 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 report, opinion and certificate to follow with final version of the 2020/21 accounts.

CERTIFICATION BY CHAIR OF THE AUDIT COMMITTEE

Certificate to follow pending Committee approval of final 2020/21 accounts.

THE DIRECTOR OF FINANCE'S NARRATIVE REPORT

Introduction from the Director of Finance – Emily Hill

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.

Hammersmith & Fulham, like most local authorities, continues to face significant financial challenges. The Government's austerity agenda has triggered unprecedented funding 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.

2020/21 was, of course, dominated by the COVID-19 pandemic and the local, national and international response to it. The Council's response to the pandemic has resulted in additional expenditure and income loss of £41.8m of which £36.2m has been funded through government grant. Whilst Council reserves have increased significantly in year, this is primarily due to technical changes and the timing of grant receipts which will be required to offset pressures and deficits in future years. For example, in relation to Business Rates alone, it is expected that the losses of approximately £40m will crystallise in the Council's accounts next year as a result of timing differences between the receipt of grants and accounting for the collection fund losses. The Council is well prepared for this and has set-aside within reserves government grants to help fund this deficit when it crystallises. Further information on the impact of COVID-19 is provided later in the narrative report and throughout the accounts.

In many respects the long-term financial impact of the pandemic remains to be seen and the council continues to prioritise financial resilience through its embedded Medium-Term Financial Strategy. Throughout a decade of austerity and reductions in government funding the Council has continued to successfully deliver savings. At the beginning of 2020/21 we budgeted to balance the books by delivering savings and efficiencies of £12.9m and to make a contribution of £7.21m to reserves to improve the Council's financial resilience. At the end of 2020/21 the Council recorded a General Fund underspend of £0.3m.

Looking ahead, the Council has set a balanced budget for 2021/22 and general government grant funding has increased by an estimated £3.3m year-on-year, however this sits in the context of an overall reduction of government funding of £64m during the period 2010/11 to 2021/22 - a real terms funding cut of 53%.

Whilst the Council has acted prudently to maintain adequate levels of one-off reserves to manage financial risk and for investment in Council priorities, the medium to long-term financial outlook remains challenging. To meet this challenge at Hammersmith & Fulham one of our or vision's six values is being 'Ruthlessly Financially Efficient' to drive further savings and efficiencies and maintain financial control. Going forward, the Council continues to invest in its ambitious plans for regeneration and increasing affordable housing in the borough via the Civic Campus scheme and other schemes.

Priorities and performance

The Council has set out the following values in its vision:

- Building shared prosperity
- Creating a compassionate council
- Doing things with residents, not to them
- Being ruthlessly financially efficient
- Taking pride in Hammersmith & Fulham
- Rising to the challenge of the climate and ecological emergency.

An overview of the council's priorities and performance is available in the council's 2018-22 business plan.

Organisational overview and external environment

As a unitary authority Hammersmith & Fulham has broad remit. Some of the key areas for which the Council is responsible are as follows:

- Adult social care
- Children's services and social care
- Council tax and business rates collection
- Education
- Environmental health
- Housing and regeneration
- Housing Benefit administration
- Libraries
- Planning and building control
- Public Health

- Trading standards
- Transport
- Waste management and recycling.

This is by no means an exhaustive list and our website provides details of our services and how to access them.

Detailed strategies and plans for many of these areas are available on our website.

Governance

The Council 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 on our website.

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 2020/21 financial year was as follows:

Chief executive	Kim Smith
Director of finance	Emily Hill
Interim strategic director of economy	Tony Clements
Strategic director of environment	Sharon Lea
Director of social care	Lisa Redfern
Director of resources	Rhian Davies
Director of children's services	Jacqui McShannon

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 2,162 people in full time and part-time contracts (excluding schools). The workforce generally reflects the diversity of residents across the Borough. Below is a departmental breakdown of the Council's employees by gender, age, disability and ethnicity.

Gender

Department	Female	Male
Childrens Services	78.30%	21.70%
Finance	52.50%	47.50%
Resources	58.00%	42.00%
Social Care	69.30%	30.70%
The Economy	46.30%	53.70%
The Environment	46.10%	53.90%
All departments	**55.50%**	**44.50%**

The Council, like other large employers, publishes its gender pay gap information. To see our gender pay results and those of other organisations you can visit: https://gender-pay-gap.service.gov.uk/

Age

Department	Age 18 -24	Age 25 -34	Age 35 - 44	Age 45- 54	Age 55-64	Age 64 +
Childrens Services	1.7%	24.7%	27.8%	25.0%	19.8%	1.1%
Finance	5.7%	13.3%	26.6%	27.2%	25.3%	1.9%
Resources	4.0%	12.5%	19.3%	30.7%	30.7%	2.8%
Social Care	1.3%	11.8%	21.1%	27.2%	35.1%	3.5%
The Economy	3.2%	18.1%	24.4%	21.7%	26.9%	5.7%
The Environment	1.2%	11.5%	21.1%	28.5%	33.6%	4.2%
All departments	**2.41%**	**15.91%**	**23.45%**	**25.86%**	**28.63%**	**3.75%**

Disability

Department	Disabled	No Disability Declared
Childrens Services	10.30%	89.70%
Finance	10.80%	89.20%
Resources	15.60%	84.40%
Social Care	7.40%	92.60%
The Economy	6.50%	93.50%
The Environment	7.20%	92.80%
All departments	**8.50%**	**91.50%**

Ethnicity

Department	Asian	Black	Mixed	Other	White	No data/ prefer not say
Childrens Services	4.4%	30.3%	4.4%	0.4%	44.7%	15.8%
Finance	4.7%	24.7%	6.9%	1.4%	44.8%	17.6%
Resources	13.9%	21.5%	6.3%	0.6%	38.0%	19.6%
Social Care	13.6%	23.3%	5.1%	1.1%	46.6%	10.2%
The Economy	10.5%	25.8%	7.0%	0.7%	47.1%	9.0%
The Environment	7.4%	20.9%	4.3%	0.9%	39.1%	27.4%
All departments	**8.5%**	**24.1%**	**5.7%**	**0.9%**	**43.4%**	**17.4%**

Risks and opportunities

The Council maintains a comprehensive suite of risk registers which are regularly reviewed by the Audit Committee. This is published as part of the relevant committee papers which can be accessed on our website.

The Council's key risks are summarised below:

The Council's highest-level risks	Impact	Mitigation
Management of the ongoing Covid-19 pandemic.	Workforce; Financial; Governance; Local Economy; Education; Public Health and Welfare; Housing; Transport.	Covid-19 Board and Resilience Group established; Outbreak and Business Continuity Plans reviewed and updated; Horizon Scanning using Business Intelligence and Public Health data; Maintaining communications to residents and businesses affected; risk assessments; workforce planning and ongoing work of the H&F Community Aid Network (CAN).
Continued financial pressures stemming from meeting the Council's response to the Covid-19 Outbreak pandemic and potential latent demand as restrictions ease.	Impacts on the Council's ability to run full services and may mean that some services are changed or reduced. Potential impact on financial sustainability.	Recovery Board implemented a five-point recovery plan for services of Reinvent, Restore, Remove, Retain, Recover; Service reviews; Monitoring of Covid-19 related costs and lost revenues; Temporary changes to Governance arrangements which are reviewed; Ongoing work of the Contracts Assurance Board; Local economic support initiatives.
Covid-19 Local Outbreak Infection control and prevention	Threat of a local lockdown if infection rates climb, impact on the local economy; ability to generate income; welfare.	Outbreak Plans; Enforcement and Compliance of Covid-19 Regulations, Public Health communications and literature; Business Continuity Plans and Resilience group meetings; Risk assessments for people and place; Health and Wellbeing Board; Data analysis; Personal Protective Equipment procurement, management and distribution. Variant of concern planning and exercising.
Covid-19 accessibility to Democratic processes	Transparency of decision making.	Council meetings moved to on-line digital platforms; increased communications provided through other Social Media platforms; development of hybrid meetings.

The Council's highest-level risks	Impact	Mitigation
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 Statutory Accountability Board; Maintaining professional standards and safeguarding teams; Enhanced levels of Digital engagement and identification of Key Workers.
Ongoing threat of terrorism and cyber threats	Threat to our residents, visitors, service users and business community.	Emergency and business continuity planning. Training, exercising, guidance, plans, lessons learned and other reviews. Service Resilience Group and supply chain resilience. Access controls, encryption, software protection, IT systems user management policies and processes.
Ongoing uncertainty regarding exiting the European Union, Brexit.	Impacts on the Supply Chain, Inflation and demands on existing services and contracts following an exit e.g. Workforce, Housing, Contracts, Residents, Finances.	Periodic reviews of the position, briefings, dialogue with HM Government and London Resilience, Brexit contingency planning.

Regarding opportunities, the Council continues to progress and explore a number of regeneration schemes and development schemes. In addition, the Industrial Strategy – **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 on our website.

The Industrial Strategy will be more important than ever as the COVID-19 pandemic affects jobs, businesses and livelihoods. The Council will continue to work with partners and businesses to lead the way to economic recovery of the borough following the pandemic and as a result of the Industrial Strategy has entered into Upstream, a partnership between the Council and Imperial College London. Upstream's vision is for Hammersmith & Fulham to have an inclusive, thriving ecosystem of ambitious science, tech and creative organisations, with the White City innovation district a global beacon of growth through innovation.

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.

Fire safety reviews

Following the tragic events at Grenfell Tower in 2017, the Council continues to review and invest in fire safety across the borough. The level of fire safety investment in 2020/21 was £10.7m with a further £43m planned and budgeted for over the course of the current four-year capital programme.

On 1 July 2019 Cabinet approved the Council's Asset Management Compliance Strategy and Capital Programme Cabinet. The programme prioritises work to deliver Fire Safety Plus, other health and safety compliance works and other pre-agreed works to ensure the safety and welfare of all residents through investment decisions about the housing stock.

The Building Safety Bill is going through the Parliamentary process with the Fire Safety Act recently enacted. These will significantly impact on the Council in its role as landlord. Whilst the Council has already approved its current Asset Management and Compliance Programme, which is included in the Capital Programme, additional safety requirements and further significant capital requirements being considered. An updated Asset Management Capital Strategy, setting out a 12- year plan, is being developed for consideration by Cabinet. The impact of the proposals have been modelled in the latest HRA 40-year Business Plan and indicates a requirement for additional revenue savings to finance the capital servicing costs involved relating to additional investment.

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:

- In May 2020, more than two miles of pop-up cycle lanes were marked out with barriers from King Street at the border with Chiswick, around Hammersmith gyratory and down Hammersmith Road to Olympia, using more than 3,500 barriers.
- In July the Council launched "Zipcar Flex", a new flexible car club in the borough in association with Zipcar.
- Also in July, the Council launched the South Fulham Traffic, Congestion and Pollution Reduction scheme, and later in the year, through this scheme, installed the largest concentration of air quality monitors (AQMs) anywhere in Europe.
- In September a range of new, free cycle training sessions were launched to help promote bicycle usage in the Borough.
- In October the Council won the best 'Trees and water' project at the 2020 London Tree and Woodlands Awards for the installation of new tree pits at the sustainable drainage scheme in Seagrave Road.
- In March 2021 - London's first-ever tiny forest was planted in Hammersmith Park, White City. The tiny forest will be a dense, fast-growing woodland consisting of 600 trees and shrubs planted in an area the size of a tennis court. It will join a future collective of more than 3,000 tiny forests around the world, preserving biodiversity and reconnecting people with nature
- There was further expansion of electric car charging points throughout 2020/21 including the introduction of new rapid charging points in in Lillie Road, Rowan Road, and Sussex Place. These were the latest additions to the 345 publicly available charging points within the Borough.

In December 2019, the Council appointed twelve local resident commissioners to form the Climate and Ecological Emergency Commission. Between January and December 2020 the commission conducted extensive research and engagement, within the Council and externally, to produce its findings which were considered by Cabinet in May 2021.

Finance strategy, performance and outlook

Strategy and resource allocation

General government grant funding increased by £3.6m from 2019/20 to 2020/21 as a result of the Government's pre-election spending round in September 2019. This increase followed a decade of grant cuts with overall funding reducing by £68m from 2010/11 to 2020/21. This was a real terms funding cut of 54%.

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 long-term reduction in government funding.

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 collection and disposal. It is a legal requirement of the Council to set a balanced budget i.e. expenditure cannot be more than the 'resources available to it. In brief, the 2020/21 budgets included:

- Investment of £8.3m to meet the costs of statutory obligations, demographic, service and demand pressures and key resident priorities.
- Savings of £12.9m required to balance the budget and off-set cost pressures.
- Measures to strengthen the Council's future financial resilience by contributing one-off resources of £7.2m to reserves and increasing the annual unallocated contingency from £2.1m to £3.0m.

This produced a net revenue budget requirement of £121.0 million funded from Council Tax, the local share of business rates and Revenue Support Grant from government within a gross budget of £525 million.

The 2020/21 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 2020/21 are £19.3m.

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 2020-24 capital programme included:

- A housing and regeneration programme of £200m
- The Civic Campus Programme including refurbishment of Hammersmith Town Hall
- The continuation of the Council's rolling programmes for Disabled Facilities Grants, Planned Building Maintenance, Footways and Carriageways.

Financial Performance

The revenue outturn for 2020/21 shows a year end underspend of £0.3m. At the end of the year, the General Fund Balance stands at £19.3m and earmarked reserves at £172 million.

The draft 2020/21 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
Social Care including Public Health	58.350	58.253	(0.097)
Children's Services	55.898	55.874	(0.024)
The Economy Department	(39.667)	(39.815)	(0.148)
The Environment Department	74.739	73.489	(1.250)
Controlled Parking Account	(14.883)	(13.686)	1.197
Finance	3.467	3.284	(0.183)
Resources	4.517	4.151	(0.366)
Centrally Managed Budgets (including unallocated contingency)	2.729	3.298	0.569
Gross Operating Expenditure	**145.149**	**144.848**	**(0.301)**
Technical and Financial Accounting Adjustments	(50.859)	(50.859)	-
Non-Ring-fenced Revenue Grants and Capital Grants	(100.844)	(100.844)	-
Net Contribution (to)/from Earmarked Reserves	90.833	90.833	-
Total Net Expenditure	**84.280**	**83.979**	**(0.301)**

Funded by:			
Localised Business Rates	21.890	21.890	-
Council tax	62.390	62.390	-
Total Funding	**84.280**	**84.280**	**-**
Final Position	-	**(0.301)**	**(0.301)**

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 has been significantly higher than the funding provided by central government. The Council holds a cumulative DSG deficit of £16.7m, which in line with statutory accounting requirements is held in an unusable reserve, and this is matched by usable earmarked reserve of the same amount to ensure that the Council is able to fund this deficit on the expiration of the statutory provisions to hold a negative reserve in 2023/24.

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 £17.6m with associated Earmarked Reserves of £12.4m. This reflects a budgeted use of reserves during 2020/21. The HRA is facing some significant financial challenges in increasing costs, particularly in housing repairs and to fund capital investment in health and safety. As a result, significant savings will need to be identified in future years to ensure that the HRA is sustainable. Further details for 2020/21 are set out in the HRA Statement of Accounts.

The impact of the COVID-19 pandemic has had a significant effect on the Council's gross income and expenditure in 2020/21 as revenue activity contracted and the Council incurred costs in responding to the pandemic. The impact on the Council's net position has been less significant following the application of government grants both specific and un-ringfenced which have been applied to fund the cost pressures and lost income.

No grant funding was provided by the government in support of the impact of COVID-19 on the HRA.

The Council's **Balance Sheet** as at 31 March 2021 is summarised below. The overall balance sheet position is substantially stable.

Summary Balance Sheet	31-Mar-21 £m	31-Mar-20 £m
Long Term Assets	2,026	1,904
Current Assets	369	291
Current Liabilities	(230)	(185)
Net Pension Liabilities	(658)	(505)
Other Long-Term Liabilities	(302)	(282)
Net Assets	**1,205**	**1,223**
Represented by:		
Usable Reserves	(289)	(170)
Unusable reserves	(916)	(1,053)
Total Reserves	**(1,205)**	**(1,223)**

The breakdown of the usable reserves is set out below:

Summary Usable Reserves	31-Mar-21 £m	31-Mar-20 £m
General Fund Balance	(19)	(19)
General Fund Earmarked Reserves	(172)	(61)
HRA Balance and Earmarked Reserves	(30)	(34)
Schools Reserves	(10)	(10)
Capital Reserves (Receipts and Grants)	(58)	(46)
Total	**(289)**	**(170)**

The Council's balance sheet at 31 March 2021 is impacted by COVID-19 in three main areas:

- **Property valuations** included in the accounts are based on market values. There continues to be uncertainty as to the long-term impact of the pandemic on property prices
- Likewise, **pension fund asset valuations** were subject to similar market uncertainty.
- Finally, due to the impact of the pandemic on the economy and consequently the Council's residents and businesses there are risks that **impairment allowances provided against debts** may be insufficient should debtors be unable to settle their debts. Further detail on these areas of uncertainty and the impact on the figures in the accounts is included in note 36.

The significant increase in earmarked reserves is substantially explained by the timing of the receipt of government grant to fund business rate reliefs in 2020/21 for which the collection fund loss will not crystallise until 2021/22. The significant increase in reserves is therefore temporary and largely represents advanced cashflow received in 2020/21 for deployment in 2021/22.

Capital

In 2020/21, the actual capital expenditure (outturn) totalled £88.6 million. The table below summarises capital expenditure by service area:

Department	2020/21 £m	2019/20 £m
Adult Social Care	1.555	2.019
Children's Services	0.770	0.577
The Environment Department	7.880	14.659
Finance	0.221	23.057
The Economy Department - General Fund schemes	26.816	32.344
The Economy Department – Housing and Regeneration	9.167	19.222
The Economy Department - Housing Revenue Account	42.184	21.183
Total	**88.593**	**113.061**

The 2020/21 capital programme was financed as follows:

Capital Financing	2020/21 £m	2019/20 £m
Capital Receipts	3.480	8.808
Increase in Capital Finance Requirement (CFR)	37.807	60.463
Capital Grants and Contributions	20.847	29.232
Major Repairs Reserve (MRR)	26.287	13.159
Council and School Reserves	0.172	0.581
Housing Revenue Account	-	0.174
General Fund Revenue Account	-	0.644
Total	**88.593**	**113.061**

The capital additions during the year included:

- £42.2m investment in the Council’s social housing stock and fire safety measures
- £7.3m on the borough’s highways and infrastructure schemes
- £20m on the Civic Campus and Hammersmith Town Hall refurbishment
- £10m on affordable housing schemes.

The significant reduction between years relates to the in-year significant reduction in TfL grants on planned transport schemes during 2020/21 due to the impact of the COVID-19 on TfL revenues

Financial outlook

The Council’s 2021/22 budget proposals were approved in February 2021 during what continued to be a period of national crisis. The COVID-19 pandemic and health emergency has been accompanied by unprecedented economic uncertainty and the deepest recession on record. The direct impact of the crisis continues to impact on the council as it responds to the pandemic with continued costs and loss of income. Longer-term the expected economic downturn and need to reset public finances, whilst at the same time increasing demand on services and expected inflationary pressures, will place a further strain on local government. The 2021/22 budget was set mindful of the need for future financial resilience as the Council plays an important role in the local recovery from the pandemic.

General government grant funding has increased by an estimated £3.3m from 2020/21 to 2021/22. This is well below the increase in the council’s costs due to inflation, demographic pressures and the COVID-19 health and economic crisis. Overall government funding has reduced by £64m from 2010/11 to 2021/22 - a real terms funding cut of 53%.

The key summary of the 2020/21 revenue budget is as follows:

- Investment of £7.9m was been provided to meet the costs of statutory obligations, demographic, service and demand pressures and key resident priorities. Budget provision is also made regarding the ongoing consequences of Covid-19.
- Savings of £6.9m were put forward to balance the 2021/22 budget.
- The budget proposals included measures to strengthen the Council's future financial resilience by contributing one-off resources of £1.1m to general balances. In addition, a one-off contingency of £1.1m was set aside regarding Covid-19 financial pressures.
- Overall this produced a net revenue budget requirement of £124.5 million funded from Council Tax, the local share of business rates and Revenue Support Grant from government.

The Council faces significant future financial risk with particular uncertainty regarding the impact of the Covid-19 pandemic, future government funding allocations, the potential impact of Brexit and increasing demand for services.

The 2021-25 capital programme was also approved in February 2021. The programme for this period totals £405.7m. The gross anticipated spend for 2021/22 was £162.1m, comprising the General Fund (GF) Programme of £87.9m and the Housing Revenue Account (HRA) Programme of £74.2m.

The General Fund programme includes:

- The Civic Campus Programme/ Refurbishment of Hammersmith Town Hall
- The Schools Maintenance Programme
- The Council's rolling programmes for Planned Building Maintenance and Footways and Carriageways;
- Social Care capital projects.

COVID -19 has had a significant impact on the current and future funding of various transport schemes which are mainly financed by TfL grants. There is uncertainty over the level and timing of future funding and as a result of this, the Council's transport schemes have been scaled down. TfL are expected to run a revised bidding process and schemes will be added to the programme when the funding has been confirmed.

The grade II* listed century old Hammersmith Bridge has been closed to all traffic since 13 August 2020. Previously it was closed on 10 April 2019 to motor vehicles. These actions were taken because of urgent safety concerns. On 15 July 2021, the Leader of the Council announced the bridge's re-opening on 17 July to pedestrians, cyclists and river traffic. The decision followed a series of comprehensive safety investigations into the bridge and the successful introduction of an innovative temperature control system that helps prevent cracking in the 19th century cast iron pedestals.

The stabilisation and full repair and restoration of the bridge will require a significant financial investment to allow it to reopen to motorised traffic and to preserve and maintain this important infrastructure and heritage asset. The Council is considering engineering and delivery and financing options to ensure the bridge is restored and maintained over the long term. On 1 June the government announced, via its Transport for London Settlement Letter, it expected to draw up a memorandum of understanding (MoU) between the government, TfL and the Council which would enable each party to pay a share with the government not contributing more than a third.

In relation to its share of the costs of the project, the Council has proposed a road charge or toll to avoid the significant costs of restoration and ongoing maintenance of the bridge falling to local taxpayers and instead funded by those who benefit directly from its use.

Work on agreeing the MoU is ongoing and the Council is continuing to work with its advisors to submit an outline business case to the DfT to secure this funding.

The capital programme will be updated in accordance with the decisions made regarding the bridge.

The medium-term outlook for local authority financing remains extremely challenging, however management are not aware of any material uncertainties in relation to the Council'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 2020/21 and its Balance Sheet at 31 March 2021. 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 2020/21, 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 2021. 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 taxpayers 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 pension fund at 31 March 2021 (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 during the year.

Materiality and Group Accounts

Group Accounts have not been included in the 2020/21 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' understanding. 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 2020/21 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 2020 (the Code) which is based on IFRS.

The accounting policies adopted by the Council comply with the Code and are set out in Note 38 to the Statement of Accounts. These are substantially unchanged from 2019/20.

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 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 Director of Finance

The Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC 2020/21 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

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

CERTIFICATE OF THE DIRECTOR OF FINANCE

I confirm that the Statement of 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 2021 and income and expenditure for the financial year 2020/21.

[Signature Pending]

Emily Hill
Director of Finance
Date: *TBC pending final approval of accounts*

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 Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and other reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the Council'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 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 2019		**(19,004)**	**(62,045)**	**(10,389)**	**(11,890)**	**(42,100)**	**(35,829)**	**(8,570)**	**(20,833)**	**(878)**	**(211,538)**	**(902,226)**	**(1,113,764)**
Movement in Reserves during 2019/20													
Total Comprehensive Income and Expenditure		86,117	-	-	(2,811)	-	-	-	-	-	83,306	(192,633)	(109,327)
Adjustments between accounting basis & funding basis under regulations	3	(84,864)	-	-	23,099	-	9,873	(2,004)	12,420	-	(41,476)	41,476	-
Transfer to/(from) Earmarked Reserves		(1,253)	1,136	117	(32,978)	32,978	-	-	-	-	-	-	-
(Increase)/Decrease in 2019/20		**-**	**1,136**	**117**	**(12,690)**	**32,978**	**9,873**	**(2,004)**	**12,420**	**-**	**41,830**	**(151,157)**	**(109,327)**
Balance at 31 March 2020		**(19,004)**	**(60,909)**	**(10,272)**	**(24,580)**	**(9,122)**	**(25,956)**	**(10,574)**	**(8,413)**	**(878)**	**(169,708)**	**(1,053,383)**	**(1,223,091)**
Reporting change to Schools (DSG) Budget Deficit at 1 April 2020	4		(19,791)								(19,791)	19,791	-
Restated balance at 1 April 2020		**(19,004)**	**(80,700)**	**(10,272)**	**(24,580)**	**(9,122)**	**(25,956)**	**(10,574)**	**(8,413)**	**(878)**	**(189,499)**	**(1,033,592)**	**(1,223,091)**
Movement in Reserves during 2020/21													
Total Comprehensive Income and Expenditure		(42,608)	-	-	(44,166)	-	-	-	-	-	(86,774)	105,187	18,413
Adjustments between accounting basis & funding basis under regulations	3	(48,359)	-	-	47,666	-	(24,136)	10,574	1,414	-	(12,841)	12,841	-
Transfer to/(from) Earmarked Reserves		90,664	(90,833)	169	3,518	(3,518)	-	-	-	-	-	-	-
(Increase)/Decrease in 2020/21		**(303)**	**(90,833)**	**169**	**7,018**	**(3,518)**	**(24,136)**	**10,574**	**1,414**	**-**	**(99,615)**	**118,028**	**18,413**
Balance at 31 March 2021		**(19,307)**	**(171,533)**	**(10,103)**	**(17,562)**	**(12,640)**	**(50,092)**	**-**	**(6,999)**	**(878)**	**(289,114)**	**(915,564)**	**(1,204,678)**

General Fund and HRA Balances as disclosed in Note 1 Expenditure Funding Analysis note:	**General Fund Balances* £000**	**HRA Balances** £000**	**TOTAL Balances £000**
Balance as at 31 March 2019	(91,438)	(53,990)	(145,428)
Balance as at 31 March 2020	(90,185)	(33,702)	(123,887)
Balance as at 31 March 2021	(200,943)	(30,202)	(231,145)

* General Fund Balances were calculated by adding the General Fund (GF) balance, GF earmarked reserves and schools balance from the Movement in Reserves Statement.
** HRA Balances were calculated by adding the Housing Revenue Account (HRA) and HRA earmarked reserves from the Movement in Reserves Statement.
***GF & HRA earmarked reserves prior year balances restated to reflect appropriate analysis

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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 2021			Year Ended 31 March 2020		
	Notes	Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
		£000	£000	£000	£000	£000	£000
Children's Services		176,690	(125,627)	51,063	170,619	(112,430)	58,189
Social Care		109,414	(59,864)	49,550	110,369	(59,002)	51,367
Economy	5	52,126	(64,560)	(12,434)	92,265	(35,360)	56,905
Local Authority Housing (HRA)		78,544	(79,779)	(1,235)	105,923	(79,353)	26,570
Local Authority Housing (HRA) - Dwelling Revaluation		(46,572)	-	(46,572)	(31,131)	-	(31,131)
Environment (including Parking)		99,453	(49,035)	50,418	95,510	(62,106)	33,404
Finance		9,482	(1,150)	8,332	9,547	(749)	8,798
Resources		26,701	(8,601)	18,100	26,020	(8,216)	17,804
Centrally Managed Budgets		107,432	(107,500)	(69)	124,731	(108,895)	15,836
Cost of Services		**613,270**	**(496,116)**	**117,153**	**703,853**	**(466,111)**	**237,742**
Other Operating Expenditure	6	3,724	4,023	7,747	14,505	(6,840)	7,665
Financing and investment income and expenditure	7	23,524	(4,845)	18,679	26,377	(8,816)	17,561
Taxation and non-specific grant income and expenditure	8	16,299	(246,652)	(230,353)	45,048	(224,710)	(179,662)
(Surplus) or Deficit on Provision of Services				**(86,774)**			**83,306**
(Surplus) or deficit on revaluation of non-current assets				(31,529)			(35,124)
Remeasurements of the net defined benefit liability	27			136,716			(157,509)
Other Comprehensive Income and Expenditure				**105,187**			**(192,633)**
Total Comprehensive Income and Expenditure				**18,413**			**(109,327)**

*Note: Prior year comparators between departments have been re-allocated as a result of restructures and aligning CIES with Outturn mapping. The Total Cost of Services remained the same.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council 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 Council 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 2021	31 March 2020
		£000	£000
Property, Plant and Equipment	9	1,902,525	1,802,946
Heritage Assets	11	8,023	8,023
Investment Property	10	82,608	84,245
Intangible Assets		735	909
Assets Held for Sale	12	13,229	-
Investments in Associates and Joint Ventures	33	10,085	6,198
Long Term Debtors	21	8,523	1,330
Long Term Assets		**2,025,728**	**1,903,651**
Short Term Investments	21	164,017	162,545
Short Term Debtors	16	62,817	72,430
Inventories		68	78
Cash and Cash Equivalents	17	142,567	55,769
Current Assets		**369,469**	**290,822**
Short Term Borrowing	21	(2,575)	(13,843)
Short Term Creditors	18	(195,391)	(135,558)
Provisions	20	(25,794)	(33,266)
Grants and Contributions Receipts in Advance	30	(6,525)	(2,513)
Current Liabilities		**(230,285)**	**(185,180)**
Long Term Borrowing	21	(272,005)	(232,000)
Long Term Creditors	21	(100)	(100)
Provisions	20	(6,376)	(6,375)
Other Long Term Liabilities	19	(664,454)	(505,411)
Grants and Contributions Receipts in Advance	30	(17,299)	(42,316)
Long Term Liabilities		**(960,234)**	**(786,202)**
NET ASSETS		**1,204,678**	**1,223,091**
Usable Reserves	3b	(289,114)	(169,708)
Unusable Reserves	3c	(915,564)	(1,053,383)
TOTAL RESERVES		**(1,204,678)**	**(1,223,091)**

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council 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 Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council'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 Council. The Cashflow Statement has been prepared using the indirect method.

	Notes	2020/21 £000	2019/20 £000
Net surplus or (deficit) on the provision of services		86,774	(83,306)
Adjustments to net surplus or deficit on the provision of services for non-cash movements	22a	(71,380)	3,719
Adjust for items in the net deficit on the provision of services that are investing or financing activities		(3,944)	(9,075)
Net cash flows from Operating Activities		**11,450**	**(88,662)**
Investing Activities			
Purchase of Property, plant and equipment, investment property and intangible assets		(72,024)	(105,980)
Proceeds from sale of property, plant and equipment, investment property and intangible assets		3,944	9,075
Net proceeds/payments in respect of short-term and long-term investments		(5,359)	99,450
Other receipts from investing activities		55,171	49,414
Net cash flows from Investing Activities		**(18,268)**	**51,959**
Financing Activities			
Net Cash receipts of short and long term borrowing		28,007	30,376
Cash payments for the reduction of the outstanding liabilities		(400)	(349)
Other proceeds/payments for financing activities		66,009	(4,598)
Net cash flows from Financing Activities		**93,616**	**25,429**
Net increase or (decrease) in cash and cash equivalents		**86,798**	**(11,274)**
Cash and cash equivalents at the beginning of the reporting period		55,769	67,043
Cash and cash equivalents at the end of the reporting period	17	**142,567**	**55,769**

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.

2020/21	**As reported for resource management**	**Adjustments to arrive at Net Expenditure chargeable to GF and HRA Balances**	**Net Expenditure chargeable to GF and HRA Balances**	**Adjustments between Accounting and Funding Basis**	**Comprehensive Income and Expenditure Statement (CIES)**
	£000	**£000**	**£000**	**£000**	**£000**
Children's Services	55,874	(13,663)	42,211	8,852	51,063
Social Care	58,253	(7,028)	51,225	(1,675)	49,550
Economy	(39,815)	61,924	22,109	(34,543)	(12,434)
Local Authority Housing (HRA)	-	(15,711)	(15,711)	(32,096)	(47,807)
Environment (including Parking)*	59,803	(25,476)	34,327	16,091	50,418
Finance	3,284	4,828	8,112	220	8,332
Resources	4,151	12,882	17,033	1,067	18,100
Centrally Managed Budgets	3,298	(6,522)	(3,224)	3,155	(69)
	144,848	**11,234**	**156,082**	**(38,929)**	**117,153**
Other income and expenditure not charged to services	(145,149)	(98,400)	(243,549)	39,622	(203,927)
(Surplus) or Deficit on Provision of Services before planned use of Earmarked Reserves	**(301)**	**(87,166)**	**(87,467)**	**693**	**(86,774)**
Opening Balance of General Fund/ HRA Balances			(123,887)		
Opening Balance of General Fund/ HRA Balances - Adjustment			(19,791)		
add: (Surplus) or Deficit on Provision of Services			(87,467)		
Closing Balance of General Fund/ HRA Balances			(231,145)		

* Please note Parking Services is disclosed on a separate line in the management reporting.

2019/20	As reported for resource management £000	Adjustments to arrive at Net Expenditure chargeable to GF and HRA Balances £000	Net Expenditure chargeable to GF and HRA Balances £000	Adjustments between Accounting and Funding Basis £000	Comprehensive Income and Expenditure Statement (CIES) £000
Children's Services	62,644	(9,794)	52,850	5,339	58,189
Social Care	59,277	(9,644)	49,633	1,734	51,367
Economy	51,968	(38,339)	13,629	43,276	56,905
Local Authority Housing (HRA)	-	9,078	9,078	(13,639)	(4,561)
Environment (including Parking)*	42,665	(24,874)	17,791	15,612	33,404
Finance	3,844	4,595	8,439	359	8,798
Resources	5,741	10,206	15,947	1,857	17,804
Centrally Managed Budgets	13,419	(3,791)	9,628	6,208	15,836
	239,558	**(62,562)**	**176,996**	**60,746**	**237,742**
Other income and expenditure not charged to services	(232,673)	77,218	(155,455)	1,019	(154,436)
(Surplus) or Deficit on Provision of Services before planned use of Earmarked Reserves	**6,885**	**14,656**	**21,541**	**61,765**	**83,306**
Opening Balance of General Fund/ HRA Balances			(145,428)		
add: (Surplus) or Deficit on Provision of Services			21,541		
Closing Balance of General Fund/ HRA Balances			(123,887)		

* Please note Parking Services is disclosed on a separate line in the management reporting.

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). 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 below 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 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 Comprehensive Income and Expenditure Statement.

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 differences 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 business rates 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 are set below

	2020/21				2019/20			
	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	(1,179)	(7,673)	-	**(8,852)**	(2,499)	(2,840)	-	**(5,339)**
Social Care	716	(457)	1,416	**1,675**	(1,569)	(474)	309	**(1,734)**
Economy	34,928	(385)	-	**34,543**	(42,841)	(435)	-	**(43,276)**
Local Authority Housing (HRA)	32,967	(871)	-	**32,096**	17,524	(3,885)	-	**13,639**
Environment (including Parking)*	(15,615)	(1,106)	630	**(16,091)**	(14,454)	(1,267)	109	**(15,612)**
Finance	70	(290)	-	**(220)**	-	(359)	-	**(359)**
Resources	(621)	(446)	-	**(1,067)**	(1,318)	(539)	-	**(1,857)**
Centrally Managed Budgets	(2,230)	(83)	(842)	**(3,155)**	3,227	(9,540)	105	**(6,208)**
Net Cost of Services	**49,036**	**(11,311)**	**1,204**	**38,929**	**(41,930)**	**(19,339)**	**523**	**(60,746)**
Other income and expenditure not charged to services - General Fund	3,851	(10,531)	(48,512)	**(55,192)**	7,035	(12,905)	(4,384)	**(10,254)**
Other income and expenditure not charged to services - HRA	16,456	(886)	-	**15,570**	6,633	-	2,602	**9,235**
(Surplus) or Deficit on Provision of Services	**69,343**	**(22,728)**	**(47,308)**	**(693)**	**(28,262)**	**(32,244)**	**(1,259)**	**(61,765)**

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 Comprehensive Income and Expenditure Statement, due to the treatment of internal recharges, and from showing business rates income and gains/losses on disposals as net figures in this note.

	2020/21 £000	2019/20 £000
Expenditure		
Employee Benefits	206,505	211,874
Other Services Expenses	420,072	425,050
Support Service Recharges	(588)	(339)
Capital Charges & Revaluations	(12,288)	67,726
Interest Payments	11,675	11,296
Levies	2,372	2,430
Business rates tariff	16,299	45,048
Payments to the Government Housing Capital Receipts Pool	1,352	12,031
Net interest on the net defined benefit liability (asset)	11,417	14,667
Total Expenditure	**656,816**	**789,783**
Income		
Fees, Charges and other Service Income	(200,779)	(215,537)
Grants and Contributions	(453,085)	(303,024)
Income from Council Tax and NDR	(96,279)	(179,267)
Interest and Investment Income	2,509	(1,947)
(Gains)/losses on the disposal of non-current assets	4,044	(6,702)
Total Income	**(743,590)**	**(706,477)**
(Surplus) or Deficit on the Provision of Services	**(86,774)**	**83,306**

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 in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available 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 2020/21 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 funds we hold for capital purposes.

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

2020/21	**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)	(20,970)	-	-	-	(1,757)	-	-	-	(22,727)
Financial instruments (transferred to the Financial Instruments Adjustments Account)	74	-	-	-	-	-	-	-	74
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	(50,148)	-	-	-	-	-	-	-	(50,148)
Holiday pay (transferred to the Accumulated Absences Reserve)	(779)	-	-	-	-	-	-	-	(779)
Equal pay settlements (transferred to the Unequal Pay Back Pay Account)	-	-	-	-	-	-	-	-	-
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)	(24,176)	-	-	-	29,083	(223)	-	-	4,684
Transfer in-year Dedicated Schools Grant deficit/(surplus) (to DSG Adjustment Account)	3,112								3,112
Total Adjustments to Revenue Resources	(92,887)	-	-	-	27,326	(223)	-	-	(65,784)
Adjustments between Revenue and Capital Resources									
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	45	-	-	-	3,423	-	(3,468)	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	(2)	-	-	-	(48)	-	50	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(1,352)	-	-	-	-	-	1,352	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	-	-	-	15,489	(15,489)	-	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	2,888	-	-	-	-	-	-	-	2,888
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	172	-	-	-	-	-	-	-	172
Total Adjustments between Revenue and Capital Resources	1,751	-	-	-	18,864	(15,489)	(2,066)	-	3,060
Adjustments to Capital Resources									
Use of the Capital Receipts Reserve to finance capital expenditure	27,141	-	-	(26,650)	(491)	-	3,479	-	3,479
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	-	-	26,287	-	-	26,287
Application of capital grants to finance capital expenditure	16,689	-	-	2,514	1,967	-	-	-	21,170
Movements in the market value of investment properties	(1,052)	-	-	-	-	-	-	-	(1,052)
Cash payments in relation to deferred capital receipts	-	-	-	-	-	-	-	-	-
Total Adjustments to Capital Resources	42,778	-	-	(24,136)	1,476	26,287	3,479	-	49,884
Total Adjustments	**(48,358)**	**-**	**-**	**(24,136)**	**47,666**	**10,575**	**1,413**	**-**	**(12,840)**

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

2019/20	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)	(28,582)	-	-	-	(3,661)	-	-	-	(32,243)
Financial instruments (transferred to the Financial Instruments Adjustments Account)	74	-	-	-	-	-	-	-	74
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	(1,792)	-	-	-	-	-	-	-	(1,792)
Holiday pay (transferred to the Accumulated Absences Reserve)	(34)	-	-	-	-	-	-	-	(34)
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)	(63,811)	-	-	-	(173)	(206)	-	-	(64,190)
Total Adjustments to Revenue Resources	(94,145)	-	-	-	(3,834)	(206)	-	-	(98,185)
Adjustments between Revenue and Capital Resources									
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	-	-	-	-	8,511	-	(8,511)	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	-	-	-	-	(91)	-	91	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(12,031)	-	-	-	-	-	12,031	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	-	-	-	14,957	(14,957)	-	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	2,279	-	-	-	-	-	-	-	2,279
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	1,225	-	-	-	174	-	-	-	1,399
Total Adjustments between Revenue and Capital Resources	(8,527)	-	-	-	23,551	(14,957)	3,611	-	3,678
Adjustments to Capital Resources									
Use of the Capital Receipts Reserve to finance capital expenditure	(2,166)	-	-	(436)	2,602	-	8,809	-	8,809
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	-	-	13,159	-	-	13,159
Application of capital grants to finance capital expenditure	18,144	-	-	10,309	780	-	-	-	29,233
Movements in the market value of investment properties	1,830	-	-	-	-	-	-	-	1,830
Total Adjustments to Capital Resources	17,808	-	-	9,873	3,382	13,159	8,809	-	53,031
Total Adjustments	**(84,864)**	**-**	**-**	**9,873**	**23,099**	**(2,004)**	**12,420**	**-**	**(41,476)**

3b. Usable Reserves

Movements in usable reserves are detailed in the Movement in Reserves Statement.

3c Unusable Reserves

	31 March 2021 £000	31 March 2020 £000
Revaluation Reserve	(294,148)	(267,068)
Capital Adjustment Account	(1,340,943)	(1,278,868)
Deferred Capital Receipts Reserve	-	-
Pensions Reserve	657,853	498,410
Financial Instruments Adjustment Account	904	978
Available for Sale Financial Instruments Reserve	-	-
Collection Fund Adjustment Account	40,248	(9,900)
Accumulated Absences Account	3,844	3,065
Dedicated Schools Grant Adjustment Account	16,679	-
Total Unusable Reserves	**(915,563)**	**(1,053,383)**

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.

	2020/21 £000	2019/20 £000
Balance as 1 April	(267,068)	(234,695)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(31,529)	(35,124)
Difference between current value depreciation and historical cost depreciation	2,625	2,575
Accumulated gains on assets sold or scrapped	1,823	176
Amount written off to the Capital Adjustment Account	4,448	2,751
Balance at 31 March	**(294,149)**	**(267,068)**

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)/losses.

	2020/21 £000	2019/20 £000
Balance as 1 April	(1,278,868)	(1,283,599)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
• Charges for depreciation non-current assets	20,705	18,995
• Revaluation losses on property, plant and equipment	(52,041)	28,807
• Amortisation of intangible assets	266	160
• Revenue expenditure funded from capital under statute	3,435	4,808
• Reversal of Major Repairs Allowance credited to the HRA	15,489	14,957
• 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	7,462	(3,537)
	(4,684)	64,190
Adjusting amounts written out of the Revaluation Reserve	(4,448)	(2,751)
Net written out amount of the cost of non-current assets consumed in the year	(9,132)	61,439
Capital financing applied in the year:		
• Use of the Capital Receipts Reserve to finance new capital expenditure	(3,479)	(8,809)
• Use of the Major Repairs Reserve to finance new capital expenditure	(26,287)	(13,159)
• Capital grants and contributions applied	(21,170)	(29,232)
• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(2,888)	(2,279)
• Capital expenditure charged against the General Fund and HRA balances	(172)	(1,399)
	(53,996)	(54,878)
Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement	1,052	(1,830)
Release of deferred costs from Capital Adjustment Account to Capital Receipts Reserve upon receipt of cash	-	-
Balance at 31 March	**(1,340,944)**	**(1,278,868)**

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.

	2020/21 £000	2019/20 £000
Balance as 1 April	498,410	623,676
Remeasurements of the net defined benefit liability/(asset)	136,716	(157,509)
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	43,111	53,754
Employer's pensions contributions and direct payments to pensioners payable in the year	(20,384)	(21,511)
Balance as 31 March	**657,853**	**498,410**

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 taxpayers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2020/21 £000	2019/20 £000
Balance as 1 April	(9,900)	(11,691)
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	50,147	1,791
Balance as 31 March	**40,247**	**(9,900)**

Dedicated Schools Grant Adjustment Account

The DSG Adjustment Account represents the DSG deficit balance. Parliament has approved the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020 in November 2020 which amends the 2003 Regulations by establishing new accounting practices in relation to the treatment of local authorities' schools budget deficits which must now be recorded in a separate account established solely for the purpose of recording deficits relating to school's budget. This is a new reserve in 20/21 and there are no comparatives in 19/20

	2020/21 £000
Restated Balance as 1 April	19,791
In-year Dedicated Schools Grant (surplus)/deficit (to DSG Adjustment Account)	(3,112)
Balance as 31 March	**16,679**

4a. 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 2020/21. A number of reserves were consolidated in 2019/20 and these have been reflected in the table below.

		Balance at 31 March 2019 £000	Transfers Out 2019/20 £000	Transfers In 2019/20 £000	Movement Between Reserves 2019/20 £000	Balance at 31 March 2020 £000	Transfers Out 2020/21 £000	Transfers In 2020/21 £000	Movement Between Reserves 2020/21 £000	Balance at 31 March 2021 £000
	General Fund									
1	Insurance Fund	(6,312)	380	-	-	**(5,932)**	6	(11)	-	**(5,937)**
2	Controlled Parking Fund	(1,224)	254	(521)	1,224	**(267)**	312	(521)	-	**(476)**
3	Efficiency Projects Reserve	(2,730)	86	(750)	2,730	**(664)**	183	(750)	-	**(1,231)**
4	Corporate Demand Pressures	(2,801)	7,765	(4,854)	(12,621)	**(12,511)**	7,597	(21,236)	(2,440)	**(28,590)**
5	LPFA Sub Fund	(1,242)	372	-	870	**-**	-	-	-	**-**
6	Temporary Accommodation	(2,610)	450	-	1,710	**(450)**	-	-	-	**(450)**
7	ASC Pressures & Demands	(1,878)	-	-	1,878	**-**	-	-	-	**-**
8	Capital Reserves	(1,688)	-	-	1,688	**-**	-	-	-	**-**
9	Supporting People Programme	(909)	309	-	-	**(600)**	-	-	-	**(600)**
10	MTFS Delivery Risk	(845)	-	-	845	**-**	-	-	-	**-**
11	TFM Reserve	(2,365)	-	-	2,365	**-**	-	-	-	**-**
12	3SIF Grant Reserve	(428)	-	-	428	**-**	-	-	-	**-**
13	Troubled Families	(937)	142	-	-	**(795)**	-	(34)	-	**(829)**
14	C19 Collection Fund Smoothing Reserve	-	-	-	-	**-**	12,519	(52,757)	(1,200)	**(41,438)**
15	Partners in Practice	(1,127)	482	(312)	-	**(957)**	-	-	-	**(957)**
16	King Street West	(1,846)	9,221	(1,126)	(15,764)	**(9,515)**	7,240	(1,159)	-	**(3,434)**
17	Managed Services	(4,061)	388	-	2,967	**(706)**	78	(500)	-	**(1,128)**
18	Corporate People Reserve	(3,696)	-	-	3,696	**-**	-	(150)	-	**(150)**
19	Corporate Technology & IT	(7,665)	-	(800)	7,271	**(1,194)**	-	(1,851)	-	**(3,045)**
20	Corporate Financial Resilience Reserve	(3,391)	-	-	3,391	**-**	-	-	-	**-**
21	Corporate Property Reserve	(3,660)	-	-	3,660	**-**	-	(650)	-	**(650)**
22a	Dedicated Schools Grant Support Reserve	(13,616)	-	-	(5,503)	**(19,119)**	-	-	2,440	**(16,679)**
22b	Dedicated Schools Grant Deficit	13,960	5,831	-	-	**19,791**	-	(19,791)	-	**-**
22c	Dedicated Schools Grant - Schools & Early years Block	(344)	-	(327)	-	**(671)**	-	(1,502)	-	**(2,173)**
23	Covid Response Support & Unringfenced Reserve	-	-	(6,221)	-	**(6,221)**	-	(4,906)	1,200	**(9,927)**
24	Other Funds	(3,934)	1,098	(511)	(835)	**(4,182)**	398	(3,828)	-	**(7,612)**
	General Fund Reserves	**(55,349)**	**26,777**	**(15,421)**	**(0)**	**(43,993)**	**28,333**	**(109,646)**	**-**	**(125,306)**

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

		Balance at 31 March 2019 £000	Transfers Out 2019/20 £000	Transfers In 2019/20 £000	Movement Between Reserves 2019/20 £000	Balance at 31 March 2020 £000	Transfers Out 2020/21 £000	Transfers In 2020/21 £000	Movement Between Reserves 2020/21 £000	Balance at 31 March 2021 £000
	General Fund Revenue Grants									
25	S106 - Revenue Schemes	(6,536)	984	(10,810)	-	**(16,362)**	13,505	(43,192)	-	**(46,049)**
26	Other Revenue Grants	(158)	74	(468)	-	**(552)**	397	(23)	-	**(178)**
	Revenue Grants Sub-Total	**(6,694)**	**1,058**	**(11,278)**	**-**	**(16,914)**	**13,902**	**(43,215)**	**-**	**(46,227)**
	General Fund Total	**(62,043)**	**27,835**	**(26,699)**	**(0)**	**(60,907)**	**42,235**	**(152,861)**	**-**	**(171,533)**
	HRA Reserves									
27	HRA Efficiency Reserve	(1,256)	828	-	-	**(428)**	254	-	-	**(174)**
28	HRA Non-dwellings Impairment Reserve	(8,985)	2,242	-	-	**(6,743)**	1,829	-	-	**(4,914)**
29	HRA Strategic Regeneration and Housing Development	(6,352)	5,937	(1,281)	-	**(1,696)**	-	(1,900)	-	**(3,596)**
30	HRA Utilities Reserve	(11,000)	11,000	-	-	**-**	-	(1,962)	-	**(1,962)**
31	Welfare Reform Reserve	(1,500)	1,500	-	-	**-**	-	-	-	**-**
32	Parking Charges Review Reserve	(106)	106	-	-	**-**	-	-	-	**-**
33	Fire Safety Plus	(11,973)	11,973	-	-	**-**	-	-	-	**-**
34	Other HRA Funds	(928)	692	(19)	-	**(255)**	64	(1,803)	-	**(1,994)**
	HRA Sub-Total	**(42,100)**	**34,278**	**(1,300)**	**-**	**(9,122)**	**2,147**	**(5,665)**	**-**	**(12,640)**
	Total	**(104,143)**	**62,113**	**(27,999)**	**(0)**	**(70,029)**	**44,382**	**(158,526)**	**-**	**(184,173)**

4b. 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, this reserve was used to meet expenditure on transport and highways related activities.
3	Efficiency Projects Reserve	This reserve will fund future revenue expenditure and capital investment that will provide future revenue savings.
4	Corporate Demand Pressures	To meet unbudgeted demands and pressures.
5	LPFA Sub Fund	This reserve has been set aside to cover a potential pensions liability to the London Pension Fund Authority (LPFA).
6	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.
7	ASC Pressures & Demands	This reserve is to address non-recurring new financial pressures within Adult Social Care.
8	Capital Reserves	This is a revenue-backed reserve to support capital expenditure and to provide bridging finance pending receipts of grants, etc.
9	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.
10	MTFS Delivery Risk	This reserve is to mitigate the risks associated with the implementation of new MTFS projects.
11	TFM Reserve	This reserve was used to fund additional costs on the previous TFM contract including changes in the apportionment of costs across the three boroughs and elective variable works, removals costs and ad hoc security costs that were not included in the fixed contract price.
12	3SIF Grant Reserve	This reserve is to support the Third Sector Investment Fund medium term allocation plan.
13	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.
14	C19 Collection Fund Smoothing Reserve	This is a COVID 19 reserve to smooth the impact of statutory timing differences between funding and impact business rates deficits.
15	Partners in Practice	This is a reserve for Children's Services social care practice improvement as part of DFE innovation programme.
16	Civic Campus (previously King Street West)	This is held to fund the costs of implementing the Civic Campus redevelopment.
17	Managed Services	This reserve is used to fund the cost of supporting the Managed Services project and for the implementation of the new Hampshire IBC system.
18	Corporate People Reserve	This is the consolidation of various Human Resource related reserves.
19	Corporate Technology & IT	This reserve is used to finance IT projects.
20	Corporate Financial Resilience Reserve	This reserve is to cover the costs of providing financial resilience across the Council.
21	Corporate Property Reserve	This is to be used to cover the one-off costs related to LBHF property management.
22	DSG Reserve	*22a. DSG Reserve – Deficit Set-Aside* This reserve offsets the DSG Unusable 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 the reserve set aside. *22b. DSG Deficit Reserve* Parliament has approved the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020 in November 2020 which amends the 2003 Regulations by establishing new accounting practices in relation to the treatment of local authorities' schools budget deficits which must now be recorded in a separate account established solely for the purpose of recording deficits relating to school's budget and account for the cumulative Dedicated Schools Grant deficit in unusable reserves. As the statutory requirement is time limited, it continues to set aside reserves to match the High Needs Block deficit until such time as the cumulative deficit is eliminated. 22c*. DSG (Schools & Early years Block) Reserve* This reserve records the cumulative balance on the Schools and Early years block. Grant deficit to unusable reserves.

23	Covid response support & unringfenced reserve	This comprises of the Covid LA support and the Local Authority Discretionary Grant Fund transferred to reserve to meet future commitments
24	Other Funds	This comprises a number of smaller reserves, generally not exceeding £500,000.
25	S106 - Revenue Schemes	These reserves exist to fund various projects and potential future commitments in line with the requirements of the agreements.
26	Other Revenue Grants	These are grants which have been transferred as an earmarked reserve due to the implementation of International Financial Reporting Standards (IFRS).
27	HRA Efficiency Reserve	This reserve is to provide funding for the one-off costs associated with implementing MTFS savings.
28	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.
29	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.
30	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.
31	Welfare Reform Reserve	This is a reserve to provide for the further and continuing impact of Welfare Reform.
32	Parking Charges Review Reserve	This reserve is to cover the potential need to refund parking charges on HRA properties.
33	Fire Safety Plus	This reserve was created for reviewing fire safety across the borough.
34	Other HRA Funds	This reserve is to fund various smaller projects specific to the HRA.

5. Material Items of Income and Expense

Transactions in 2020/21
HRA Dwellings have been revalued upwards in-year. The upward revaluation is approximately 8.3%. The size of the asset base means that this revaluation is a material amount. The gross revaluation increase recognised in CIES is £46.6m.

Surplus Assets (SA) contain material upwards valuations in-year due to market factors. A total of £7.9m gain was recognised in CIES.

S31 Business rates relief grant of £43.2m (£6.39m in 2019/20) was received by the Council. The increase was due to the reliefs awarded to businesses because of the COVID 19 pandemic.

Transactions in 2019/20
HRA Dwellings have been revalued upwards in-year. The upward revaluation is approximately 4.4% however the size of the asset base means that this revaluation is a material amount. The gross revaluation increase recognised in CIES is £31.1m.

Other Land and Buildings (OLB) contains a material downwards valuation in-year due to a property classified as development site and thus nil value at year-end. A total of £13.6m loss was recognised in CIES.

Surplus Assets (SA) contains material downwards valuations in-year due to sites classified as development sites and thus nil values at year-end. In addition, another site was valued downwards due to the scheme being reviewed. A total of £46.3m loss was recognised in CIES.

6. Other Operating Expenditure

	2020/21 £000	2019/20 £000
Levies	2,372	2,430
Payments to the Government Housing Capital Receipts Pool	1,352	12,031
(Gains)/losses on the disposal of non-current assets	4,044	(6,702)
Other Operating Income and Expenditure	(21)	(94)
Total	**7,747**	**7,665**

7. Financing and Investment Income and Expenditure

	2020/21 £000	2019/20 £000
Interest payable and similar charges	11,675	11,296
Net interest on the net defined benefit liability (asset)	11,417	14,667
Interest receivable and similar income	(372)	(2,358)
Income and expenditure in relation to investment properties	(6,922)	(6,455)
Net (gains)/losses from fair value adjustments on investment properties	2,330	411
Net (gains)/losses from fair value adjustments on assets held for sale	551	-
Total	**18,679**	**17,561**

8. Taxation and non-specific grant income and expenditure

	2020/21 £000	2019/20 £000
Non-domestic rates income	(33,889)	(115,101)
Business rates tariff	16,299	45,048
Non-domestic rates income and expenditure	**(17,590)**	**(70,053)**
Council Tax Income	(62,390)	(64,169)
Non-ringfenced government grants	(106,062)	(28,522)
Capital grants and contributions	(44,311)	(16,918)
Total	**(230,353)**	**(179,662)**

9. Property, Plant and Equipment

(i) Movements on Balances

Movements in 2020/21	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 2020	1,304,292	342,103	241,449	12,322	27,817	39,675	10,495	**1,978,153**	27,047
Additions	42,840	1,295	7,102	351	405	1,803	18,796	**72,592**	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	29,545	(7,548)	-	-	-	988	-	**22,985**	(984)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	36,283	(2,872)	-	-	-	7,862	-	**41,273**	-
Derecognition – disposals	(738)	-	-	-	-	(1,738)	-	**(2,476)**	-
Derecognition – other	-	(4,162)	-	(4,004)	(299)	-	-	**(8,465)**	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	(13,780)	-	**(13,780)**	-
Assets reclassified (to)/from Investment Properties	-	-	-	-	-	-	-	-	-
Other reclassifications	-	3,775	-	-	-	-	(3,775)	-	-
At 31 March 2021	**1,412,222**	**332,591**	**248,551**	**8,669**	**27,923**	**34,810**	**25,516**	**2,090,282**	**26,063**
Accumulated Depreciation and Impairment									
At 1 April 2020	-	(481)	(152,753)	(5,345)	(16,628)	-	-	**(175,207)**	-
Depreciation charge	(15,489)	(3,925)	(13,201)	(1,416)	(2,111)	(48)	-	**(36,190)**	(413)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	5,191	3,312	-	-	-	41	-	**8,544**	413
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	10,289	477	-	-	-	2	-	**10,768**	-
Derecognition – disposals	9	-	-	-	-	5	-	**14**	-
Derecognition – other	-	11	-	4,004	299	-	-	**4,314**	-
Other movements in depreciation and impairment	-	-	-	-	-	-	-	-	-
At 31 March 2021	-	**(606)**	**(165,954)**	**(2,757)**	**(18,440)**	-	-	**(187,757)**	-
Net Book Value									
at 31 March 2021	**1,412,222**	**331,985**	**82,597**	**5,912**	**9,483**	**34,810**	**25,516**	**1,902,525**	**26,063**

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

(i) Movements on Balances

Movements in 2019/20

	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 2019	1,259,477	333,885	228,330	16,836	27,304	33,094	1,272	**1,900,198**	25,465
Additions	21,829	21,138	13,119	3,459	513	31,733	9,407	**101,198**	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	12,511	13,856	-	-	-	160	-	**26,527**	1,582
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	20,461	(13,572)	-	-	-	(46,366)	-	**(39,477)**	-
Derecognition – disposals	(2,126)	-	-	-	-	-	-	**(2,126)**	-
Derecognition – other	-	(194)	-	(7,973)	-	-	-	**(8,167)**	-
Assets reclassified (to)/from Investment Properties	-	-	-	-	-	-	-	-	-
Other reclassifications	(7,860)	(13,010)	-	-	-	21,054	(184)	-	-
At 31 March 2020	**1,304,292**	**342,103**	**241,449**	**12,322**	**27,817**	**39,675**	**10,495**	**1,978,153**	**27,047**
Accumulated Depreciation and Impairment									
At 1 April 2019	-	(866)	(140,958)	(12,147)	(14,565)	-	-	**(168,536)**	-
Depreciation charge	(14,957)	(3,917)	(11,795)	(1,171)	(2,063)	(48)	-	**(33,951)**	(381)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	4,167	4,076	-	-	-	354	-	**8,597**	381
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	10,671	-	-	-	-	-	-	**10,671**	-
Derecognition – disposals	25	-	-	-	-	-	-	**25**	-
Derecognition – other	-	14	-	7,973	-	-	-	**7,987**	-
Other movements in depreciation and impairment	94	212	-	-	-	(306)	-	-	-
At 31 March 2020	**-**	**(481)**	**(152,753)**	**(5,345)**	**(16,628)**	**-**	**-**	**(175,207)**	**-**
Net Book Value									
at 31 March 2020	**1,304,292**	**341,622**	**88,696**	**6,977**	**11,189**	**39,675**	**10,495**	**1,802,946**	**27,047**

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 (Building element only - land not depreciated)	46- 53 years
Other Land and Buildings (Building element only - land not depreciated)	38 - 50 years
Surplus Assets (Building element only - land not depreciated)	50 - 54 years
Infrastructure Assets	3 - 40 years
Vehicles, Plant, Furniture & Equipment	4 - 25 years
Community Assets	5 - 73 years

(iii) Effect of Changes in Estimates

In 2020/21 the Council made no material changes to its accounting estimates for Property, Plant and Equipment.

(iv) Revaluation and Impairments

The Council 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 Council has used the external valuation contractor Wilks Head & Eve to carry out the valuations under instruction from the Council'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 2021.

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	1,462,324	237,847	82,597	5,912	9,483	75,491	25,516	**1,899,170**
Carried at Historical Cost	-	-	82,597	5,912	9,483	-	25,516	**123,508**
Valued at current value as at:								
31 March 2021	1,412,222	308,162	-	-	-	34,810	-	**1,755,194**
31 March 2020	-	11,670	-	-	-	-	-	**11,670**
31 March 2019	-	7,695	-	-	-	-	-	**7,695**
31 March 2018	-	4,458	-	-	-	-	-	**4,458**
	1,412,222	**331,985**	**82,597**	**5,912**	**9,483**	**34,810**	**25,516**	**1,902,525**

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.

Full inspection of housing dwellings stock as at 31 March 2021 was commissioned by the Council and completed by the external valuer Wilks, Head and Eve on the basis of external inspections, due to the Covid-19 restrictions.

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 2020/21 and there were no cases of impairment of assets to report.

Impairment and valuation losses not covered by Revaluation Reserve HRA assets are charged to the HRA Income & Expenditure Statement but are 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 Item 8 Credit and Debit Determination, by a transfer to the CAA via the MIRS.

(v) Capital Commitments

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

	31 March 2021	31 March 2020
Service Department	**£000**	**£000**
Housing Revenue Account	20,455	21,242
Regeneration and Community Projects	90,679	-
Affordable Housing Schemes	1,582	3,955
	112,716	**25,197**

10. Investment Properties

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

	2020/21	2019/20
	£000	**£000**
Rental income from investment property	(7,354)	(6,869)
Direct operating expenses (including repairs and maintenance) arising from investment properties	432	414
Net (gain)/loss	**(6,922)**	**(6,455)**

(i) Revaluation

In 2020/21 the Council commissioned a full revaluation of its investment properties including an inspection of each property where appropriate as at the balance sheet date of 31 March 2021. 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.
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 2021 £000	31 March 2020 £000
Balance at start of the year	84,245	84,256
Additions:		
• Subsequent expenditure	1,390	400
Derecognition	(697)	-
Net gains/(losses) from fair value adjustments	(2,330)	(411)
Balance at end of the year	**82,608**	**84,245**

(ii) Fair Value Hierarchy

The Council's commercial land, office and retail asset valuations have been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the locality. Market conditions for these asset types are such that the levels of observable inputs, such as assumed void periods, estimated rental value and capitalisation rate (equivalent yield), are significant leading to all the Council's investment properties being categorised at Level 2 in the Fair Value hierarchy (see Note 38 Accounting Policies for an explanation of the fair value levels). There were no changes in valuation techniques and no transfers between Levels 1 and 2 during 2020/21.

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 2020	7,688	131	118	86	8,023
Movement on balance	-	-	-	-	-
At 31 March 2021	**7,688**	**131**	**118**	**86**	**8,023**

There have been no movements on Heritage Assets in 2020/21.

12. Assets Held for Sale

	31 March 2021 £000	31 March 2020 £000
Balance outstanding at start of year	-	-
Additions:		
Assets newly classified as held for sale:		
• Property, Plant and Equipment	13,780	-
Net gains/(losses) from fair value adjustments	(551)	-
Balance outstanding at year-end	**13,229**	**-**

Assets Held for Sale have been classified under long-term assets.

13. Capital Expenditure and Capital Financing

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

	2020/21 £000	2019/20 £000
Opening Capital Financing Requirement	350,865	298,499
Capital Investment		
Property, Plant and Equipment	72,593	101,198
Investment Properties	1,390	400
Intangible Assets	94	652
Revenue Expenditure Funded from Capital under Statute	3,435	4,808
Capital Funding of third-party capital loans	11,080	6,003
Sources of Finance		
Capital receipts - used to fund Capital Expenditure	(3,479)	(8,809)
Government grants and other contributions	(47,134)	(42,391)
Sums set aside from revenue:		
Direct revenue contributions	(172)	(1,399)
MRP	(3,210)	(2,278)
Voluntary Application of Capital Receipts	-	-
Deferred costs of capital disposals	152	(5,818)
Debt Resettlement (HRA)	-	-
Closing Capital Financing Requirement	**385,614**	**350,865**
Explanation of movements in year		
Increase in underlying need to borrow	34,659	58,247
(Decrease) in underlying need to borrow	(63)	(63)
Debt Resettlement (HRA)	-	-
Voluntary application of Capital Receipts to repay debt	-	-
Increase/(Decrease) in Deferred costs of capital disposals	153	(5,818)
Assets acquired under finance leases	**-**	**-**
Assets acquired under PFI/PPP contracts	-	-
Increase/(decrease) in Capital Financing Requirement	**34,749**	**52,366**

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 2021 £000	31 March 2020 £000
Not later than one year	4,595	5,508
Later than one year and not later than five years	10,523	17,472
Later than five years	7,660	11,106
	22,778	**34,086**

The Council has sub-let some of the accommodation held under these leases. At 31st of March 2021 the minimum income expected to be received under sub-leases was £532k.

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

	31 March 2021 £000	31 March 2020 £000
Minimum lease payments	4,654	3,758
Sublease payments receivable	(52)	(222)
	4,602	**3,536**

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 2021 £000	31 March 2020 £000
Not later than one year	4,407	4,414
Later than one year and not later than five years	14,783	15,338
Later than five years	9,439	12,970
	28,629	**32,722**

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

2020/21 was the sixteenth 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 2021 (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 2021/22	5,824	400	1,017	7,241
Payable within two to five years	24,616	2,242	3,423	30,281
Payable within six to ten years	29,338	4,359	1,931	35,628
	59,778	7,001	6,371	73,150

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 contractor for capital expenditure incurred is as follows:

	2020/21 £000	2019/20 £000
Balance outstanding at start of year	7,352	7,661
Payments during the year	(309)	(309)
Capital expenditure incurred in the year	-	-
Balance outstanding at year-end	**7,043**	**7,352**

16. Debtors

	31 March 2021 £000	31 March 2020 £000
Council Tax Receivable from Taxpayers	14,205	10,692
Non Domestic Rates Receivable from Taxpayers	18,425	16,242
Business Rates Supplement Debtor	1,523	290
Trade Debtors	29,887	33,218
Other Debtors	32,931	44,520
VAT Debtors	8,476	7,624
Prepayments and Accrued Income	25,614	18,510
Impairment Allowance for Doubtful Debts	(68,244)	(58,666)
Total	**62,817**	**72,430**

*2019/20 figures have been re-allocated to reflect the figures for VAT debtor and other adjustments

17. Cash and Cash Equivalents

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

	31 March 2021 £000	31 March 2020 £000
Cash held by the Council	89	249
Bank current accounts	321	28
School bank accounts	10,493	9,329
Short-term deposits	133,350	47,424
Total	**144,253**	**57,030**
Bank overdraft*	(1,687)	(1,261)
	(1,687)	**(1,261)**
Net Cash and Cash Equivalents	**142,566**	**55,769**

* The detailed analysis of the movement in Cash & Cash Equivalents is illustrated on the Cashflow Note and Note 22.

18. Creditors

	31 March 2021 £000	31 March 2020 £000
Council Tax Creditor	(1,708)	(4,111)
NDR Retained Income Creditor	(65,917)	(41,976)
NDR Taxpayers Receipts not yet Paid to Government	(53)	(54)
Council Tax Refundable to Taxpayers	(6,534)	(5,635)
Non Domestic Rates Refundable to Taxpayers	(12,247)	(12,942)
Other Tax and Social Security Payable	(2,634)	(2,145)
Trade Creditors	(5,644)	(4,015)
Other Creditors	(100,254)	(64,309)
Short Term PFI Lease Liability	(400)	(351)
Short Term Finance Lease Lease Liability	-	(20)
Total	**(195,391)**	**(135,558)**

19. Other Long-Term Liabilities

	31 March 2021 £000	31 March 2020 £000
Net Pensions Liability	(657,853)	(498,410)
Private Finance Initiative (PFI) Liability	(6,601)	(7,001)
TOTAL	**(664,454)**	**(505,411)**

20. Provisions

	Insurance £000	NDR - Losses on Appeals £000	Other Provisions £000	Total £000
Balance at 31 March 2019	**(1,774)**	**(23,509)**	**(2,989)**	**(28,272)**
Additional provisions	(509)	(17,626)	(6,040)	**(24,175)**
Amounts used	-	12,611	195	**12,806**
Balance at 31 March 2020	**(2,283)**	**(28,524)**	**(8,834)**	**(39,641)**
Additional provisions	(106)	(3,991)	(2,345)	**(6,442)**
Amounts used	-	-	1,903	**1,903**
Unused amounts reversed	-	12,010	-	**12,010**
Balance at 31 March 2021	**(2,389)**	**(20,505)**	**(9,276)**	**(32,170)**
Of which:				
Next twelve months	(2,389)	(20,505)	(2,900)	**(25,794)**
Over twelve months	-	-	(6,376)	**(6,376)**
Balance at 31 March 2021	**(2,389)**	**(20,505)**	**(9,276)**	**(32,170)**

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 December 2020. The provision is based upon updated professional estimates of continuing open claims identified in that year's assessment. It also reflects claims they have been 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. The recent actuarial assessment estimates LBHF share of ongoing MMI Liability at £321k based on outstanding and incurred but not reported claims.

Other provisions include amounts to cover refunds to tenants and leaseholders for previously levied water rate charges, 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 2021 £000	**31 March 2020 £000**	**31 March 2021 £000**	**31 March 2020 £000**
Financial assets at amortised cost				
Investments	195	195	164,017	162,545
Cash and Cash Equivalents	-	-	144,164	56,781
Long Term Debtors	1,330	1,330	-	-
Trade Debtors	-	-	24,210	28,228
Total	**1,525**	**1,525**	**332,391**	**247,554**
Financial liabilities at amortised cost				
Borrowings	(272,005)	(232,000)	(2,575)	(13,843)
Bank overdraft	-	-	-	-
Long Term Creditors	(100)	(100)	-	-
Trade Creditors	-	-	(192,225)	(56,400)
Total	**(272,105)**	**(232,100)**	**(194,800)**	**(70,243)**
Other Liabilities:				
PFI & Finance Lease liabilities	**(6,601)**	**(7,001)**	**(400)**	**(371)**

*2019/20 Investments, short term debtors and creditors figures restated to include relevant balances

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

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

(ii) Reclassifications

No financial instruments have been reclassified between valuation at amortised cost and valuation at fair value during 2020/21 or previous years.

21. Financial Instruments (cont'd)

(iii) Income, Expense, Gains and Losses

	2020/21			2019/20		
	Financial Liabilities at amortised cost £000	Financial Assets: Loans and receivables £000	Total £000	Financial Liabilities at amortised cost £000	Financial Assets: Loans and receivables £000	Total £000
Interest expense	11,675	-	11,675	11,296	-	11,296
Losses on derecognition	-	-	-	-	-	-
Total expense in Surplus or Deficit on the Provision of Services	**11,675**	**-**	**11,675**	**11,296**	**-**	**11,296**
	-	-	-	-	-	-
Interest income	-	(480)	(480)	-	(2,304)	(2,304)
Total income in Surplus or Deficit on the Provision of Services	**-**	**(480)**	**(480)**	**-**	**(2,304)**	**(2,304)**
Net gain/(loss) for the year	**11,675**	**(480)**	**11,195**	**11,296**	**(2,304)**	**8,992**

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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 2021.
• 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 2021 (£0.1m at 31 March 2020) 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 2021		31 March 2020	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities				
Borrowings				
PFI Liabilities	(7,001)		(7,372)	
PWLB Debt	(274,581)	(335,408)	(245,843)	(298,925)
Total	**(281,582)**	**(335,408)**	**(253,215)**	**(298,925)**
Financial Assets				
Loans and receivables				
Money market loans less than one year	164,017	164,017	162,545	162,545
Money market loans greater than one year	195	195	195	195
Available for Sale less than one year	-	-	-	-
Available for Sale greater than one year	-	-	-	-
Total	**164,212**	**164,212**	**162,740**	**162,740**

Both PWLB borrowings and money market loans are categorised as Level 2 in the fair value hierarchy.

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

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 Council 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 **£401.304m** as at 31 March 2021.

The fair value for financial liabilities has 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 2021, 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 meeting when 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. Recent experience has shown that it is rare for such entities to not be able to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2021 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.

The Council invested more cash with the Debt Management Office in 2020/21 compared to the previous financial year. This will have reduced the overall portfolio risk.

21. Financial Instruments (cont'd)

Liquidity Risk

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

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

Exposure to customers is assessed by reference to past experience, age of debt, and stage of recovery process. Details of these debts are reported in **Note 16**. The sums shown are net of a prudent allowance for their impairment amounting to **£12.81 million** at 31 March 2021 (£3.54 million at 31 March 2020). 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 2021 £000	31 March 2020 £000
Less than three months	17,017	22,068
Three to six months	436	7,225
Six months to one year	4,486	773
More than one year	7,948	3,152
	29,887	**33,218**

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 2021 £000	31 March 2020 £000
Less than one year	-	(11,410)
Between one and two years	-	-
Between two and five years	(19,968)	(19,968)
Between five and ten years	(27,100)	(21,395)
More than ten years	(224,664)	(190,369)
Total	**(271,732)**	**(243,142)**

21 Financial Instruments (cont'd)

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

	31 March 2021 £000	31 March 2020 £000
Less than one year	164,000	162,000
Between one and two years	195	195
Between two and three years	-	-
More than three years	-	-
Total	**164,195**	**162,195**

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.

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

	2020/21 £000	2019/20 £000
Adjustment for items included elsewhere in the Cash Flow Statement:		
Capital Grants	(55,171)	(49,414)
Adjustment for 'non-cash' items included in the Income and Expenditure Statement:		
Depreciation and Amortisation of non-current assets	36,459	34,111
Impairments and revaluations	(49,711)	29,218
Value of non-current assets derecognised on disposal	3,533	2,281
Assets transferred to/(from) Assets Held for Sale	13,780	-
Net adjustment made in respect of IAS 19 (Pensions)	22,727	32,243
Amortisation of Premia and Discounts	5	5
Movement in non-cash assets and liabilities:		
(Increase)/decrease in short-term Debtors*	10,195	(7,178)
add/less: (Increase)/decrease in Capital Debtors	(58)	453
(Increase)/decrease in Long-term Debtors	(7,193)	-
Increase/(decrease) in short-term Creditors*	(6,035)	(61,140)
add/less: Increase/(decrease) in Capital Creditors	1,783	3,276
Assets transferred to 'Assets Held for Sale'	(13,229)	-
(Increase)/decrease in Inventories	10	11
Increase/(decrease) in Provisions	(7,472)	11,369
Increase/(decrease) in Grants and Contributions Receipts in Advance	(21,003)	8,484
Adjustments to net surplus or deficit on the provision of services for non-cash movements	**(71,380)**	**3,719**

*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:

	2020/21 £000	2019/20 £000
Interest Received	(103)	2,405
Interest Paid	(11,804)	(11,304)

22c. Reconciliation of Liabilities Arising from Financing Activities

2020/21	Opening Balance £000	Cash (Inflow)/ Outflow £000	Transfers between ST and LT £000	Other Non-Cash changes £000	Closing Balance £000
Long-Term Borrowing	(232,001)	(40,000)	-	(5)	**(272,006)**
Short-Term Borrowing	(13,843)	11,410	-	(143)	**(2,576)**
Lease Liabilities	(20)	20	-	-	**-**
PFI	(7,352)	351	-	-	**(7,001)**
Total	**(253,216)**	**(28,219)**	**-**	**(148)**	**(281,583)**
2019/20					
Long-Term Borrowing	(203,406)	(40,000)	11,410	(5)	**(232,001)**
Short-Term Borrowing	(12,096)	9,699	(11,410)	(36)	**(13,843)**
Lease Liabilities	(125)	105	-	-	**(20)**
PFI	(7,660)	308	-	-	**(7,352)**
Total	**(223,287)**	**(29,888)**	**-**	**(41)**	**(253,216)**

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 Comprehensive Income and Expenditure Statement. Bodies with whom we have these agency agreements include Thames Water, Transport for London, West London Housing and Business Improvement Districts. The agency arrangement with Thames Water concluded on the 31 March 2021.

24. Members' Allowances

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

	2020/21	2019/20 £000
Members' Allowances	844	855

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		**2020/21**	**200,363**	**0**	**0**	**0**	**36,448**	**236,811**
			2019/20	182,580	12,781	1,846	0	27,935	225,142
Strategic Director for the Economy Department	Joanne Rowlands	1	**2020/21**	**71,701**	**0**	**0**	**0**	**9,308**	**81,009**
			2019/20	157,080	15,708	0	0	25,104	197,892
Strategic Director of Social Care and Director of Public Service Reform	Lisa Redfern		**2020/21**	**162,605**	**0**	**0**	**0**	**27,805**	**190,410**
			2019/20	147,900	0	0	0	22,629	170,529
Director of Finance (Section 151 Officer)	Emily Hill	2	**2020/21**	**131,336**	**0**	**0**	**0**	**24,728**	**156,064**
Strategic Director, Finance and Governance (Section 151 Officer)	Hitesh Jolapara		**2020/21**	**27,479**	**0**	**0**	**0**	**5,858**	**33,337**
			2019/20	157,080	6,284	0	0	24,033	187,397
Strategic Director of Environment	Sharon Lea	6	**2020/21**	**58,000**	**0**	**0**	**0**	**0**	**58,000**
			2019/20	0	0	0	0	0	0
Director of Corporate Services	Mark Grimley	3	**2020/21**	**0**	**0**	**0**	**0**	**0**	**0**
			2019/20	23,542	0	0	0	4,765	28,307
Director of Children's Services	Jacqui McShannon	4	**2020/21**	**148,988**	**0**	**0**	**0**	**25,477**	**174,465**
			2019/20	59,208	0	0	0	9,059	68,267
	Stephen Miley		**2020/21**	**0**	**0**	**0**	**0**	**0**	**0**
			2019/20	79,097	0	0	0	12,102	91,199
Director of Resources	Rhian Davies	5	**2020/21**	**138,499**	**0**	**0**	**0**	**26,173**	**164,672**
			2019/20	50,269	3,600	68	0	7,691	61,628

Notes

1	Joanne Rowlands left the Council in May 2020, and the role has since been occupied on an interim basis.
2	Hitesh Jolapara left the Council in May 2020 and was replaced by Emily Hill as Director of Finance (Section 151 Officer).
3	Mark Grimley left the Council in May 2019; this post has now been removed from the structure.
4	Stephen Miley retired as Director of Children's Services in year and was replaced by Jacqui McShannon on 4th November 2019.
5	Rhian Davies has been directly employed by the Council since 4 November 2019. She was previously seconded to the Council from Westminster City Council.
6	The position of the Strategic Director of Environment was occupied on an interim basis until November 2020.

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	**2020/21 Number of Employees**	**2019/20 Number of Employees**
£135,000 - £139,999	4	0
£130,000 - £134,999	0	1
£125,000 - £129,999	1	2
£120,000 - £124,999	2	0
£115,000 - £119,999	4	0
£110,000 - £114,999	2	2
£105,000 - £109,999	4	8
£100,000 - £104,999	8	3
£95,000 - £99,999	10	6
£90,000 - £94,999	16	13
£85,000 - £89,999	17	16
£80,000 - £84,999	22	20
£75,000 - £79,999	12	23
£70,000 - £74,999	30	18
£65,000 - £69,999	40	38
£60,000 - £64,999	63	41
£55,000 - £59,999	161	106
£50,000 - £54,999	192	150
Total	**588**	**447**

Of the 588 employees listed above in 2020/21, 183 (31%) were employees where pay decisions rest with the School Governing Body and not the Council. The corresponding figure for 2019/20 was 150 (34%).

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**	
	2020/21	**2019/20**	**2020/21**	**2019/20**	**2020/21**	**2019/20**	**2020/21**	**2019/20**
£0 - £20,000	24	36	16	31	40	67	411,549	537,158
£20,001 - £40,000	12	7	3	3	15	10	387,237	318,778
£40,001 - £60,000	3	1	-	3	3	4	157,052	187,973
£60,001 - £80,000	4	-	2	-	6	-	430,004	-
£80,001 - £100,000	-	-	1	1	1	1	83,505	96,507
£100,001 - £150,000	5	4	1	-	6	6	690,435	538,214
£150,001 - £200,000	2	1	1	-	3	6	512,721	153,181
£200,001 - £250,000	1	1	-	-	1	6	212,059	204,852
Total	**51**	**50**	**24**	**38**	**75**	**88**	**2,884,562**	**2,036,663**

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 2020/21, the Council paid £5.73 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 23.68% of pensionable pay. The figures for 2019/20 were £4.89 million and 20.73%. 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 2020/21 the costs arising from additional benefits amounted to £323.7k (2019/20: £321.2k).

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.

27. Defined Benefit Schemes (cont'd)

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.

The Council recognises 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 the Council is 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 Pension Scheme		LPFA Local Government Pension Scheme	
	2020/21 £000	**2019/20 £000**	**2020/21 £000**	**2019/20 £000**
Comprehensive Income and Expenditure Statement				
Cost of Services:				
• current service costs	32,500	31,445	110	123
• past service costs including curtailments	2,808	8,511	-	213
• (gain)/ loss from settlements	(1,945)	714		
• administration expenses	246	304	56	63
• unfunded pension payments	(2,054)	(2,259)	(27)	(27)
• employer's pension contributions adjustment				
Financing and				
• net interest expense / (income)	11,455	14,737	(38)	(70)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**43,010**	**53,452**	**101**	**302**
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)	(168,825)	42,855	(5,589)	1,251
• Actuarial gains and losses arising on changes in demographic assumptions	(15,715)	(47,013)	(441)	813
• Actuarial gains and losses arising on changes in financial assumptions	340,613	(126,855)	5,976	(2,887)
• Experience loss/ (gain) on defined benefit obligation	(19,352)	11,611	(631)	(177)
• Other actuarial gains/ (losses)	-	(38,473)	-	2,298
• Impact of asset ceiling			680	(932)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**179,731**	**(104,423)**	**96**	**668**
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	(43,010)	(53,452)	(101)	(302)
Actual amount charged against the General Fund Balance for pensions in the year:				
• employers' contributions payable to scheme	20,313	21,434	71	77

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 Pension Scheme		LPFA Local Government Pension Scheme	
	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000
Opening balance 1 April	**1,388,237**	**1,508,899**	**41,469**	**45,012**
Current service cost	32,500	31,445	110	123
Interest cost	32,232	35,875	928	1,007
Remeasurement (gains) and losses:				
- Change in financial assumptions	340,613	(126,855)	5,976	(2,887)
- Change in demographic assumptions	(15,715)	(47,013)	(441)	813
- Experience	(19,352)	11,611	(631)	(177)
Liabilities assumed/ (extinguished) on settlements	(1,342)	5,879	-	-
Estimated benefits paid net of transfers in	(39,139)	(43,884)	(2,182)	(2,631)
Past service costs, including curtailments	2,808	8,511	-	213
Contributions by Scheme participants	6,676	6,028	22	23
Unfunded pension payments	(2,054)	(2,259)	(27)	(27)
Closing balance at 31 March	**1,725,464**	**1,388,237**	**45,224**	**41,469**

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

	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme	
	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000
Opening balance 1 April	**889,741**	**884,546**	**43,029**	**48,095**
Interest on assets	20,777	21,138	966	1,077
Remeasurement gain/ (loss):				
- Return on assets less interest	168,825	(42,855)	5,589	(1,251)
- Other actual gains/ (losses)	-	38,473	-	(2,298)
Administration expenses	(246)	(304)	(56)	(63)
Contributions by employer including unfunded	22,367	23,693	98	104
Contributions by scheme participants	6,676	6,028	22	23
Estimated benefits paid plus unfunded net of transfers in	(41,193)	(46,143)	(2,209)	(2,658)
Settlement prices received/ (paid)	603	5,165	-	-
Closing balance at 31 March	**1,067,550**	**889,741**	**47,439**	**43,029**

Pension Assets and Liabilities Recognised in the Balance Sheet

	31 March 2021 £000	31 March 2020 £000
Present Value of Liabilities		
LBHF Local Government Pension Scheme (Funded)	1,696,419	1,359,976
LBHF Local Government Pension Scheme (Unfunded)	29,045	28,261
LPFA Local Government Pension Scheme (Funded)	45,072	41,309
LPFA Local Government Pension Scheme (Unfunded)	152	160
Fair Value of Assets		
LBHF Local Government Pension Scheme	(1,067,550)	(889,741)
LPFA Local Government Pension Scheme	(47,439)	(43,029)
Impact of Asset Ceiling		
LBHF Local Government Pension Scheme		
LPFA Local Government Pension Scheme	2,154	1,474
Net liability arising from defined benefit obligation		
LBHF Local Government Pension Scheme	657,914	498,496
LPFA Local Government Pension Scheme	(61)	(86)
Total	**657,853**	**498,410**

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 £657.8m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- the deficits on both local government schemes will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- finance is only required to be raised to cover discretionary benefits when 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 2021 is estimated to be 21.44% for LBHF Local Government Pension Scheme and 15.60% 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 2021		31 March 2020	
	£000	%	£000	%
Equities	488,433	46%	363,906	41%
Cash Plus Funds	410,690	38%	259,591	29%
Cash	64,304	6%	71,556	8%
Property	104,123	10%	97,034	11%
Inflation Opportunity Funds	-	0%	97,654	11%
Total	**1,067,550**	**100%**	**889,741**	**100%**

	LPFA Local Government Pensions Scheme			
	31 March 2021		31 March 2020	
	£000	%	£000	%
Equities	25,774	54%	23,224	54%
Target Return Portfolio	11,166	24%	11,086	26%
Infrastructure	4,020	8%	3,135	7%
Property	4,317	9%	4,271	10%
Cash	2,162	5%	1,313	3%
Total	**47,439**	**100%**	**43,029**	**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 2019. The principal assumptions used by the actuary have been:

	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme	
	2020/21	2019/20	2020/21	2019/20
Mortality Assumptions				
Life expectancy from age 65 - retiring today				
Men	21.6	21.8	21.1	20.8
Women	24.3	24.4	24.0	23.7
Life expectancy from age 65 - retiring in 20 years				
Men	22.9	23.2	22.2	22.3
Women	25.7	25.8	25.8	25.3
Financial Assumptions				
Rate of Inflation - RPI	3.20%	2.70%	3.35%	2.85%
Rate of Inflation - CPI	2.80%	1.90%	2.85%	1.95%
Rate of Increase in Salaries	3.80%	2.90%	3.85%	2.95%
Rate of Increase in Pensions*	2.80%	1.90%	2.85%	1.95%
Discount Rate	2.00%	2.35%	1.9%	2.30%

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

27. Defined Benefit Schemes (cont'd)

These assumptions are set with reference to market conditions at 31 March 2021.

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 all the other assumptions remain constant. The projected service costs for 2021/22 are £48.219m (LBHF) and £0.136m (LPFA).

	Impact on the Projected Service Cost of the Scheme			
	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme	
	Increase in Assumption £000	Decrease in Assumption £000	Increase in Assumption £000	Decrease in Assumption £000
Adjustment to:				
Discount Rate (+/-0.1%)	46,633	49,894	134	139
Long term salary increase (+/-0.1%)	48,246	48,193	136	136
Pension increases & deferred revaluation* (+/-0.1%)	49,837	46,647	138	134
Mortality age rating assumption (+/- 1 year)	50,253	46,258	143	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 2019 and will set contributions for the period from 1 April 2020 to 31 March 2023. 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 2022 are £19.619m to the LBHF Local Government Pension Scheme. The LPFA Local Government Pension Scheme was certified to pay a minimum of 24.5% employer pension contributions and total contributions are expected to be immaterial.

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:

	2020/21 £000	2019/20 £000
Fees payable to the External Auditor with regard to external audit services carried out by the appointed auditor for the year	200	191
Fees payable to External Audit for the certification of grant claims and returns for the year	56	32
Non-Audit Services	13	13
Audit Refunds	-	-
Total	**268**	**236**

Non-Audit Services consists of a CFO Insights subscription of £12,500.

29. Dedicated Schools Grant

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

Details of the schools budget funded by DSG receivable for 2020/2021 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total 2020/21 £000	Total 2019/20 £000
Final DSG for 2020/21 before Academy Recoupment			149,102	142,654
Academy figure recouped for 2020/21			(65,919)	(63,639)
Total DSG after Academy recoupment for 2020/21			83,183	79,015
Plus: Brought forward from 2019/20			(19,120)	(13,616)
Less: Carry-forward to 2020/21 agreed in advance			19,120	13,616
Agreed initial budgeted distribution in 2020/21	**9,025**	**74,157**	**83,183**	**79,015**
In year adjustments		6,521	6,521	(21)
Final budgeted distribution for 2020/21	**9,025**	**80,678**	**89,704**	**78,994**
Less: Actual central expenditure	(8,268)		(8,269)	(10,060)
Less: Actual ISB deployed to schools		(76,821)	(76,821)	(74,437)
Plus Local authority contribution for 2020/21	-	-		
(Drawdown from)/Contribution to DSG Reserve	**757**	**3,857**	**4,614**	**(5,503)**
Early Years Funding Reserve				
Carry Forward to 2021/22			**(14,505)**	**(19,119)**

The DSG has a cumulative deficit of £14.5 million. The Schools & Early years Block of (£2.2m) has been accounted for as a reserve and the cumulative DSG deficit of £16.7m has been accounted for as an unusable reserve. Parliament has approved the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020 in November 2020 which amends the 2003 Regulations by establishing new accounting practices in relation to the treatment of local authorities' schools budget deficits which must now be recorded in a separate account established solely for the purpose of recording deficits in unusable reserves. As the statutory requirement is time limited, it continues to set aside reserves to match the High Needs Block deficit until such time as the cumulative deficit is eliminated.

30. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2020/21:

	2020/21 £000	2019/20 £000
Credited to Taxation and Non Specific Grant Income		
S31 Grant - Business Rates Retention Scheme Relief	(43,212)	(6,394)
Revenue Support Grant	(17,410)	-
New Homes Bonus	(6,864)	(7,472)
Adult Social Care Support Grant	(5,956)	(1,569)
Other Non-ringfenced grants	(3,356)	(6,679)
Capital grants - S106	(37,351)	(6,099)
Capital grants - Basic Needs	(1,727)	-
Capital grants - Transport for London	(1,294)	(3,283)
Capital grants - Schools Condition Allocations	(1,234)	(889)
Capital grants - Other	(2,705)	(6,647)
COVID-19 - Sales, Fees & Charges Support grant	(13,108)	-
COVID-19 - Support grant	(11,744)	(6,408)
COVID-19 - Tax Income Guarantee grant	(2,305)	-
COVID-19 - Council Tax Hardship grant	(1,037)	-
COVID-19 - Other grants	(1,070)	-
Total	**(150,373)**	**(45,440)**
Credited to Services		
Housing & Council Tax Benefit Subsidy	(97,143)	(100,787)
Dedicated Schools Grant	(89,704)	(78,994)
Developer Contributions (inc Section 106)	(32,718)	(15,089)
Public Health Grant	(21,879)	(23,214)
Improved Better Care Fund	(8,814)	(8,814)
Post 16 (EFA 16-19 Grant)	(5,388)	(5,263)
Pupil Premium Grant	(3,716)	(3,784)
Flexible Homelessness Grant	(2,660)	(2,705)
Adult Learning	(2,546)	(3,101)
Teachers Pension Employer Contribution Grant	(2,075)	(1,137)
Unaccompanied Asylum Seeking Children	(1,955)	(1,602)
Disabled Facilities Grant	(1,555)	(724)
PFI Grants	(1,429)	(1,429)
Step Up to Social Work Grant	(1,103)	(440)
Infant Free School Meals	(1,038)	(1,077)
Other grants and contributions	(9,475)	(9,422)
COVID-19 - Additional Restrictions grant	(5,347)	-
COVID-19 - Contain Outbreak Management Fund grant	(4,318)	-
COVID-19 - Local Authority Discretionary grant	(2,400)	-
COVID-19 - Infection Control grant	(1,628)	-
COVID-19 - Test and Trace grant	(1,199)	-
COVID-19 - Demand Led for Community testing grant	(1,180)	-
COVID-19 - Other grants	(3,443)	-
Total	**(302,713)**	**(257,582)**

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:

	2020/21 £000	2019/20 £000
Grants and Contributions Receipts in Advance (Current)		
Other grants - revenue	(3,715)	(2,513)
COVID-19 - Local Restrictions Support Grant (Open)	(1,077)	-
COVID-19 - Other grants	(1,733)	-
Total	**(6,525)**	**(2,513)**

	2020/21 £000	2019/20 £000
Grants and Contributions Receipts in Advance (Non-Current)		
Developer contributions (inc. section 106)	(13,008)	(38,163)
TfL	(1,354)	(1,187)
COVID-19 - Other grants	(91)	-
Other capital grants	(2,846)	(2,966)
Total	**(17,299)**	**(42,316)**

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.

The related party transactions with our subsidiaries have been included in Note 33.

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 2020/21 is shown in Note 24.

Information regarding reportable transactions has been collated by requiring 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.

The related party transactions for 2020-21 are set out below.

Name of body	2020-21				
	Loan	Expenditure	Income	Income outstanding to LBHF (LBHF debtor balance)	Balance outstanding (LBHF creditor balance)
	£000	£000	£000	£000	£000
Action on Disability	0	343	(1)	0	0
Hammersmith and Fulham Citizen Advice Bureau	0	656	0	0	0
Hammersmith and Fulham Community Law Centre	0	115	0	0	0
Hammersmith and Fulham Volunteer Centre	0	142	(1)	2	0
Lyric Hammersmith	0	230	0	0	0
LBHF Family Support Services Ltd	0	2,221	0	0	0
West King Street Renewal LLP	0	0	0	7,193	0
Total	**0**	**3,707**	**(2)**	**7,195**	**0**

Name of body	2019/20				
	Loan	Expenditure	Income	Income outstanding to LBHF (LBHF debtor balance)	Balance outstanding (LBHF creditor balance)
	£000	£000	£000	£000	£000
Action on Disability	0	377	0	0	0
Hammersmith and Fulham Citizen Advice Bureau	0	651	0	1	0
Hammersmith and Fulham Community Law Centre	0	127	0	5	0
Hammersmith and Fulham Volunteer Centre	0	147	0	0	(0)
Lyric Hammersmith	0	121	0	0	0
LBHF Family Support Services Ltd	0	2,579	0	0	0
West King Street Renewal LLP	0	0	0	0	0
Total	**0**	**4,001**	**0**	**6**	**(0)**

*2019-20 balances restated

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.

Senior officers are also asked to disclose their related party transactions. Based on these returns, West King Street Renewal LLP is included above.

Pension Fund

The Council is the administering authority of the Pension Fund. A detailed summary of the Pension Fund Accounts is included within this Statement of Accounts in the Supplementary Financial Statements section.

Shared Services

The Council has entered into some limited time remaining joint working arrangements with the City of Westminster and the Royal Borough of Kensington and Chelsea. The nature of these arrangements does mean that each borough influences the others however, each borough remains sovereign.

Wormwood Scrubs

The Mayor and Burgesses of the Council are the Trustees of the Wormwood Scrubs Charitable Trust (WSCT). 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. Income and expenditure is detailed in Note 35 and includes expenditure of £813k paid to the Council for services such as repairs and maintenance.

Interest in Companies

The Council has interest in a number of companies; Lyric Theatre Hammersmith Limited, Ltd, Housing Joint Ventures Limited, LBHF Ventures Limited, LBHF Joint Ventures Limited, LBHF Family Support Services Limited, and West King Street Renewal LLP. Full details are disclosed in Note 33.

Provision of key management personnel

Amounts were incurred by the Council for payments to employment agencies for the services of key management personnel. For the post of Strategic Director of Environment, the cost was £154k (from 1st April 2020 to November 2020). For the post of Strategic Director of Economy department, the cost was £156k (from June 2020 to 31st March 2021).

32. Better Care Fund Pooled Budget

The Council 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 Council's accounting system.

The pooled budget for Joint Equipment has 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.

In 2019/20, the Better Care Fund was widened again to incorporate the Winter Pressures Funding (WP). This funding is received direct from the Department of Health (DoH) and is used to build resilience and capacity during the winter months when hospital admissions amongst the elderly are at their highest. The funding allows for additional resources to be planned and implemented to ensure appropriate packages of care or placements are available on discharge.

2020/21 was the first full year in which commissioning for Learning Disabilities clients have returned to CCG as lead commissioners.

The following table summarises the position for 2020/21:

	2020/21 £000	2019/20 £000
Contributions to the Pooled Budget:		
London Borough of Hammersmith & Fulham	(17,875)	(17,644)
Hammersmith and Fulham Clinical Commissioning Group	(31,135)	(29,678)
Total Contributions	**(49,010)**	**(47,322)**
Expenditure Met by the Pooled Budget:		
Costs relating to the reablement of residents	5,706	5,592
Costs relating to care provided in residential settings or in community settings	41,595	40,055
Support Services and programme management relating to the BCF	2,088	1,814
Total Expenditure	**49,389**	**47,461**
Net (surplus)/deficit arising on the pooled budget in the year	379	139
Net (surplus)/deficit split by:		
Share of the net (surplus)/deficit due to the London Borough of Hammersmith & Fulham (Includes capital resources)	81	19
Share of the net (surplus)/deficit due to the Hammersmith & Fulham Clinical Commissioning Group	298	120

33. Interest in Companies

The Council has an involvement with a number of associated companies which are set out below. The assets, liabilities and reserves, income, expenditure and cashflows of these companies are not included in the Council's accounts as the Council's interest is not considered to be material and so 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 2020/21. The latest audited accounts available, those relating to 2019/20, show net assets of £10,204k (£10,807k in 2018/19) and net loss on its activities in that year of £603k (net income of £828k in 2018/19). 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) 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.

HFS Development 2 Limited is a joint venture between the Council (50%) and Stanhope Plc (50%) which was incorporated on 19 July 2016. The latest audited accounts available, those relating to 2019/20 show loss for the period amounted to £119k (loss £454 in 2018/19).

(iii) 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.

(iv) 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.

(v) 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, those relating to 2019/20, show net liability worth £1.4k and a net loss for the period of £1.4k.

(vi) West King Street Renewal LLP

West King Street Renewal LLP was incorporated in March 2020 as a joint venture between the Council and A2 Dominion Developments Limited. The total invested by the Council in this Joint Venture as at March 2021 was £9,890k.

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 624 units with an estimated valuation of £370m. This represents a potential asset to the Council of £219m based on 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

The council does not have any material contingent liabilities.

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:

	2020/21 £000	2019/20 £000
Balance at 1st April	**(5,879)**	**(5,747)**
Income	(993)	(1,167)
Sub total	**(6,872)**	**(6,914)**
Less:		
Expenditure and Transfers	943	1,035
Balance at 31 March	**(5,929)**	**(5,879)**

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 2021 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 subject to valuations and 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 2021/22 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 (total NBV £1.412 billion) would result in a reduction of £141.2 million (Revaluation Reserve of £37.3 million and a £103.9 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 £1.86 billion.
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. Total net liability for the year ended 31 March 2021 is £658m. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The fair value of the Partners Group Multi Asset Credit fund and Infrastructure fund is also subject to some 'material valuation uncertainty. 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. Due to the COVID-19 pandemic, the values reflected in these investments may materially differ from the values received upon the actual sales of the underlying investments. As at 31 March 2021, the assets invested with Partners Group were valued at £45.9m (£42.3m in 2019/20). The same applies to the Aviva Infrastructure which has a quarterly valuation cycle. As at 31 March 2021, the value of the investment was £25.5m (£26.1m in 2019/20). There is further uncertainty arising from a legal challenge to the Government's transitional arrangements following the public sector pension reforms in 2015.	For instance: • 0.1% increase in the discount rate assumption would result in a decrease in pension liability of £36m • 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 £34m • A one-year increase in life expectancy would increase the liability by about £84m Included in past service costs is the allowance to reflect the Court of Appeal judgement in respect of the McCloud and Sargeant cases which relate to age discrimination within the Judicial and Fire Pension schemes, respectively. The allowance have been rolled forward from 31 March 2020 and remeasured to obtain the accounting results as at 31 March 2021 which £2.8m (0.2% of total liabilities).

37. Events after the Reporting Period

The Statement of Accounts have been prepared up to 31 March 2021. 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 2020/21 (the Code) supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021.

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.

The Statement of Accounts has been prepared on a 'going concern' basis.

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

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

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

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

iii. ACCRUALS OF INCOME AND EXPENDITURE

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

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

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

iv. OVERHEADS AND SUPPORT SERVICES

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

v. GOVERNMENT GRANTS AND CONTRIBUTIONS

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

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

38. Statement of Accounting Policies (cont'd)

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

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

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

Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments) 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 through a Minimum Revenue Provision (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 (i.e. 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 Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

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

38. Statement of Accounting Policies (cont'd)

viii. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

ix. PROPERTY, PLANT AND EQUIPMENT

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

Recognition

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

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

Measurement

Assets are initially measured at cost, comprising:
- the purchase price.
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

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

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

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

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

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

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

38. Statement of Accounting Policies (cont'd)

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

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

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

Impairment

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

Where impairment losses are identified, they are accounted for by:

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

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

Depreciation

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

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

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

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

Disposals and Non-Current Assets Held for Sale

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

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

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

38. Statement of Accounting Policies (cont'd)

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

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

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

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

x. HERITAGE ASSETS

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

Valuation Policy

The Council discloses 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.

(ii) Books & Printed Materials
This category consists of books, and other printed material such as press, pictures, drawings and prints.

(iii) Ceramics & Glass

(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.

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.

38. Statement of Accounting Policies (cont'd)

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 Council'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 not 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.

38. Statement of Accounting Policies (cont'd)

xviii. EMPLOYEE BENEFITS

Benefits Payable During Employment

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council 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 provide 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 2.00% (2.35% in 2019/20). 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).

38. Statement of Accounting Policies (cont'd)

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 Council – the change during the period in the net defined benefit liability/ (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- **Remeasurement** comprising:
  - **Re-measurement of the return on plan assets**: excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - **Actuarial gains and losses**: changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions debited to the Pensions Reserve.
  - **Contributions paid to the Funds**: cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

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.

38. Statement of Accounting Policies (cont'd)

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

Contingent Liabilities

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

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

Contingent Assets

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

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

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 Group Accounts is not required for 2020/21. 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.

38. Statement of Accounting Policies (cont'd)

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 Council's financial position.

xxvi. FAIR VALUE MEASUREMENT

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

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

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 Council 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:

Accounting for Schools - Recognition of Schools
The Council has assessed the legal framework underlying each type of school and determined the treatment of non-current assets within the financial statements according to whether it owns or has some responsibility for, control over or benefit from the service potential of the premises and land occupied.

The Council has considered its accounting classification for each school on an individual case basis in conjunction with relevant dioceses for voluntary aided and voluntary controlled schools. As a result, the Council:

- Recognises school assets for community schools on its balance sheet because the rights and obligations associated with such schools rests with the Council (22 schools with NBV of £111.8m at 31st March 2021); and
- Assesses that the assets relating to academies, voluntary aided (VA), voluntary controlled (VC) or free schools are not controlled by the Council but, following consultation and review, the VA and VC schools have been deemed to be owned by the relevant dioceses (33 schools at 31st March 2021, of which 20 are academies or free schools and 13 are VA schools).

Recognition of the disposal of school assets on the Council's balance sheet occurs on the date on which a school converts to academy status, not on the date of any related announcement. Neither is any impairment recognised by the Council prior to conversion.

Group Accounts
With respect to the policy on Interest in Companies and Other Entities (Note 38. xxi), 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.

- Interest Rate Benchmark Reform amendments to IFRS 9, IAS 39 and IFRS 7 have an impact on hedge accounting if interest rates change. The amendments will not have an impact on the Council, as the Council’s debt is fixed rate and all of the Council’s investments are in sterling and low risk.

- Interest Rate Benchmark Reform – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relate to issues that arise if an existing interest rate is replaced by an alternative one. This is unlikely to have an impact as interest rate benchmark reform is rarely applied. In addition, financial instruments are valued in the accounts at amortised cost rather than fair value.

- 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 2022. The impact of this code on the accounts is not known at this time.

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.

	£000	£000	£000	£000	£000	£000	
Income							
Council Tax	-	(94,066)	(94,066)	-	(94,527)	(94,527)	1
Business Rates	(143,635)	-	(143,635)	(262,459)	-	(262,459)	
Business Rate Supplement	(3,830)	-	(3,830)	(8,270)	-	(8,270)	2
Transitional Protection Payment	1,249	-	1,249	(2,165)	-	(2,165)	
Total Income	**(146,216)**	**(94,066)**	**(240,282)**	**(272,894)**	**(94,527)**	**(367,421)**	
Expenditure							
Precepts and Demands:							
Central Government (CLG)	77,195	-	77,195	59,044	-	59,044	
LB Hammersmith & Fulham	70,177	63,768	133,945	113,365	60,395	173,760	
Greater London Authority	86,551	26,730	113,282	63,768	25,403	89,171	
Business Rate Supplement							
Payment to the Greater London Authority	3,817	-	3,817	8,258	-	8,258	2
Cost of collection	13	-	13	12	-	12	
Charges to Collection Fund							
Write-offs of uncollectable amounts	(14)	674	660	385	707	1,092	
Increase/ (Decrease) in Allowance for Doubtful Debts	28,500	4,800	33,299	5,287	2,665	7,952	
Increase/ (Decrease) in Provision for Appeals	8,924	-	8,924	22,693	-	22,693	
Distribution/(Recovery) of prior year surplus/(deficit)	7,665	7,505	15,171	21,328	312	21,640	
Cost of collection	585	-	585	580	-	580	
Total Expenditure	**283,413**	**103,477**	**386,891**	**294,720**	**89,482**	**384,202**	
Movement on Fund balance	**137,196**	**9,411**	**146,607**	**21,826**	**(5,045)**	**16,781**	
(Surplus)/Deficit as at 1 April	(6,611)	(7,939)	(14,550)	(28,437)	(2,894)	(31,331)	
(Surplus)/Deficit as at 31 March	**130,585**	**1,472**	**132,057**	**(6,611)**	**(7,939)**	**(14,550)**	3

Notes to the Collection Fund Account

1. Income from Council Tax

Council Tax Income is the amount payable by council tax payers, inclusive of changes arising during the year for successful appeals against valuation banding, new properties, disabled relief and exempt properties. The Council's tax base is based on the number of chargeable dwellings in each valuation band, adjusted for dwellings where discounts apply, converted to an equivalent number of Band D dwellings. For 2020/21 it was calculated as follows:

Band	Number of Dwellings 2020/21	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 2020/21	Band D equivalents 2019/20
A	4,092	2,939	1	1,959	-	(761)	1,198	1,466
B	6,450	4,957	1	3,855	197	(1,421)	2,631	2,894
C	14,308	12,358	1	10,985	68	(2,844)	8,209	8,355
D	24,999	22,425	1	22,425	105	(3,453)	19,077	18,845
E	16,176	14,817	1	18,110	13	(1,859)	16,264	15,753
F	9,958	9,222	1	13,321	3	(756)	12,568	12,020
G	11,408	10,766	2	17,944	-	(399)	17,545	17,124
H	2,621	2,538	2	5,076	-	(8)	5,068	4,832
Total	**90,012**	**80,022**		**93,675**	**386**	**(11,501)**	**82,560**	**81,289**

The 2020/21 Council Tax Base after allowing for adjustments for non collection was 80,495.

The Council set a 2020/21 Band D charge of £792.42 (£762.02 in 2019/20) inclusive of the Adult Social Care Precept set at 2% and forming £15.24 of the Hammersmith & Fulham Band D charge. The GLA's Band D charge for 2020/21 was £332.07 (£320.51 in 2019/20) making a total Band D Council Tax charge for 2020/21 of £1,124.49 (2019/20 of £1,082.53.).

2. National Non-Domestic Rates (NNDR)

NNDR is organised and administered on a national basis, however for 2020/21 the Council, again, participated in a pooled arrangement with all other London Authorities. The Council collects non-domestic rates for its area that are based on local rateable values multiplied by a uniform rate (set by the Government). The National Non Domestic Rateable Value at 31 March 2021 was £591.563m (£594.498m as at 31 March 2020). The standard NNDR multiplier for 2020/21 was 51.2 pence (50.4 pence in 2019/20). The Small Business Rate Relief multiplier for 2020/21 was 49.9 pence (49.1 pence in 2019/20).

In 2020/21 Hammersmith & Fulham participated in a business rates retention pilot for London. Through this pilot business rates have been pooled across the 33 London Boroughs and Greater London Authority (GLA). The pilot for 2020/21 meant that London retained 67% of business rates (75% in 2019/20).

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 MHCLG 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.

	2020/21			2019/20		
	Business Rates	**Council Tax**	**Total**	**Business Rates**	**Council Tax**	**Total**
	£000	£000	£000	£000	£000	£000
London Borough of Hammersmith and Fulham	39,176	1,073	40,249	(4,310)	(5,589)	(9,899)
Greater London Authority	48,317	399	48,716	(2,425)	(2,350)	(4,775)
Central Government (MHCLG)	43,094	-	43,094	125	-	125
	130,587	**1,472**	**132,059**	**(6,610)**	**(7,939)**	**(14,549)**

Housing Revenue Account (HRA)

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

HRA Income and Expenditure Statement

	Notes	2020/21 £000	2019/20 £000
Income			
Dwelling Rents		(67,601)	(66,137)
Non-dwelling rents		-	(40)
Charges for services and facilities		(11,420)	(11,531)
Contributions towards expenditure		(1,713)	(1,774)
		(80,734)	**(79,482)**
Expenditure			
Repairs and maintenance and management			
Repairs and maintenance		16,494	15,335
Supervision and management		45,616	55,556
Rents, rates, taxes and other charges		621	624
Depreciation and impairment of non-current assets	6	15,712	32,978
Depreciation and impairment of non-current assets - dwelling revaluation	6	(46,572)	(31,131)
Debt management costs		138	150
Movement in the allowance for bad debts		833	361
		32,842	**73,873**
Net Cost of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement		**(47,892)**	**(5,609)**
HRA services' share of Non Distributed Costs		85	1,048
Net (Income)/Cost for HRA Services		**(47,807)**	**(4,561)**
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		(2,645)	(6,702)
Net (gains)/losses from fair value adjustments on investment properties		1,829	2,242
Income and expenditure in relation to investment properties		(3,305)	(3,001)
Interest payable and similar charges		8,567	8,386
Interest and investment income		(2)	(292)
Net interest on the net defined benefit liability (asset)		886	1,612
Capital grants and contributions		(1,689)	(495)
(Surplus)/deficit for the year on HRA services		**(44,166)**	**(2,811)**

Movement on the HRA Statement

	Notes	2020/21 £000	2019/20 £000
Balance on the HRA at the end of the previous year		**(24,580)**	**(11,890)**
(Surplus)/deficit for the year on the HRA Income and Expenditure Statement		(44,166)	(2,811)
Adjustments between accounting basis and funding basis under statute	1	47,666	23,099
Net (increase)/decrease before transfers to/(from) reserves		3,500	20,288
Transfers to/(from) reserves			
Earmarked Reserves*		3,518	(32,978)
(Increase)/decrease in year on the HRA		**7,018**	**(12,690)**
Balance on the HRA at the end of the current year		**(17,562)**	**(24,580)**

* 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

	2020/21 £000	2019/20 £000
Charges for depreciation of non-dwellings	(223)	(206)
Charges for depreciation of dwellings	15,489	14,957
Reversal of Major Repairs Allowance credited to the HRA	(15,265)	(14,751)
Impairment/Revaluation gains, losses (charged to the I&E)	46,572	13,316
Revenue expenditure funded from capital under statute (REFCUS)	(1,271)	(1,867)
Capital Funding	1,476	3,555
Gain or loss on sale of HRA non-current assets	2,645	11,756
HRA share of contributions (to)/from the Pensions Reserve	(1,757)	(3,661)
	47,666	**23,099**

2. Housing Stock

The Council has overall responsibility for managing the housing stock. The average number of dwellings during 2020/21 was 12,020. 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 2020	12,023	67	13	12,103
Adjustment to opening balance	-	-	-	-
Additions	1	-	-	1
Transfers	-	-	-	-
Disposals	(8)	-	-	(8)
Number at 31 March 2021	**12,016**	**67**	**13**	**12,096**

3. Stock Valuation

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

	2020/21 £000	2019/20 £000
Operational Assets		
Housing Dwellings	1,412,221	1,304,291
Other Land and Buildings	9,589	8,728
Vehicles, Plant, Equipment	269	348
Intangible Assets	22	11
Non Operational Assets		
Surplus Assets	8,360	8,360
Investment Properties	53,080	53,577
	1,483,541	**1,375,315**

The open market, vacant possession fair value of houses and flats within the HRA as at 31 March 2021 was £5.63 billion. This compares to the balance sheet value of £1.41 billion for the Council's dwelling stock and hostels as at 31 March 2021. This is an indication of the economic and social cost of providing Council housing at less than full market rents.

4. Capital Expenditure Financing

	2020/21 £000	2019/20 £000
Borrowing	17,288	10,912
Major Repairs Reserve	26,287	13,159
Other Grants and Contributions	4,251	8,957
Capital Receipts	3,258	7,685
Total	**51,084**	**40,713**

5. Capital Receipts

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

	2020/21 £000	2019/20 £000
Dwelling & Hostels	(1,981)	(6,441)
Non-Dwellings	(1,442)	(1,978)
Total	**(3,423)**	**(8,419)**

6. Depreciation and Impairment

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

	2020/21 £000	2019/20 £000
Operational Assets		
Depreciation		
Dwellings	15,489	14,957
Other Land and Buildings	145	158
Vehicles, Plant, Equipment and Intangible Assets	78	47
Impairment		
Revaluation (Gain) / Loss - non-dwellings	-	17,815
Sub-total depreciation and impairment of non-current assets	15,712	32,977
Revaluation (Gain) / Loss - dwellings	(46,572)	(31,131)
Total	**(30,860)**	**1,846**

7. Rent Arrears and Allowance for Doubtful Debts

Gross rent arrears were as follows:

	2020/21 £000	2019/20 £000
Main Council Stock	6,683	6,057
Hostels	678	674
Total	**7,361**	**6,731**

Allowances for Doubtful Debts at 31 March were:

	2020/21 £000	2019/20 £000
Main Council Stock	(5,635)	(5,295)
Hostels	(678)	(669)
Total	**(6,313)**	**(5,964)**

PENSION FUND ACCOUNTS

FUND ACCOUNT

	Note	2020/21		2019/20	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the scheme					
Contributions					
From Employers	7	24,180		26,135	
From Members	7	8,004	32,184	7,408	33,543
Transfers In from other Pension Funds			9,350		4,326
Other Income			-		-
Benefits					
Pensions	8	(36,363)		(34,916)	
Commutation & Lump Sum Retirement Benefits	8	(8,164)		(8,502)	
Payment in respect of tax		(508)	(45,035)	(898)	(44,316)
Payments to and on account of leavers					
Transfers Out to other Pension Funds			(7,013)		(7,225)
Refunds to members leaving service			(40)		(119)
Net Additions (Withdrawals) from dealings with members			**(10,554)**		**(13,791)**
Management expenses	9		**(8,903)**		**(5,866)**
Returns on Investments					
Investment Income	10		12,327		13,911
Other Income	10		23		731
Profit and losses on disposal of investments and changes in value of investments	12		215,444		(36,172)
Net Return on Investments			**227,794**		**(21,530)**
Net Increase (Decrease) in the net assets available for benefits during the year			**208,337**		**(41,187)**
Opening Net Assets of the Scheme			**1,010,886**		**1,052,073**
Closing Net Assets of the Scheme			**1,219,223**		**1,010,886**

NET ASSET STATEMENT

	Note	31 March 2021 £000	31 March 2020 £000
Investment Assets			
Equities	11	150	150
Pooled Property Vehicles	11	61,161	58,881
Pooled Investment Vehicles	11	1,081,786	817,356
Private Equity / Infrastructure	11	71,863	70,555
Cash Deposits	11	8	59,524
Other Investment Balances			
Investment Income Due	11	13	26
Net Investment Assets	11	**1,214,981**	**1,006,492**
Current Assets	19	3,664	3,897
Current Liabilities	20	(1,100)	(1,178)
Cash Balances (held directly by Fund)		1,678	1,675
Net assets of the Fund available to fund benefits at the period end		**1,219,223**	**1,010,886**

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 18a.

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 (the 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 2021. Employer contributions are set based on the triennial actuarial funding valuation, as detailed in Note 18.

b) Pensions Sub-Committee

The Council has delegated the investment arrangements of the scheme to the Audit and Pensions Committee, which in December 2014 formed a Pensions Sub-Committee (the 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 five members, four of whom are elected representatives of the Council with voting rights and one co-opted member. 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 and Pensions Committee and has full delegated authority to make investment decisions. The Sub-Committee obtains and considers advice from the Director of Finance, and as necessary from the Fund's appointed actuary, investment managers and adviser.

c) Pension Board

In line with the provisions of the Public Service Pensions Act 2013, the Council has set up a 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 Statement on 11 February 2020 (available on the Council's website). The Statement shows the Council'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 whilst employees are auto-enrolled into the scheme, they 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 890 undecided leavers, who are no longer paying contributions or in receipt of benefits.

	31 March 2021	31 March 2020
Number of Active Employers	58	50
Contributing employees	4,467	3,635
Pensioners receiving benefit	5,425	5,081
Deferred members	6,784	7,112
Total members	**16,676**	**15,828**

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

NOTE 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Statement of Accounts summarise the Fund’s transactions for 2020/21 and its position at year end as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (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 Council has opted to disclose this information in a note to the accounts (Note 18).

The Hammersmith & Fulham Pension Fund is a statutory, state backed Local Government Pension Scheme (LGPS) that is 97% funded on a conservative basis and backed by an administering authority with tax raising powers. As such, the Pension Fund Accounts have been prepared on a going concern basis.

It is recognised that the current environment gives rise to a risk of uncertainty and volatility in investment markets and the Fund has reviewed fund manager assessments and no material uncertainty has been identified. The Fund continues to monitor cashflows and invests in a diverse range of investment vehicles including liquid assets.

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) Voluntary Scheme Pays, Mandatory Scheme Pays and lifetime allowance

Members are entitled to request that the Pension Fund pays their tax liabilities due in respect of annual allowance and lifetime 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 directly 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 directly 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 18a).

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 21. There are also some residual policies with Equitable Life, which are disclosed in Note 21, 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:

Aviva Infrastructure

One of the LBHF Pension Fund’s infrastructure investment managers, Aviva, is facing legal challenge from a former construction contractor relating to a contractual dispute on one of their biomass infrastructure projects. The carrying value of the total infrastructure portfolio in the Pension Fund is £26m.

Within the manager’s financial statements at 31 December 2019 and 31 December 2020, fund management were unable to quantify the financial impact of the challenge, thus placing a degree of uncertainty on the value of the portfolio overall. As such the underlying accounts have been qualified by the auditors.

Having carefully considered this fund’s financial statements, audit opinion and LBHF Pension Fund’s holding in the fund, officers do not consider that this could result in any material uncertainty in the context of LBHF’s total pension fund value. This is because the maximum value of the claims lodged are approximately 8% of the total portfolio value of the underlying Aviva fund (which is in the worst case scenario that all claims are successful and no counter claims are successful, the Pension Fund would stand to lose approximately £2m which is LBHF’s share). As the estimated maximum impact on the Council’s pension fund value is considered to be £2m, officers do not consider that the legal challenge/ claims could result in a material uncertainty in the LBHF pension fund accounts nor the pension related transactions contained within this particular investment and disclosures in the wider financial statements.

This matter remains unresolved to date.

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 considering 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 £36m • 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 £34m • A one-year increase in life expectancy would increase the liability by about £84m

Management has agreed a reasonable set of actuarial assumptions in consultation with the actuary which derives the total pension fund liability. An allowance of £8.8m (0.6% of total liabilities) has been included in the past service cost reflecting the recent McCloud judgement.

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 18a. 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) COVID 19 Impact

The COVID-19 pandemic has caused significant investment volatility throughout 2020 and 2021, causing uncertainty in property valuations due to the fall in observable transactions and subsequent complete lack of liquidity in the market. Following this, in 2020 a material uncertainty clause was provided on all pooled property as advised by the Royal Institute for Charters Surveyors (RICS). Since September 2020 however, it has been recommended by RICS to remove this clause from all UK property and as such this material uncertainty valuation clause no longer applies as at 31 March 2021, due to the gradual return to normality for the commercial property markets. As at 31 March 2021, pooled property investments for the Fund totalled £61.2m.

c) Private debt/Infrastructure investments

The fair value of the Partners Group Multi Asset Credit fund and Infrastructure fund is also subject to some valuation uncertainty. 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 2021, the assets invested with Partners Group were valued at £45.9m (£42.3m in 2019/20).

The same applies to the Aviva Infrastructure which has a quarterly valuation cycle. As at 31 March 2021, the value of the investment was £25.5m (£26.1m in 2019/20). The impact of the uncertainty surrounding these investments has also been included in the sensitivity analysis in Note 14d.

NOTE 6. EVENTS AFTER THE BALANCE SHEET

In March 2021, the Pension Fund Sub-Committee agreed to appoint Alpha Real Capital as its new ground rents income manager with a commitment of £60m, and to make a subscription into a social housing fund managed by Man Group with a commitment of £30m. As at the balance sheet date, these investments had not been completed.

In November 2021, the Pension Fund Sub-Committee (now called Pension Fund Committee) agreed to appoint Darwin Alternatives with a commitment of £32m. This subscription was fulfilled on January 7th 2022.

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 Normal		Deficit Recovery		Employees' Contributions	
	2020/21	**2019/20**	**2020/21**	**2019/20**	**2020/21**	**2019/20**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Administering Authority	15,614	12,674	3,885	8,745	6,671	6,023
Scheduled Bodies	2,933	1,938	-	870	856	799
Admitted Bodies	1,503	1,820	245	88	477	586
Total	**20,050**	**16,432**	**4,130**	**9,703**	**8,004**	**7,408**
Total Contributions			**24,180**	**26,135**	**8,004**	**7,408**

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	
	2020/21	**2019/20**	**2020/21**	**2019/20**	**2020/21**	**2019/20**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Administering Authority	(33,478)	(32,283)	(6,075)	(6,333)	(1,071)	(977)
Scheduled Bodies	(443)	(399)	(128)	(196)	(144)	(77)
Admitted Bodies	(2,442)	(2,234)	(716)	(878)	(30)	(41)
Total	**(36,363)**	**(34,916)**	**(6,919)**	**(7,407)**	**(1,245)**	**(1,095)**
Total Lump Sum Benefits					**(8,164)**	**(8,502)**

NOTE 9. MANAGEMENT EXPENSES

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

	2020/21	**2019/20**
	£000	**£000**
Administrative costs	(536)	(365)
Investment management expenses	(7,533)	(4,735)
Oversight and governance costs	(834)	(766)
	(8,903)	**(5,866)**

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

	2020/21 £000	2019/20 £000
Management fees	(5,446)	(4,250)
Performance fees	(257)	(36)
Transaction costs	(1,764)	(421)
Custody fees	(66)	(28)
	(7,533)	**(4,735)**

The fund transitioned assets between managers in year which resulted in increased transaction costs. Additionally, due to new requirements related to the cost transparency initiative, the Fund was able to ascertain its transaction costs more accurately.

NOTE 10. INVESTMENT INCOME

The table below shows a breakdown of investment income.

	2020/21 £000	2019/20 £000
Pooled investments - unit trusts and other managed funds	5,930	10,777
Income from Alternative Investments	6,387	3,009
Interest on Cash Deposits	10	125
Other Investment Income	23	731
Total	**12,350**	**14,642**

NOTE 11. INVESTMENT STRATEGY

During 202021 the Fund's investment strategy had the following developments:

- In April 2020 the Fund Transferred £55m to its new private credit mandate with Aberdeen Standard Investments (now Abrdn MSPC)
- In August 2020 the Pension Fund transferred £169m from its existing passive MSCI low carbon equity fund with LGIM to the LCIV Global Sustain Fund ran by Morgan Stanley.
- In October 2020, the Pension Fund disinvested its entire holding in the M&G inflation opportunities fund (approx £113m) and has temporarily transferred all assets to the LCIV absolute return mandate managed by Ruffer pending final allocation.

In August 2015, the Fund made a commitment to the Partners Group Direct Infrastructure fund. As at 31 March 2021 €19.9m (£16.9m) still remained unfunded.

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 Fund has been active in the transfer of assets under management to the London Collective Investment Vehicle (LCIV) to gain efficiencies and fee reductions. As at 31 March 2021, the Fund had £944m invested with the London CIV, which accounts for 77.6% of the fund's total assets.

The market value and proportion of investments managed by each fund manager at 31 March 2021 was as follows:

	31 March 2021		31 March 2020	
	Market Value	Total	Market Value	Total
	£000	%	£000	%
Investments managed by the London CIV asset pool				
LGIM - MSCI Low Carbon (Passive)	381,252	31.40%	411,304	40.90%
Ruffer - Absolute Return (Active)	280,677	23.10%	128,526	12.80%
PIMCO - Global Bonds (Active)	107,333	8.80%	100,960	10.00%
Morgan Stanley - Global Sustain Fund	174,776	14.40%	-	-
	944,038	**77.70%**	**640,790**	**63.70%**
Investments managed outside of London CIV asset pool				
M & G - Inflation Opportunities	-	0.00%	110,996	11.00%
Oak Hill Advisers - Secured Income (Active)	80,034	6.59%	65,570	6.50%
Standard Life - Long Lease Property	61,161	5.03%	58,881	5.90%
Aviva - Private Infrastructure	25,546	2.10%	26,062	2.60%
Partners Group - Infrastructure	31,956	2.63%	23,142	2.20%
Partners Group - Multi Asset Private Credit	13,896	1.14%	19,174	1.90%
Invesco - Private Equity	47	0.00%	1,523	0.20%
Unigestion - Private Equity	418	0.03%	653	0.10%
Inhouse Cash - Cash	21	0.00%	59,551	5.90%
London CIV Ltd	150	0.01%	150	0.00%
NT Ultra Short Bond Fund	1,999	0.16%	-	-
Abrdn MSPC	55,715	4.59%	-	-
	270,943	**22.30%**	**365,702**	**36.30%**
Total Investments	**1,214,981**	**100.00%**	**1,006,492**	**100.00%**

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 2021		31 March 2020	
	Market Value	Total	Market Value	Total
	£000	%	£000	%
LGIM - MSCI Low Carbon (Passive)	381,252	31.4%	411,304	40.7%
Ruffer - Absolute Return (Active)	280,677	23.1%	128,526	12.7%
PIMCO - Global Bonds (Active)	107,333	8.8%	100,960	10.0%
M & G - Inflation Opportunities	-	-	110,996	11.0%
Oak Hill Advisers - Secured Income (Active)	80,034	6.6%	65,570	6.5%
Standard Life - Long Lease Property	61,161	5.0%	58,881	5.8%
Morgan Stanley - Global Sustain Fund	174,776	14.4%	-	-

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 2020/21.

Fund Manager	Value at 1 April 2020 £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 2021 £000
Equities	150				**150**
Pooled equity investments	817,356	172,443	(122,534)	214,521	**1,081,786**
Pooled property investments	58,881	44	-	2,236	**61,161**
Private equity/infrastructure	70,555	7,659	(5,186)	(1,165)	**71,863**
Sub-total	**946,942**	**180,146**	**(127,720)**	**215,592**	**1,214,960**
Cash Deposits	59,524			(160)	**8**
Investment income due	26				**13**
Spot FX contracts	-			12	**-**
Totals	**1,006,492**	**180,146**	**(127,720)**	**215,444**	**1,214,981**

The equivalent analysis for 2019/20 is provided below:

Fund Manager	Value at 1 April 2019 £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 2020 £000
Equities	150	-	-	-	**150**
Pooled equity investments	902,851	107,550	(156,592)	(36,453)	**817,356**
Pooled property investments	55,558	39	-	3,284	**58,881**
Private equity/infrastructure	76,442	4,654	(7,316)	(3,225)	**70,555**
Sub-total	**1,035,001**	**112,243**	**(163,908)**	**(36,394)**	**946,942**
Cash Deposits	12,843			238	**59,524**
Investment income due	34			-	**26**
Spot FX contracts	-			(16)	**-**
Totals	**1,047,878**	**112,243**	**(163,908)**	**(36,172)**	**1,006,492**

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 Aberdeen Standard 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 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 2021			31 March 2020		
	Quoted Market Price	Using observable inputs	With significant unobservable inputs	Quoted Market Price	Using observable inputs	With significant unobservable inputs
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	£000	£000	£000	£000	£000	£000
Financial Assets						
Designated at fair value through profit and loss		1,142,947	72,013	-	876,237	70,555
Total Financial Assets	**-**	**1,142,947**	**72,013**	**-**	**876,237**	**70,555**
Financial Liabilities						
Designated at fair value through profit and loss				-	-	-
Total Financial Liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Net Financial Assets	**-**	**1,142,947**	**72,013**	**-**	**876,237**	**70,555**
			1,214,960			**946,792**

NOTE 14b. TRANSFERS BETWEEN LEVELS 1 AND 2

In 2020/21, the Fund's operational activity resulted in no transfers between Levels 1 and 2.

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

	Market Value as at 31 March 2020 £000	Purchases £000	Sales £000	Unrealised gains / (losses) £000	Realised gains / (losses) £000	Market Value as at 31 March 2021 £000
Overseas Infrastructure	25,319	7,659	(1,834)	294	983	32,421
UK Infrastructure	26,062	-	-	(516)	-	25,546
Private Credit	19,174	-	(3,352)	(1,926)	-	13,896
London LGPS CIV	150	-	-	-	-	150
Total	**70,705**	**7,659**	**(5,186)**	**(2,148)**	**983**	**72,013**

NOTE 14d. SENSITIVITY OF ASSETS VALUED AT LEVEL 3

The Pension Fund has analysed historical data and current trends in consultation with independent investment advisors to determine the accuracy of the valuations of its Level 3 investments. The potential impact on the reported valuations as at 31 March 2021 has been estimated to be accurate within the following ranges:

Description of assets	Assessed Valuation Range (+/-)	Value at 31 March 2021	Value on increase	Value on decrease
		£000	£000	£000
Aviva Infrastructure	8.50%	25,546	27,717	23,375
Partners Group Infrastructure	10.00%	31,956	35,151	28,760
Partners Group Multi Asset Credit	10.00%	13,896	15,286	12,507
Total		**71,398**	**78,154**	**64,642**

*three assets (totalling £0.615m) have been excluded from this note due to immateriality.

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 2021			31 March 2020		
	Designated at fair value through profit & loss £000	**Financial assets at amortised cost £000**	**Financial Liabilities at amortised cost £000**	**Designated at fair value through profit & loss £000**	**Financial assets at amortised cost £000**	**Financial Liabilities at amortised cost £000**
FINANCIAL ASSETS						
Index Linked Securities						
Equities:						
UK				-	-	-
Overseas				-	-	-
Pooled Investment Vehicles:						
UK equity funds	836,705			650,817		
UK fixed income fund	178,943			120,144		
UK property fund	61,162			58,881		
UK infrastructure	25,546			26,062		
	-					
Overseas fixed income fund	80,034			65,570		
Overseas infrastructure	31,956			23,142		
Overseas venture capital	464			2,176		
London LGPS CIV	150			150		
UK cash funds	-			-		
Investment income due		13		26		
Pending trade sales						
Cash deposits with managers		8			59,524	
Debtors		3,664			3,897	
Cash balances (held by fund)		1,678			1,675	
	1,214,960	5,363	-	946,968	65,096	-
FINANCIAL LIABILITIES						
Pending Trade Purchases			-			-
Creditors			(1,100)			(1,178)
	-	-	(1,100)	-	-	(1,178)
GRAND TOTALS	**1,214,960**	**5,363**	**(1,100)**	**946,968**	**65,096**	**(1,178)**
			1,219,223			**1,010,886**

NOTE 15b. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

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

	31 March 2021	31 March 2020
	£000	**£000**
Financial Assets		
Fair value through profit and loss	215,592	(36,393)
Loans and receivables	12	238
Financial Liabilities		
Fair value through profit and loss	(160)	(17)
	215,444	**(36,172)**

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 Pension Fund 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 ongoing economic uncertainty that has been caused by the global response to COVID-19 presents an increased risk to the Fund achieving these targets. As such, the Fund continues to invest its assets 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 10.9% higher or 10.9% lower.

Assets exposed to price risk

	Value	Price Risk	Positive increase	Negative increase
	£000		**£000**	**£000**
At 31st March 2021	1,214,960	10.90%	1,347,392	1,082,530
At 31st March 2020	950,071	10%	1,045,079	855,064

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.

Fixed income investments, 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 31 March 2021 and what the value would have been if interest rates had been 1% higher or 1% lower.

Assets exposed to interest rate risk

	Value £000	+ 1% £000	- 1% £000
At 31st March 2021	363,074	348,918	377,231
At 31st March 2020	247,290	235,493	259,086

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	Currency Risk	Positive increase £000	Negative increase £000
At 31st March 2021	869,126	5.18%	914,155	824,097
At 31st March 2020	464,646	10%	511,111	418,182

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 8.85% of the Fund's Net Assets at 31 March 2021 (10.23% at 31 March 2020). The remaining assets can all be liquidated within days.

Manager	Portfolio	31 March 2021	31 March 2020
		£000	£000
Standard Life	Property	61,162	58,881
Partners Group	Infrastructure	31,956	23,142
Partners Group	Multi Asset Credit	13,896	19,174
Invesco	Private Equity	47	1,523
Unigestion	Private Equity	417	653
		107,478	**103,373**

NOTE 17. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

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

	31 March 2021 £000	31 March 2020 £000
Aberdeen Standard Multi Sector Private Credit	-	55,000
Partners Group Direct Infrastructure Fund 2015	16,936	23,623
	16,936	**78,623**

NOTE 18. FUNDING ARRANGEMENTS

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

The latest full triennial valuation of the London Borough of Hammersmith and Fulham Pension Fund was carried out by Barnett Waddingham, the Fund's actuary, as at 31 March 2019 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 29 January 2020. This valuation set the employer contribution rates from 1 April 2020 through to 31 March 2023.

The 2019 valuation certified a common contribution rate of 17.4% of pensionable pay (15.5% as at March 2016) to be paid by each employing body participating in the Fund, based on a funding level of 97% (88% as at March 2016). 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 2019 was £1,043m (£851m 2016) and the actuary assessed the present value of the funded obligation at £1,079m indicating a net liability of £35m (£965m 2016).

The actuarial valuation, carried out using the projected unit method, is based on economic and statistical assumptions, the main ones being:

Financial Assumptions	March 2019	March 2016
		£000
Consumer Price Index (CPI) increases	2.60%	2.40%
Salary Increases	3.60%	3.90%
Pension Increases	2.40%	2.40%
Discount Rate	5.00%	5.40%

Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Barnett Waddingham LLP, an independent firm of actuaries. Estimates for the Pension Fund are based on the full valuation of the scheme as at 31 March 2019. The next actuarial valuation of the Fund will be carried out as at 31 March 2022 and will set contribution rates for the period 1 April 2023 to 31 March 2026.

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 19 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.

NOTE 18a. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The table below shows the total net liability of the Fund as at 31 March 2021. 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 2021	31 March 2020
	£000	£000
Present Value of Promised Retirement Benefits*	(1,923,604)	(1,527,085)
Fair Value of Scheme Assets (bid value)	1,216,634	1,013,015
Net Liability	**(706,970)**	**(514,070)**

* Present Value of Promised Retirement Benefits comprises of £1,900.5m (£1,509.4m at 31 March 2020) and £23.1m (£17.7m at 31 March 2020) in respect of vested benefits and non-vested benefits respectively as at 31 March 2021.

The assumptions applied by the actuary are set out below:

Financial Assumptions	31 March 2021	31 March 2020
Salary increases	3.80%	2.90%
Pension increases	2.80%	1.90%
Discount Rate	2.00%	2.35%

Demographic Assumptions

The post mortality tables adopted are the S3PA tables with a multiplier of 110% for males and 105% for females. The base tables are projected using the CMI_2020 Model, allowing for a long-term rate of improvement of 1.25% p.a. The assumed life expectancies from age 65 are:

Life Expectancy from age 65		31 March 2021	31 March 2020
Retiring today	Males	21.6	21.8
	Females	24.3	24.4
Retiring in 20 years	Males	22.9	23.2
	Females	25.7	25.8

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 19. CURRENT ASSETS

	#########	#########
Debtors	**£000**	**£000**
Contributions due - employers	1,370	1,073
Contributions due - employees	549	486
London Borough of Hammersmith and Fulham	941	941
Sundry debtors	804	1,397
	3,664	**3,897**

	#########	#########
Analysis of debtors	**£000**	**£000**
Local authorities	941	941
Other entities and individuals	2,560	2,956
Central Government	163	-
	3,664	**3,897**

NOTE 20. CURRENT LIABILITIES

	31 March 2021	31 March 2020
Creditors	**£000**	**£000**
Unpaid Benefits	(589)	(541)
Management Expenses	(426)	(375)
Sundry creditors	(85)	(262)
	(1,100)	**(1,178)**

	31 March 2021	31 March 2020
Analysis of creditors	**£000**	**£000**
Other entities and individuals	(1,100)	(1,178)
	(1,100)	**(1,178)**

NOTE 21. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

The Fund's AVC providers are Zurich Assurance and the Equitable Life Assurance Society. AVCs are invested separately from the Pension Fund and their valuations are shown in the table below. The same valuations as at 31 March 2020 have been carried forward to this year due to the uncertainty in obtaining accurate valuations as at 31 March 2021.

	31 March 2021	31 March 2020
Zurich Assurance	**£000s**	**£000s**
Market Value at 31st March	908	908
Contributions during the year	7	7
Number of members at 31st March	51	51
Equitable Life Assurance		
Market Value at 31st March	191	191
Contributions during the year	-	-
Number of members at 31st March	27	27

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 22. RELATED PARTIES

London Borough of Hammersmith and Fulham
The Pension Fund is administered by the London Borough of Hammersmith and Fulham. The Council incurred costs of £0.542m in 2020/21 (£0.447m in 2019/20) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses. The Council made £19.5m of contributions in year (£21.4m in 2019/20).

Key management personnel
The key management personnel of the Fund are the Members of the Pensions Sub-Committee, the Strategic Director of Finance and Governance (from May 2020, the Director of Finance), the Tri-Borough Director of Treasury and Pensions and the Director of Corporate Services (from May 2020, the Director of Resources). Total remuneration payable to key management personnel in respect of the pension fund is set out below:

	31 March 2021	31 March 2020
	£000	**£000**
Short-term benefits	30	30
Post-employment benefits	95	255
Other long-terms benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
	125	**285**

NOTE 23. EXTERNAL AUDIT COSTS

The external audit fee payable to Fund's external auditors, Grant Thornton LLP, was £33,000 (£36,000 in 2019/20).

OTHER INFORMATION

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DRAFT ANNUAL GOVERNANCE STATEMENT

Introduction

The Hammersmith & Fulham Vision

People love living in Hammersmith & Fulham.

It's diverse, connected, on the up and could be better still.

In our part of this busy city, residents deserve a place that is safe, clean and green.

In Hammersmith & Fulham, we have compassion.

We believe our residents should feel secure in their homes and on the streets. They should have high-quality services they can rely on.

The area is changing and some are worried about growing unfairness, being left behind and the future of local services. This threatens what we want for the future.

We're strong because we care about our neighbours. We'll succeed if we bring people together and tackle what holds them back.

We can't escape national and international challenges. Many will benefit locally, but some may lose out. We will not stand by.

We'll manage our finances responsibly and relentlessly challenge unfairness, waste and old-fashioned thinking in how we work.

We're a compassionate council and are not afraid to take on the powerful to get results.

We're making H&F the best place to do business in Europe. We support entrepreneurs and start ups and generate opportunity and shared prosperity.

We are a different kind of council – pioneering and relentlessly searching for better answers.

We'll keep listening, working with residents and finding creative ways to take us forward.

Our vision is ambitious, heartfelt, and poignant especially during a year of tackling the coronavirus global pandemic. It is therefore essential that our residents, local businesses, users of our services, suppliers and partners, have confidence in our governance arrangements and confidence in the way we fully account for the money we receive and how we wisely spend it.

In essence, this mean that our ways of working enable us to provide the right services and responses effectively and efficiently and on a consistent basis, and enable us to take informed, transparent and lawful decisions.

To strengthen our vision we have six underpinning values for the organisation:

- Doing things with residents, not to them
- Being ruthlessly financially efficient
- Building shared prosperity
- Creating a compassionate council
- Taking pride in H&F
- Rising to the challenge of the climate and ecological emergency

Our values drive us to exceed and we have a fantastic record of keeping council tax and charges to residents low, while spending more on vital front-line services such as Children's Services and Adult Social Care (ASC). We are a modernising and innovating organisation, that has developed more efficient practices, cut waste, and sought new ways to achieve savings. We want to do our best to maintain that record, ambition, and ethos.

Our delivery is set in the context of:

- significant government funding cuts since 2010/11 (reducing by £68m or 54% in real terms) and an increase in our costs due to inflation,
- demographic pressures such as increased demand in both adult and children's social care

- the global coronavirus (Covid-19) health pandemic and emergency
- global economic uncertainty from Covid-19 and national economic uncertainty as a result of exiting the European Union in January 2020 (Brexit)
- climate change including global warming and large-scale shifts in weather patterns change.

We continue to prioritise strong governance arrangements that support the purpose of the Council and better outcomes for residents, service users, businesses, people who work in our borough and visitors. We do this by co-producing services and policies with residents; engaging with residents and stakeholders and upholding high standards of conduct and behaviour. H&F has clear policies in place to define standards of behaviour for members and staff. The Member code of conduct is currently under review and Full Council will be asked to adopt a new code later this year. H&F has a Code of Conduct for employees and a whistleblowing policy, which are reviewed periodically. All policies are available on the Council's intranet and easily accessible to staff. H&Fs annual appraisal process asks staff to re-affirm they have no conflicts of interest and that they are familiar with the council's code of conduct and behaviours framework, with links to the relevant policies and guidance provided. Proactive risk and assurance management arrangements are central to our governance approach and the efficient delivery of the Council's key objectives. The Change We'll Bring Together, H&F's Business Plan for 2018-22, sets out our priorities for the four-year term of the political administration. This is an ambitious programme that builds on our previous successes.

2.0 H&F's corporate governance responsibilities

Corporate governance refers to the processes by which the Council is directed, controlled and engages with, and leads, the community. It is also about culture and values, the way that councillors and employees think and act. Our governance arrangements aim to ensure we uphold our values and do the right things for residents of the borough in the right way; being timely, inclusive, open, honest and accountable.

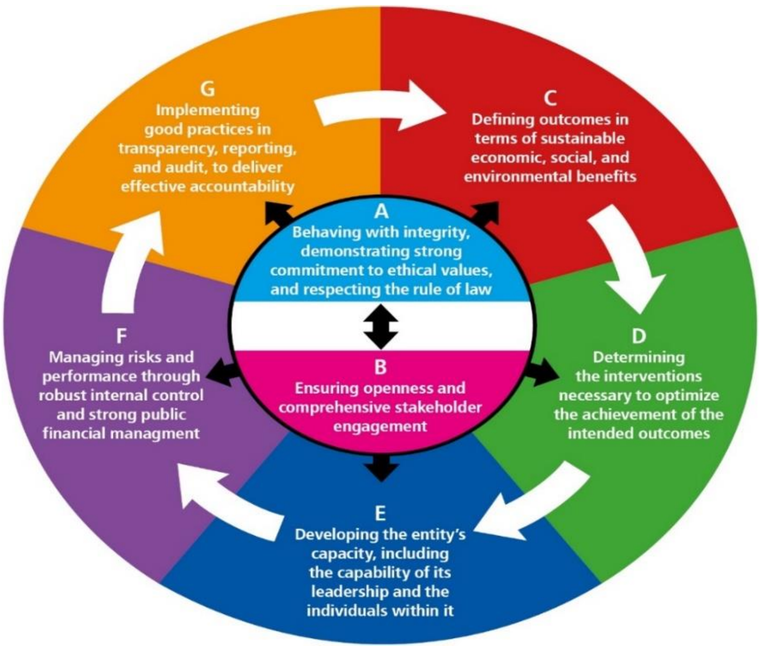
This includes ensuring we conduct our business in accordance with the law and to proper standards and that public money is properly accounted for and is used economically, efficiently and effectively. We also have a duty to continuously improve the way we function. A key part of the Council's code of governance is the role of Cabinet (the Executive) in decision-making.

This Statement has been prepared in accordance with guidance and principles 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'.

What this Statement tells you

The Annual Governance Statement (AGS) describes how the Council has, for the year ended 31 March 2021, complied with its Governance Code and the requirements of the Accounts and Audit Regulations 2015. It also describes how the effectiveness of the governance arrangements have been monitored and evaluated during the year and sets out any changes planned for 2021/22.

The following diagram provides a summary of information on the areas that the AGS has considered in accordance with the CIPFA/ SOLACE Delivering Good Governance in Local Government Framework principles.



3.0 The governance framework

The governance framework 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.

A detailed overview of our governance framework is provided at Appendix A. In summary, it includes:

- **H&F Constitution** – This sets out how the Council operates, how decisions are made and the procedures for ensuring that the Council is efficient, transparent and accountable to residents. It also sets out the functions of statutory officers and explains their role in ensuring statutory obligations are met.
- **Local Code of Corporate Governance** – This identifies our principles of good governance and the structures, systems and processes that we have established for good governance. This was most recently reviewed in 2020.
- **Policy and Accountability Committees (PACs)** – The scrutiny function is provided through six cross-cutting PACs, which are committees of the Council rather than the Cabinet. The PACs are part of the Council's commitment to public engagement and working with residents in developing policy and strengthening the Council's decision-making process. In 2020/21, the Committees continued to meet despite Covid-19, through remote meetings, which proved to be efficient and effective.
- **Risk management framework** – This 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. The corporate risk register is reviewed quarterly and challenged by senior management and the Audit Committee. Thematic or programme risk registers are created in respect of emerging risk areas. In 2020/21, this included important areas of Brexit and Covid-19.
- **Audit and external inspection assurances** – The Council is externally audited. The external auditor issued an unqualified opinion on the financial statements and value for money conclusion for 2019/20, confirming that they were satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Internal Audit service is a key means of assurance and reviews the adequacy of the controls throughout all areas of the Council. Council services are also subject to statutory external inspections. During 2020/21, the majority of external inspections were suspended, because of the Covid-19 pandemic.
- **Strategic Leadership Team and management assurance** - The Council's most senior management team is known as the Strategic Leadership Team (SLT). The SLT is led by the Chief Executive who is Head of the Paid Service and appointed by Full Council. Each SLT Director has key areas of responsibility, but together they are jointly responsible (under the Chief Executive) for turning priorities set by the administration into operational policy. Over the past 12 months, the Chief Executive, SLT and elected members have continued to build assurance capability. This includes management boards such as the Statutory Accountabilities Board (SAB). The SAB is made up of the statutory officers of the Council (Head of Paid Service, Section 151 Officer, Monitoring Officer, Director of Children's Services, Direction of Adult Social Care and Director of Public Health). It provides management arrangements to allow the statutory officers to work together to ensure that corporately there are appropriate and coordinated governance arrangements in place for the effective delivery of statutory functions. The responsibilities of the statutory officers are also outlined in H&Fs constitution.
- **Commissioning and procurement of goods and services** - The effective commissioning and procurement of goods, works and services is of strategic importance to our operations, while contract management helps to provide value for money and ensure that outcomes and outputs are delivered. Contract Standing Orders form part of the Council's Constitution. A Contracts Assurance Board was established and operated during 2020/21.

In order to review the effectiveness of the governance framework, assurances are provided to and challenged by the Audit Committee, the Standards Committee, PACs, SLT and/or Council as appropriate.

4.0 Effectiveness of the Council's governance arrangements

The systems and processes that comprise the Council's governance arrangements have been evaluated for effectiveness for 2020/21 and are described in this section.

Covid-19 pandemic

In March 2020, we very quickly established emergency response governance structures. On 12 March 2020, the Chief Executive appointed a Director of Covid-19 response, and a governance structure was established together with business continuity arrangements to protect critical services, residents and staff.

Formal links were established at the London level through the LRF (Local Resilience Forum) and a Major Incident was declared by NHS England. Other emergency measures included increasing the Chief Executive's delegated authority to spend for Covid-19 related activities.

A Covid-19 business continuity framework set out and continues to assess key risks. This has been organised through five workstreams:

- Strategic group (H&F Gold senior officers' group, SLT and a Covid-19 Board) - which served as the decision-making groups. There was also the H&F Borough Resilience Forum (Council representatives and partner agencies including Met Police and London Fire Brigade) and the West London Chief Executives Local Resilience Board.

- Tactical/ Operational group (Silver officers' group & Horizon scanning group) - with a focus on delivery of business-critical services.

- Residents and community reassurance and support – including communications and engagement activities; support to shielded and clinically vulnerable residents; the mobilisation of hundreds of volunteer residents through the Community Aid Network (CAN); food support; and wider support to families and residents in need.

- Workforce resilience – before the first national lockdown and throughout the rest of 2020/21, we moved the majority of staff to home working. Staff resilience (staff available for work) was consistently above 90%, with enhanced office/ workplace cleaning for those workers in borough and assisted parking and accommodation for staff delivering critical services.

- Partners/ economy and reputation – there was ongoing and regular liaison with key partners on the Covid-19 response strategy. We also provided support to organisations at the front-line in tackling the spread of the virus such as free priority parking for NHS, school and other key workers as well as funding to voluntary and community sector organisations.

These governance arrangements enabled the Council to effectively support residents, monitor the impacts of the pandemic and provide ongoing advice and support to the workforce. At all stages we followed Public Health England (PHE) advice and guidance.

Financial management

There continue to be robust arrangements for effective financial control through our accounting procedures, key financial systems, the Financial Regulations and audit. These include established budget planning procedures, which are subject to risk assessment, and periodic budget monitoring 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 Committee. The Financial Regulations were reviewed during the year and approved by Full Council in April 2021. During the year, a dedicated monthly Finance SLT meeting was established, providing oversight of financial planning, management and reporting and of the council's major programmes.

In order to meet a year on year reduction in grants from government and the impact of Covid-19, our being ruthlessly financially efficient value is improving efficiency in our services whilst maintaining our commitment to the most vulnerable and our value to be a compassionate Council. This has looked at all areas of the Council's work, considering different ways of delivering services and working more effectively. The Medium-Term Financial Strategy (MTFS) sets out a strategic approach to meeting the financial challenges.

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 Committee and implementation is monitored by internal audit. The external auditor issued unqualified opinions for the authority and pension fund financial statements and Value for Money conclusion in respect of 2019/20.

Doings things with residents

The Council and its partners have comprehensive arrangements for identifying and prioritising stakeholders' needs. The Council's annual budget and MTFS were robustly developed through a series of officer and political administration challenge events, including public scrutiny and review by the PACs.

Resident-led commissions are central to our value to do things with residents, not to them. Growing numbers of local residents are involved in these on a wide variety of topics, and we're putting their recommendations into action. Covid-19 necessitated some adjustments to the programme of commissions in 2020/21. With the support of dedicated commissioners, the Policing and Crime Commission and Climate Change and Ecological Emergency Commission reported their findings this year. The findings of the Arts Commission are anticipated and commissions have also started on teachers, parks, cycling and walking and woman's equality albeit Covid-19 has resulted in delays.

Business plan and major business change and investment programmes

The 2018-22 Business Plan is monitored regularly by SLT. This plan informs the production of department and service plans alongside performance reviews and prioritisation of statutory duties and stakeholder needs.

A corporate performance framework is in place, with quarterly performance reports to SLT and Cabinet members, and service performance frameworks. The Council's response to Covid-19 has been data and intelligence led, with robust performance and management information created quickly to support decision-making and operational responses. Performance reports, together with associated management arrangements, enable the Council to review data on delivery progress against the agreed performance objectives.

SLT has continued over the course of 2020/21 to have close oversight of the Council's major change and transformation activities. Monthly Finance SLT meetings agree business cases and assure delivery of a portfolio of major projects and programmes. The Development Board has oversight of major development and regeneration schemes and programmes that are transforming places in the borough by planning to deliver a significant pipeline of affordable housing. These arrangements are supported through regular monitoring of capital programmes and through project and programme level governance.

Housing fire safety

The Housing Compliance and Asset Management Strategy and Fire Safety Management System set out our strategy as a landlord to maintain and enhance fire safety across our 17,000 Council homes. This is also supported by internal audit reviews and independent verification of completed improvements to fire safety.

Type 1 Fire Risk Assessments (FRAs) are in place for all communal areas of Council properties, with those for properties six storeys and above published on the Council's website and others available upon request. All 68 High-Rise Residential Buildings (HRRB) have Premise Information Boxes (for London Fire Brigade). Each property also has an individual fire safety strategy.

All actions emanating from the FRAs are logged on a property compliance system and addressed through specific programmes, capital works by contractors or by a team of Council workers (called the H&F Direct Labour Organisation (DLO)). Programmes of works include the installation of 4,000+ fire doors, the removal of small panels to the external façade of 27 towers, upgrading of emergency lighting and the installation of sprinklers (at 5 towers initially).

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 to commence in Summer 2021 as part of a 2-year programme.

Housing repairs

A new housing repairs service for residents of Council homes, started in August 2020. The service includes three housing repair contractors, specialist contractors (gas, electric, asbestos etc) and the DLO for works to communal areas of properties. Specialist teams in the Council monitor and report on compliance with expected standards. This is supplemented by independent verification of works and by internal audit reviews, providing independent assurance on the arrangements.

For the DLO, as opposed to the contractors, the Council is the Client, Principal Designer and Principal Contractor (under Construction Design and Management (CDM)), with additional responsibilities and risk in law. To provide further assurance, we are introducing third party verification and an internal audit of systems and processes to identify any gaps in controls. Independent health and safety experts also review risk assessments and controls and provide training.

We have developed an ambitious 12-year capital strategy to invest significantly in the housing stock, to replace ageing assets, maintain high levels of property compliance and make homes much more energy efficient. A stock condition survey of every property over a 2-year programme is scheduled to commence in Summer 2021.

Children's Services

The Office for Standards in Education, Children's Services and Skills (Ofsted) inspection of children's services in September 2019 found that the direct work with children is strong and the overall experiences of children and their families in receipt of services continues to be Good.

During the Covid-19 pandemic, Ofsted halted external inspections of social care services in line with government guidance and in recognition of the tremendous strain services were facing. In the absence of a full inspection, we continue to build on the strong outcomes of the 2019 inspection across social care; seeking continuous development and improvement as reflected through evidence in our 2020/21 Self-Assessment which was discussed with Ofsted Her Majesty's Inspector's (HMI) leads in September 2020:

- We redesigned our operating model across children's social care, special educational needs and disability (SEND) and education to ensure continued robust and rigorous safeguarding and support to vulnerable children and their families during the pandemic.

- We have committed a significant investment of resources to improving our performance data, enabling us to provide access to a wider range of reliable data to strengthen our performance framework.

- Performance reports show sustained improvements in timeliness of assessments, supervision and visits, and oversight of case recording has been strengthened by Independent Reviewing Officers.

- We continue to develop our early help offer to increase capacity, ensuring timely responses to families through effective and coordinated responses.

- We continue to work with partners to ensure multi-agency participation at strategic discussions.

- We continued a programme of quality assurance with internal and external audits and thematic reviews to support the continuous improvement agenda.

We completed the youth offending service (YOS) national standards self-assessment in April 2020. The self-assessment judgements and supporting evidence gives a good indication of progress and good practice, including our strong partnership work and information sharing across services. It also highlighted some key areas that need focus, such as consolidating quality assurance practice across our work, progress against which continue to be monitored.

H&F schools remain at the top of the league tables including outcomes for children with additional needs. Ninety-two percent of schools are good or outstanding as judged by Ofsted. Inspections have restarted in summer term of 2021 with a focus on schools that require improvement. The Council's education service had a positive annual conversation with Ofsted, as well as regular meetings with government and the Regional Schools Commissioner which helps us to check and challenge our services especially during the pandemic.

Adult social care and public health

During 2020/21, external inspections of ASC and public health services were suspended because of the Covid-19 pandemic. Despite this, the department has continued to follow its assurance framework, adapting it to the significant risks raised by Covid-19 and seek continuous development and improvement.

ASC and public health responded strongly to the pandemic and safeguarded our residents well. Strong governance was put in place throughout. This included daily monitoring calls with social care providers and rapid, active management of outbreaks of coronavirus in care and nursing homes in line with Public Health England (PHE) guidance. Care homes continue to remain subject to strict guidelines to help stop the spread of the virus.

Home care provision was maintained throughout the year, with daily reporting from all providers to ensure robust assurance and keep residents safe. Additionally, the conversation matters team have made thousands of 'welfare' calls to residents in receipt of ASC support. Care worker wages have been guaranteed should they get Covid-19 to ensure they can afford to isolate.

Resources have been directed to reduce infection rates locally, through the infection control grant for care/ nursing homes, funding for parking permits and by extending the payment process for homecare providers. There has been a focus on the vaccination of care workers.

We continued to embed co-production across services, as part of ensuring resident involvement in department governance arrangements. We worked with residents on the new Emlyn Gardens supported housing development for people with learning disabilities and with Dementia Action Alliance on co-producing our Dementia Strategy.

Management gripped issues as they arose. Weekly performance reporting has maintained high standards of service delivery despite increased referral and hospital discharge numbers whilst an electronic audit tool has been implemented to ensure good, relevant and responsive social care practice in all areas.

This is in addition to existing governance arrangements in the department, with Director-led Boards for Budget Management, Performance, Quality Assurance, Recruitment and Staffing, regular independently chaired quarterly meetings of the Adults Safeguarding Board and forward planning processes for both decision making and procurement.

People strategy

Our people strategy supports the Council's vision to be the best and our ambition to have the best workforce in local government and to have a reputation as the best Council to work for. To achieve this, we are focusing on employee experience, development, coaching and leadership and organisational culture. The strategy invests in initiatives and practices which will grow and develop talent in the Council and increase productivity.

New staff are supported through an induction programme, which is communicated via the Council's Intranet. Ongoing identification of development needs for staff, including senior officers, is provided through the performance appraisal framework and the Council has various programmes and training offers in place to meet those needs including People Management Essentials and the Get Ahead programme. Member induction and training is coordinated by Governance Services.

Since the start of the pandemic, we placed the health, safety and wellbeing of our staff and residents at the forefront of our Covid-19 Response and Recovery programmes. We have a statutory and common law duty of care for people's health and safety at work and we have acted to support workers either remaining at home or taking necessary precautions in the workplace, taking account of legal obligations, Government guidance and the three tests recommended by the CIPD for bringing staff back to work (is it essential, safe and mutually agreed).

Throughout 2020/21, we maintained a focus on workforce planning, staff wellbeing and resilience, taking steps both to immediately protect staff whilst building in flexibility to cope with the changing environment. Through our strategic and operational group meetings, senior managers were kept up to date, including local outbreaks and constantly evolving restrictions. Workforce resilience throughout the year remained strong with an average level of sickness around 2%, and the vast majority of the workforce working from home.

We continue to encourage remote working and working from home where possible. We are now working on a new Workforce Transformation Strategy as part of Covid-19 Recovery to transition our workforce into new ways of working from September 2021 and in preparation for the re-opening of the Town Hall Civic Campus.

Actions we have taken to support and protect staff over the pandemic have included:

- Regular internal communications so all staff are aware of the latest national and local advice, support available and the precautions they must take to prevent the spread of infection.

- Enhancements to, and promotion of, workforce policies and processes. For example, during the year, we developed a series of comprehensive Ways of Working (WOW) guides for staff. We supported staff who have needed to self-isolate or shield through management support, advice and guidance.

- Enhancements to, and regular review of, service business continuity plans so we were able to keep business-critical operations running and be prepared to close services or offices temporarily in the event of a workplace or local outbreak. The plans were supplemented by Coronavirus specific service and individual risk assessments.

- Extensive support to staff to help manage their wellbeing, through an employee wellbeing programme, guidance, 24/7 Employee Assistance Programme and support from our Wellness Centre.

- A workplace readiness programme has ensured all of our corporate buildings are Covid-19 secure in line with Health and Safety Executive (HSE) and government guidance. We adopted a tightly controlled return to the workplace process, including independent assessment through health and safety and assurance subject-matter experts.

We continue to work closely with our recognised Trade Unions (TU) and have established regular TU Forums to develop partnership working and a collaborative approach to resolving workforce matters.

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 and partnerships. Based upon the programme of work for 2020/21, including work done to support and provide assurance over the Council's response to the Covid-19 pandemic, the Director of Audit, Fraud, Risk and Insurance's opinion on the Council's control environment, governance arrangements and risk management arrangements are that they are satisfactory.

From 2021/22 the service moved to a '3 plus 9' annual audit plan – setting out the next three months of audit activity in detail, keeping the remaining nine months more flexible. Regular conversations, review of risk registers and scanning the external risk environment will enable audit work to keep pace with the organisation.

The Council has a zero-tolerance approach towards fraud and corruption and has established arrangements for managing the risk of fraud and conducting investigations into specific concerns. The Audit Committee receives regular updates on the Council's anti-fraud and corruption arrangements, including how it is responding to emerging fraud risks.

Managing information

Information is central to the Council's decision-making and operational processes and it, therefore, needs to be accurate and accessible to those who need it. We also have an important responsibility to safeguard the information that we hold and to manage it with care and accountability.

Over the past year, we have continued to meet the requirements of the General Data Protection Regulations (GDPR) and the Data Protection Act 2018 (DPA 2018) at each stage of our Covid-19 pandemic response. We have completed formal assessments of data privacy and security risk as part of our response initiatives such as contact tracing, Community Aid Network (CAN), payments support and vaccination data collection activities.

The Council's updated GDPR training programme is mandatory for all employees to ensure staff are fully aware of their legal responsibilities when handling personal data. Training was extended to Councillors to support their handling of personal data held by both the Council and its residents.

An Information Asset Register is in place and a project is underway to update the register to strengthen the risk assessment of information assets, provide greater transparency of information processes and satisfy requirement for a Record of Processing Activity.

Information governance policies and standards are in place which provide assurance about the security of the Council's information assets and data handling procedures. Information Management requirements are considered as part of the Council's Key Decisions. The Senior Information Risk Owner (SIRO) is ultimately accountable for the assurance of information security at the Council. The Council has appointed a permanent Head of Information & Data Protection Officer, responsible for monitoring internal compliance and advising on data protection obligations as required under Article 39 of the GDPR. Caldicott Guardians are responsible for ensuring that health and social care information is managed appropriately, and that our annual 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. The statements received in this regard indicated that overall the management systems were viewed as effective or very effective.

The Director of Finance 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).

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 Director of Resources 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. The Council's Legal Services has advised the Council on all legal matters during the year unless the Head of Law commissioned external legal advice.

Role of the Audit Committee

The Council's Audit Committee has a standing brief to review the effectiveness of risk management arrangements, internal control environment and associated anti-fraud and corruption arrangements. It does this through, amongst other things, overseeing the work of Internal Audit and External Audit. The Terms of Reference for the committee (formerly the Audit and Pensions Committee) were reviewed and amended during the year, with the Pension Fund Sub-Committee being re-designated as the Pension Fund Committee, to cover all matters relating to the Hammersmith & Fulham Pension Fund.

The last review of the effectiveness of the system of internal audit showed that the internal audit service is fully compliant with Public Sector Internal Audit Standards. The next external assessment is due to be undertaken in 2021/22.

Progress against significant issues identified in the 2019/20 AGS

In each AGS, significant issues are identified for particular focus in the forthcoming year because of the governance risks associated with them. The following table summarises progress against those issues identified in the 2019/20 AGS. Overall this shows good progress in addressing concerns, with mitigation actions in place.

Table 1: Progress in 2020/21 against 2019/20 significant issues

Commissioning, Procurement and Contract Management - Improvements in practice
During this period, the Council has introduced a weekly Contracts Assurance Board, chaired by the Director of Resources, to review all procurement strategies and contract awards over £100,000 and waiver requests. The Board ensures full compliance with the Contract Standing Orders and will be reviewing and co-ordinating forward plans in 2021/22.
Information Governance Working towards compliance with data protection law (including the GDPR), access to information law (Freedom of Information Act, Environmental Information Regulations) and controlling risks of data breaches
Completion of information rights casework has improved and is at a satisfactory level for the Information Commissioner's Office (ICO)[1]. The improvements have been maintained throughout the Covid-19 pandemic. A new Resident Experience Team was established in December 2020 with clear standards and processes in place to manage information requests from residents. The information technology casework system has been updated to manage information rights casework across the Council and training on the system has been delivered to over 500 users. Improved reporting of cases to departments is being put in place. External training has been delivered to key officers handling information rights requests via Freedom of Information (FOI) and Subject Access Requests (SARs). Continuous Learning and Improvement Cycles (CLIC) have been implemented using a pilot case to learn lessons from complex information rights cases and to inform the future process, roles, objectives, and governance of this activity within the Council. Council suppliers sign data processing agreements containing up to date and compliant data protection clauses.
Funding for Schools Funding for pupils with high needs is provided through Dedicated Schools Grant from government
The Dedicated Schools Grant (DSG) is the main source of income for schools. In common with other London Boroughs, the High Needs Block element[2] of the DSG has come under increased pressure in supporting children with special educational needs and spend has been significantly higher than the funding provided by central government. This has led to a significant cumulative deficit on the grant. There is a programme of work and action plan to reduce the underlying overspend in this area overseen by the Council's High Needs Block Board. During the year, the local authority was invited to participate in the Department for Education's (DfE) safety valve intervention programme. As a result of the negotiations, the Council entered into a grant funding agreement with the DfE which looks to bring in-year expenditure within the annual grant allocation and to eliminate the Council's historic deficit over a 5-year period. The High Needs Block Board will continue to monitor progress against the action plan and will report quarterly on progress to the DfE.
Continuing good governance, oversight and fiscal control of significant change programmes through 2020/21
Civic Campus Programme This scheme was approved at Cabinet, the budget approved at Full Council and planning permission was resolved in February 2019. Comprehensive officer and member oversight and governance arrangements are in place including Council representation on the joint venture board. The Council's Finance, Commercial Revenue and Contracts PAC received regular updates on the programme over the course of the year. **Building Homes and Communities Strategy** This strategy and programme was approved by Cabinet in July 2019, including the budget and governance process for the development of new affordable housing, and replacement of community assets including schools and children's centres. Delivery is governed by the Council's Development Board with a gateway process to control delegated spending and manage risks.
Pension provider record keeping and administration
Performance reviews of the external provider of pension administration services indicated that the service provided by Surrey County Council (SCC) for active and deferred Local Government Pension Scheme (LGPS) members did not meet required standards for the Council. As a result, an independent review was commissioned which led to the Pension Fund Sub-committee approving a recommendation to terminate the delegation agreement with SCC. A Pensions Taskforce was established which examined the options for engaging a new service provider following a rigorous process. The Sub-committee approved the Taskforce's recommendation to enter into a public-public partnership arrangement with Local Pensions Partnership Administration from 1 February 2022. The project is advancing well and on track to transfer to the new provider as planned. Regular reports on progress are provided to SLT, Pension Fund Committee and Pension Board.

[1] The ICO is the UK's independent body set up to uphold information rights.
[2] The High Needs Block element funds places for pupils in special schools, resource units and alternative provision. It also provides top up funding for pupils and young people up to the age of 25 with an Education, Health and Care Plan (EHCP) in all education settings. EHCPs are developed for pupils and young people who require additional support that goes beyond what a school, college, or nursery can typically deliver from their own budgets or staffing.

Significant issues for 2020/21

There are always opportunities for improvement and where these have been identified, we will ensure that the necessary actions are taken. The following table identifies the significant issues for improvement for the coming financial year, which are already subject to tight governance and control.

Table 2: Significant issues for 2021/22

Response to Covid-19 pandemic Continuing close management and control of infection
Since the pandemic started, numerous outbreaks have occurred within care homes, schools, children's residential services, asylum hotels and prisons, all of which required intense Public Health support to manage the situations to a close. At the end of January 2020, a Specialist Infection, Prevention & Control (IPC) adviser was engaged by the Council who has been providing leadership, support and expertise during the management of outbreaks. This support has also included a programme of education and training for multiple providers across ASC and Children's Services. The pandemic has highlighted the importance of having a sustainable, quality assured IPC service, to ensure frontline staff are equipped with fundamental IPC skills and knowledge to be able to recognise and manage infections in a timely way, with the aim of preventing outbreaks from occurring. This strategy is applicable to all infectious diseases that can occur in residential settings. This will be achieved by the development of an IPC champion programme, which will be rolled out initially across ASC in this financial year. The programme will be an ongoing opportunity for staff to professionally develop and also support continual quality improvement for service users and residents, with the ultimate aim of reducing avoidable harm associated with infections.
Hammersmith Bridge Working towards securing a fair, affordable funding solution to enable the re-opening and refurbishment of this important national heritage infrastructure asset
On 13 August 2020, the 133-year-old Hammersmith Bridge had to be closed to pedestrians, cyclists and river traffic for safety reasons. Following a comprehensive structural integrity assessment, the bridge was closed to traffic in April 2019. On 17 July 2021, the Leader of the Council re-opened the bridge to pedestrians, cyclists and river traffic, following a series of comprehensive safety investigations and the successful introduction of an innovative temperature control system. Being one of the world's oldest mechanical suspension bridges, the cost of the works required to repair and restore the bridge are expected to be over £100m, significantly in excess of the costs of repairing other London bridges. Funding these costs by the Council would create a disproportionate, unsustainable and unfair burden on Hammersmith & Fulham residents, particularly when the significant majority of funding for major works on bridges is normally provided by regional transport authorities (in this case TfL) or the government. We continue to work towards securing a fair, affordable funding solution to enable the full re-opening and refurbishment of this national treasure and international engineering asset. To support this, internal governance arrangements are in place. Hammersmith Bridge Programme Board (Council officers and key external advisors) meets weekly to communicate, review and provide the necessary governance arrangements for the project as well as securing a fair, affordable funding solution. The Continued Case for Safe Operation (CCSO) Board is made up of leading engineers and safety experts and acts as the technical approval authority. It meets every two weeks to continue to assess all safety related matters and the stability of the bridge. The CCSO is also responsible for making recommendations to the Council on the protocols and management controls for the Continued Case for Safe Operation. This provides the necessary engineering/ technical assurances with regards to the safety of the bridge. The Department of Transport (DfT) set up a Taskforce with Transport for London (TfL) and the Council in September 2020, establishing terms of reference to include the full re-opening and refurbishment of the bridge. On 1 June 2021, the government announced, via its Transport for London Settlement Letter that it expected to draw up a memorandum of understanding (MoU) between the government, TfL and the Council to fund the reopening of the bridge conditional on all parties agreeing the cost of the project and each party to pay a share with the government not contributing more than a third. The Council is working with the DfT and its advisors to consider the details of an MoU. The Council has been clear that any contribution from the Council will need to be funded through a toll/ road charging in order to ensure that an unfair burden is not placed on our residents and is instead funded by those who use the bridge.
Funding for Schools Funding for pupils with high needs is provided through Dedicated Schools Grant (DSG) from government
The DSG is the main source of income for the borough's 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. A programme of work is underway to reduce the underlying overspend in this area overseen by the Council's High Needs Block Board. As part of the grant funding agreement conditions, progress against the action plan is considered by the High Needs Block Board and reported to the DfE on a quarterly basis.
Securing assurance for residents on the quality and value for money of housing repairs
A new model for the delivery of repairs, servicing and maintenance of our housing stock started in August 2020, with repair contractors, specialist contractors and an in-house DLO. Performance is closely monitored and reported and progress considered by the Repairs Delivery and Improvements Board and regular Cabinet Member briefings. The first annual review of the model will take place in August 2021 which will consider the performance of the three main contractors including performance against KPIs and commercial arrangements. The contract insures against the impacts of Covid-19 and Brexit but the rising costs of materials and shortage of skilled labour in a competitive environment may impact delivery in the future. We will continue to ensure good governance, oversight and control of the repairs model, which many residents rely on.

5.0 Review conclusion

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 have operated effectively in supporting the Council in meeting its challenges and responsibilities, not least the response to the Covid-19 pandemic. We will continue to monitor these to ensure that they remain effective throughout 2021/22 and into the future.

Signed:

Leader of the Council, Councillor Stephen Cowan

Signed:

Interim Chief Executive, Sharon Lea

Date:

On behalf of the London Borough of Hammersmith & 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.

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
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 are 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: Ministry of Housing, Communities and Local Government (33%), The London Borough of Hammersmith and Fulham (30%) and the Greater London Authority (37%).

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 MHCLG; 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 2020/21 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 MHCLG 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.

The Audit Findings for the London Borough of Hammersmith and Fulham and Hammersmith and Fulham Pension Fund

Year ended 31 March 2021

23 November 2022

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings 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. Its contents have been discussed with management.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audits of the London Borough of Hammersmith and Fulham ('the Council') and Hammersmith and Fulham Pension Fund ('the Pension Fund') and the preparation of the Council and Pension Fund's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

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 and Pension Fund's financial statements give a true and fair view of the financial position of the Council and Pension Fund's 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 has been completed remotely, having commenced with planning and risk assessment in October 2021. Our findings are summarised on pages 5 to 23. Any further findings from residual audit procedures will be reported to the Audit Committee in an updated version of this report prior to the date of approval of the financial statements where required.

We have identified two adjustment to the Council's financial statements that have resulted in £3.8m and £8.5m adjustments to the Council's Comprehensive Income and Expenditure Statement. As the £8.5m adjustment relates solely to classification within property valuations, there is no impact on the Council's General Fund as a result of the statutory accounting requirements of the local authority accounting framework.

A number of other errors were also identified during the course of our audit for which management have not adjusted the financial statements on the grounds that these are not material.

During our audit of the Pension Fund, we identified that the Fund did not include all net current assets in its submission of data to the actuary, as a result of timing differences. The Council's share of this amounted to £2.6m, which represents an overstatement of the net defined benefit liability. The Council's management do not plan to adjust the financial statements for this error as it is not considered to be material.

To date we have identified no adjustments to the Pension Fund's financial statements that have resulted in an adjustment to the Pension Fund's reported financial position.

Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

In our previous report on the findings of this audit, we highlighted that there were a number of areas of debtors and creditors testing areas still to be completed. Our audit team along with your finance team have continued to work closely together to complete this work. This is an area which has delayed the completion of the audit as some of the populations/listings were not cleansed and reconciled, and there were older/legacy system debtors and creditors which were also difficult for the authority to provide supporting evidence that was sufficient for our audit. We have now completed this work subject to review by the senior manager and partner, and looking ahead to the 2021/22 audit we are discussing with your finance team how working papers and populations in these audit areas can be improved.

At the time of writing, our audit is substantially complete, with the matters outstanding including:

- satisfactory resolution of any queries arising from senior manager and partner review of debtors and creditors work completed since we last reported our interim findings;
- formal closure of all hot review issues by our financial reporting team;
- receipt of management representation letters – to be tabled separately as an item at this meeting;
- review of the final set of financial statements; and
- resolution of the national issue around infrastructure assets (see page 11 for further information)

We are satisfied that closure of these items is unlikely to lead to any further significant changes to the financial statements.

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.

Our anticipated audit report opinion for the Council will be unmodified.

Our anticipated audit report opinion for the Pension Fund will be unmodified, including an emphasis of matter paragraph drawing attention to disclosures relating to the qualification of the financial statements of one of the Fund's infrastructure investment managers as at 31 December 2020, and its potential impact on the Fund's investment in the associated infrastructure fund.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

Our Value for Money procedures are now complete and our Auditor's Annual Report was finalised and reported to the 13 September 2022 Audit Committee meeting. Our work did not identify any significant weaknesses in arrangements, but 12 improvement recommendations were made as part of this work.

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 and expect to certify the completion of the audit upon the completion of our work on:

- the Council's Whole of Government Accounts data collection tool, under group instructions from the National Audit Office (NAO), which at the time of writing have yet to be published;
- the Council's VFM arrangements, which will be reported in our Auditor's Annual Report within three months of the opinion on the financial statements.

Significant Matters

During the audit, working arrangements with the Council and Pension Fund's finance teams have been collaborative and efficient. However, delays have been experienced in obtaining information from teams within the Council outside of finance, and third party providers. For example:

- Obtaining HR and payroll data from schools
- Obtaining lease agreements from the Council's estates team
- Obtaining access to the pensions administration system hosted by Surrey County Council

We also had significant difficulties in obtaining suitable analyses and populations of debtors and creditors in order to complete our required audit testing. This has resulted in the work in this area taking significant additional audit team resource to complete.

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2. Financial Statements

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.

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

Our audit approach was based on a thorough understanding of the Council and Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Council and Pension Fund's internal controls environment, including its 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 altered our audit plan, as communicated to the Audit Committee on 25 October 2021.

Conclusion

Our audit of the Council and Pension Fund's financial statements is substantially complete. Subject to outstanding items on page 3 being resolved, we anticipate issuing unqualified audit opinions in late March 2022, following finalisation of the financial statements and approval by the Audit Committee.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by management, the finance team and other staff during the audit process.

2. Financial Statements

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.

Materiality levels remain the same as reported in our audit plan on 25 October 2021.

We detail in the table our determination of materiality for the Council and Pension Fund.

	Council Amount (£)	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	9,300,000	11,500,000	
Performance materiality	6,975,000	8,625,000	
Trivial matters	465,000	575,000	
Materiality for senior officers' remuneration and key management personnel disclosures	100,000	100,000	High level of stakeholder interest in these disclosures

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Risk relates to	Commentary
Fraud in revenue recognition 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. As reported in our Audit Plan, having considered the risk factors set out in ISA240 and the nature of the Council and Pension Fund revenue streams, we determined that the risk of fraud arising from revenue recognition could be rebutted, because: • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including the London Borough of Hammersmith and Fulham, mean that all forms of fraud are seen as unacceptable. Therefore, at the planning stage we did not consider this to be a significant risk at for the London Borough of Hammersmith and Fulham or Hammersmith and Fulham Pension Fund. No circumstances have subsequently arisen during the course of the audit process which would lead us to amend our initial assessment as reported in the Audit Plan.		
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces 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, which was one of the most significant assessed risks of material misstatement.	Council and Pension Fund	We have: • Evaluated the design effectiveness of management controls over journal entries; • Analysed the journal entry listing and determine the criteria for selecting high risk unusual journals; • Tested unusual journal entries 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 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. We identified during our testing of journal entries that there is no two-stage authorisation process for journal entry postings in place. We have not identified from our testing of journal entries any material misstatements or instances of management override of controls. However, we do not test every journal and there may be undetected fraud or error. We have raised a control recommendation for improvement in the Action Plan at Appendix A. This is a matter the Committee needs to understand fully from a risk perspective. Our audit procedures in this area are now complete. No further issues were identified during the course of our audit procedures which we would be required to report to the Audit Committee as those charged with governance.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Fraud in expenditure recognition Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit. We assessed the significant expenditure streams of the Council and Pension Fund, and the risk of material misstatement arising from inappropriate expenditure recognition has a low likelihood of occurrence for the majority of expenditure streams and is unlikely to be of a size which would be material to the users of the financial statements. One exception was identified in relation to expenditure incurred by the Council relating to the Covid-19 pandemic, which was included on returns made to DLUHC which formed the basis of grant income support receivable by the Council. We therefore considered that there was a significant risk around expenditure of this nature, which was one of the most significant assessed risks of material misstatement. At the planning stage, we rebutted the risk of fraud in expenditure recognition for all other expenditure streams across the Council and Pension Fund. No circumstances have subsequently arisen during the course of the audit process which would lead us to amend our initial assessment as reported in the Audit Plan.	Council and Pension Fund	We have: • Evaluated the design effectiveness of management controls over Covid-19 expenditure recognition; • Tested the occurrence and classification of expenditure recorded in the Covid-19 expenditure returns to DLUCH ; • Obtained and tested a listing of non-pay payments made and invoices processed in April and May 2021 to ensure that they had been charged to the appropriate year. Within our sample testing of capital expenditure, we selected a number of items relating to the capitalisation of employee salaries. The basis on which these had been calculated was on an annual basis, rather than a review of actual time spent on a capital project on an ongoing basis. We are satisfied from audit procedures undertaken that this issue has not led to a material misstatement within the 2020/21 financial statements. However, there is a risk that, where this process occurs only annually, inaccurate time is recorded leading to inaccurate charges to capital and the general fund. A control recommendation has been made in this regard at Appendix A to this report. Our audit procedures in this area are now complete. No further issues were identified which are required to be reported to the Audit Committee as those charged with governance.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of land and buildings The Council revalues its Land and Buildings, Council Dwellings, Surplus Assets and Investment Property on an annual basis to ensure that the carrying value is not materially different from the current value (for Land and Buildings and Council Dwellings) or fair value (for Surplus Assets and Investment Properties) at the financial statements date. 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. Management engaged the services of a valuer to estimate the current value as at 31 March 2021. We therefore identified valuation of Land and Buildings, Council Dwellings, Surplus Assets and Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	Council	We have: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluated the competence, capabilities and objectivity of the valuation expert; • Written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code were met; • Engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpinned the valuation; • Used our valuer to evaluate the appropriateness of obsolescence factors and rental yields, for the £82.6m investment properties held in the balance sheet, used in asset valuation calculations where applicable; • Tested revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements; • Assessed the value of a sample of assets in relation to market rates for comparable properties; and • Tested a sample of beacon properties in respect of Council Dwellings to consider whether their valuation assumptions were appropriate and whether they were truly representative of the other properties within that beacon group. In reviewing revaluation movements recorded in the fixed asset register, we identified that management had double-counted one of the revalued assets in the financial statements. The financial statements will be adjusted to correct this error, which will lead to a decrease of £3.8m in Property Plant and Equipment recognised in the Balance Sheet, and a corresponding increase of £3.8m in Other Operating Expenditure recorded in the CIES. Refer to Appendix C for further detail, where this has been reported as an adjusted misstatement. In addition, in review of the fixed asset register, a formula error was identified which meant that the split of the revaluation movements in respect of Other Land and Buildings and Surplus Assets, between the Revaluation Reserve and the Surplus or Deficit on Provision of Services, as stated in the draft set of financial statements, was incorrect. The impact on the Comprehensive Income and Expenditure Statement was a reclassification of £8.5m between the Cost of Services (COS) and Other Comprehensive Income (OCI). The impact on the Balance Sheet was a corresponding reclassification between the Revaluation Reserve and the Capital Adjustment Account, both of which are within the Balance Sheet line for 'Unusable Reserves'. There was no impact on the Council's useable reserves position, as a result of the statutory accounting entries required for capital transactions. Refer to Appendix C for further detail, where this has been reported as an adjusted misstatement. Our audit procedures in this area are now complete. There are no further issues which have been identified from our audit procedures which would require reporting to the Audit Committee as those charged with governance in respect of this risk.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of the pension fund net liability The Council's pension fund net liability, as reflected in its 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 (£657m in the Council's Balance Sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately £144m effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.	Council	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 evaluated 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 reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud, Goodwin and Guaranteed Minimum Pension cases; • Assessed the accuracy and completeness of the information provided by the Council 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; • Undertaken 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 the report. During our audit of the Pension Fund, we identified that the Fund did not include all net current assets in its submission of data to the actuary, as a result of timing differences. The Council's share of this amounted to £2.6m, which represents an overstatement of the liability. Further detail is included in Appendix C, where this issue has been reported as an unadjusted misstatement. Our audit procedures in this area are now complete. No further issues were identified during the course of our audit which would require reporting to the Audit Committee as those charged with governance.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of level 3 investments The Pension Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. 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 (£72 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 and/or custodians as valuation experts to estimate the fair value as at 31 March 2021.	Pension Fund	We have: • Evaluated management's processes for valuing Level 3 investments; • Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code were met; • Independently requested year-end confirmations from investment managers and the custodian; • For a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2021 with reference to known movements in the intervening period; • In the absence of available audited accounts, evaluated the competence, capabilities and objectivity of the valuation expert; and • Where available, reviewed investment manager service auditor reports on design and operating effectiveness of internal controls. As in the previous year, an infrastructure Investment Fund (Level 3 investment) in which the Pension Fund held a material investment as at 31 March 2021, received a qualified audit opinion on their financial statements as at 31 December 2020. The Investment Fund's auditors qualified their audit opinion because they concluded they were unable to obtain sufficient appropriate audit evidence regarding claims made against a Limited Partnership 100% owned by the Investment Fund. Management's evaluation was that this issue did not lead to a material misstatement of the financial statements or result in an erroneous valuation of the Pension Fund's investment in the infrastructure fund. However disclosure of management's judgement in this regard was included in Note 4 to the Pension Fund financial statements. This disclosure will be highlighted in an emphasis of matter paragraph in the Pension Fund's audit opinion. This does not constitute a qualification of the audit opinion. Our audit procedures in this area are now complete. No further issues were identified which are required to be reported to the Audit Committee as those charged with governance.

2. Financial Statements – New issues and risks

This section provides commentary on new issues and other risks:

Issue	Commentary	Auditor view
Valuation of Infrastructure Assets • The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. In addition, the Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. The Council has material infrastructure assets, at a gross and net value basis, there is therefore a potential risk of material misstatement related to the infrastructure balance.	We have carried out audit inquiries to understand the control environment around the recognition and derecognition of infrastructure assets. In common with most other authorities there is not a clear mechanism by which existing infrastructure assets which still have a net book value on the balance sheet being depreciated are derecognised when the asset is replaced. There is therefore a risk that the infrastructure assets (both the gross assets and accumulated depreciation) could be materially misstated – the Council's system for derecognising these assets does not sufficiently mitigate this risk. As there is not a system by which the Council could accurately identify which infrastructure asset has been replaced (the Council instead relying on the useful economic lives being an accurate lifetime for the assets so they would be depreciated in full at approximately their replacement cycle) it is not possible to quantify what the misstatement could be.	This is a national issue effecting all local government audits. CIPFA are in the process of implementing a statutory override in this area of the accounts. This is expected to be introduced by the end of December 2022, and once this is in place we will be able to sign the audit opinion. In the meantime due to it not being possible to quantify what the potential misstatement could be, we are not able to sign the audit opinion without the statutory override.

2. Financial Statements – key judgements and estimates – Council

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £335.8m	Other land and buildings comprises £253.9m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£81.9m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks, Head and Eve to complete the valuation of properties as at 31 March 2021 on a five yearly cyclical basis. 93% of total land and buildings assets were revalued during 2020/21. Management have considered the year end value of properties which were not revalued as at 31 March 2021 and the potential valuation change in the assets since the last revaluation date. Management have applied indices and sought advice from their specialist valuer to determine whether there had been a material change in the total value of these properties. Management's assessment of assets not revalued identified no material change to the properties' value, and no further valuations outside of the initial programme were required as at 31 March 2021. The total year end valuation of land and buildings was £335.8m, a net decrease of £5.8m from 2019/20 (£341.6m).	• We have assessed management's expert, Wilks, Head and Eve, to be competent capable and objective. • The valuer has correctly prepared the valuation using DRC on a modern equivalent asset basis for specialised properties, and EUV for non-specialised properties. • 93% of properties have been valued as at 31 March 2021. • We engaged our own valuation specialist, Gerald Eve, to provide a commentary on the instruction process for Wilks, Head and Eve, the valuation methodology and approach, and the resulting assumptions and any other relevant points. • We have carried out testing of the completeness and accuracy of the underlying information provided to the valuer used to determine the estimate and have no issues to report. • Valuation methodologies applied are consistent with those applied in the prior year. • We have agreed the valuation reports provided by management's expert to the fixed asset register and to the financial statements. As outlined at Appendix C, two accounting errors were made by management in relation to posting entries to their financial systems. Both of these were corrected and we are satisfied that neither is indicative of a deficiency in the underlying accounting process. No other significant findings were identified from our audit of the accounting estimate relating to valuation of Land and Buildings.	Light purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates – Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £657.9m	The Council's total net pension liability at 31 March 2021 is £657.9m (PY £498.4m) comprising the Hammersmith and Fulham Pension Fund and the London Pension Fund Authority obligations. 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 as at 31 March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £136.7m net actuarial loss during 2020/21.	• We have assessed the actuary, Barnett Waddingham, to be competent, capable and objective. • We have performed additional tests in relation to accuracy of contribution figures and benefits paid to gain assurance over the 2020/21 calculation carried out by the actuary. • We have used PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below for out comparison of actuarial assumptions:	Light purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.00%	1.95% - 2.05%	●
Pension increase rate	2.80%	2.80% - 2.85%	●
Salary growth	3.80%	1.00% above CPI	●
Life expectancy – Males currently aged 45 / 65	23.3 / 21.9	21.9 – 24.4 / 20.5 – 23.1	●
Life expectancy – Females currently aged 45 / 65	25.9 / 24.5	24.8 – 26.5 / 23.3 – 25.0	●

- We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.
- We have confirmed there were no significant changes in 2020/21 to the valuation method.
- Our work confirms that the decrease in the IAS 19 estimate is reasonable.

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates – Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provision for NNDR appeals - £20.5m	The Council is responsible for repaying a proportion of successful rateable value appeals. In 2020/21, management used an external organisation, Analyse Local, to calculate the level of provision required. Analyse Local's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. Due to the change in the proportion of the overall provision attributable to the Council, the provision in the financial statements decreased by £8.0m in 2020/21.	• We have assessed management's expert, Analyse Local, to be competent, capable and objective. • Analyse Local have used up to date data around outstanding appeals and potential information around unlodged appeals and historic success rates to form a reliable estimate of the impact on Rateable Values in the future, and timings based on historic observations. • The methodology used is consistent with comparable local authorities • The disclosure of the estimate in the financial statements was found to be adequate.	Light purple
Land and Buildings – Council Housing - £1,412.2m	The Council owns over 12,000 dwellings and is required to revalue these properties in accordance with the Stock Valuation for Resource Accounting guidance, published by DLUHC. 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 and Eve to complete the valuation of these properties. The year end valuation of Council Housing was £1,412.2m, a net increase of £107.9m from 2019/20 (£1,304.3m).	• We have assessed management's expert, Wilks, Head and Eve, to be competent, capable and objective • The valuer has correctly prepared the valuation using the stock valuation guidance issued by DLUHC, and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) value disclosed within the accounts. • All properties have been valued as at 31 March 2021, with over 200 beacon properties being fully revalued as at this date • We engaged our own valuation specialist, Gerald Eve, to provide a commentary on the instruction process for Wilks, Head and Eve, the valuation methodology and approach, and the resulting assumptions and any other relevant points No significant findings were identified from our audit of the accounting estimate relating to valuation of Council Housing.	Light purple

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Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates – Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation – £453.1m	The government has provided a range of new financial support packages to the Council and all local authorities throughout the Covid-19 pandemic. These included additional funding to support the cost of services or offset other income losses, and also grant packages to be paid out to support local businesses. The Council has needed to consider the nature and terms of each of the various Covid-19 measures in order to determine the appropriate accounting treatment, including whether there was income or expenditure to be recognised in the Comprehensive Income and Expenditure Statement (CIES) for the year. In doing so, management has considered the requirements of section 2.3 of the Code of Practice on Local Authority Accounting which relates to accounting for government grants, as well as section 2.6 which describes how the accounting treatment for transactions within an authority's financial statements shall have regard to the general principle of whether the authority is acting as a principal or agent, in accordance with IFRS 15. The three main considerations made by management in forming their assessment were: • Where funding is to be transferred to third parties, whether the Council was acting as a principal or agent, and therefore whether income should be credited to the CIES or whether the associated cash should be recognised as a creditor or debtor on the Balance Sheet • Whether there were any conditions outstanding at year-end, and therefore whether the grant should be recognised as income or a receipt in advance • Whether the grant was awarded to support expenditure on specific services or was in the form of an un-ringfenced government grant – and therefore whether associated income should be credited to the net cost of services or taxation and non-specific grant income within the CIES	• We are satisfied that management has effectively evaluated whether the Council is acting as the principal or agent for each relevant support scheme, which has determined whether any income is recognised. • Schemes for which the Council has recognised income include the Business Rates Relief S31 Grant (£43.2m), Covid-19 Local Authority Support Grant (£11.7m), Covid-19 Income Loss Compensation (£13.1m), Additional Restrictions Grant (£5.3m), Local Authority Discretionary Grant Fund (£2.4m), We are satisfied from review that this treatment is consistent with the nature and terms of the relevant schemes. • We have evaluated the completeness and accuracy of the underlying information used to determine whether there were conditions outstanding (as distinct from restrictions) at the year-end that would determine whether the grant should be recognised as a receipt in advance or income, and concluded that this was appropriate. • We have considered management's assessment, for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. We are satisfied that the presentation in the CIES is appropriate. • Management's disclosure of the Council's accounting treatment for grant income in both the financial statements and Narrative Report is sufficient.	Light purple

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates – Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £3.2m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. MRP is required to be charged with respect to borrowing obtained as part of acquiring assets to be held in the General Fund (GF). No MRP charge is made in respect of borrowing for the acquisition of assets held in the Housing Revenue Account (HRA). According to regulations, this is on the basis that HRA assets should be self-financing, with local authorities being required to make an annual charge from the HRA to their Major Repairs Reserve in place of MRP, to maintain functionality of housing assets. The year end MRP charge was £3.2m, a net increase of £0.9m from 2019/20 (£2.3m).	• the MRP charge for the year has been calculated in accordance with the methodologies permitted in the statutory guidance • the Council's policy on MRP in relation to borrowing taken out for the acquisition of General Fund assets complies with statutory guidance • the Council's policy on MRP was discussed and agreed with those charged with governance and approved by full council as part of the Treasury Management Strategy Statement in February 2020 • there have been no changes to the Council's MRP policy since 2019/20 • our audit procedures to determine whether the level of increase in the MRP charge is reasonable in the context of additional borrowing incurred during the year, did not identify any significant findings or concerns.	Light purple

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Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates – Pension Fund

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £72.0m	The Pension Fund has investments in private equity and infrastructure funds that in total are valued on the net assets statement as at 31 March 2021 at £72.0m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management relies on information provided by the General Partners to the private equity funds, who prepare valuations in accordance with the International Private Equity and Venture Capital Valuation Guidelines, and produce accounts to 31 December 2020 which are audited. The value of the investment has increased by £1.3m in 2020/21, due to a combination of purchases, sales and changes in market value.	• We have assessed the appropriateness of the underlying information used to determine the estimate, including fund manager and custodian reports, and audited accounts of the private equity funds as at 31 December 2020 • We have corroborated the cash flows associated with each fund from the date of the audited accounts to 31 March 2021. • We have assessed the consistency of the estimate against peers and industry practice • We have reviewed the reasonableness of the increase in the estimate • We have assessed the adequacy of disclosure of estimate in the financial statements • As outlined on page 11, an infrastructure Investment Fund held at level 3 in the fair value hierarchy, in which the Pension Fund held a material investment as at 31 March 2021, received a qualified audit opinion on their financial statements as at 31 December 2020. Management's evaluation was that this issue did not lead to a material misstatement of the financial statements or result in an erroneous valuation of the Pension Fund's investment in the infrastructure fund. However disclosure of managements judgement in this regard was included in Note 4 to the Pension Fund financial statements. This disclosure will be highlighted in an emphasis of matter paragraph in the Pension Fund's audit opinion. This does not constitute a qualification of the audit opinion. • We considered the impact of the current conflict between Russia and Ukraine, in particular whether the Pension Fund held any investments in Russian or Ukranian companies and the subsequent impact on their valuation. The Fund did not have significant holdings in Russian or Ukrainian companies as at 31 March 2021 and any fluctuations would be non-adjusting in nature given that the circumstances arose after the year-end.	Light purple

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Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates – Pension Fund

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £1,142.9m	The Pension Fund has investments in pooled equity and property funds that in total are valued on the balance sheet as at 31 March 2021 at £1,142.9m. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management make use of evaluated price feeds, with the exception of the valuation of property investments which is based on evaluation of market data. The value of the investments have increased by £266.7m in 2020/21, largely driven by changes in market value.	• We have assessed the appropriateness of the underlying information used to determine the estimate • We have assessed the consistency of the estimate against peers and industry practice • We have reviewed the reasonableness of the increase in the estimate • We have assessed the adequacy of disclosure of estimate in the financial statements	Light purple

Assessment

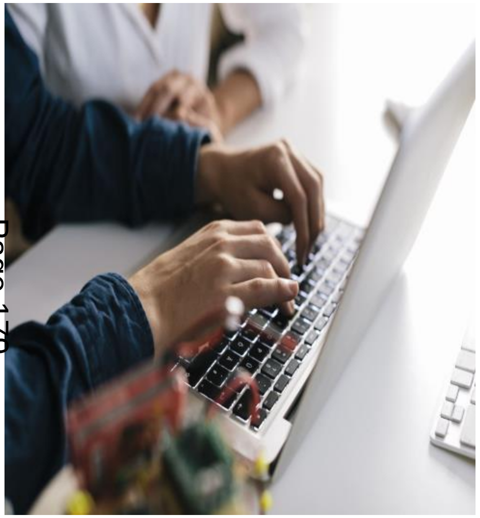
- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - 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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any significant 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	The Council and Pension Fund 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.
Written representations	Letters of representation will be requested from the Council and Pension Fund in advance of the finalisation of the financial statements and the issue of the audit opinions on the financial statements.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council and Pension Fund's banking and investment counterparties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. We wrote to those solicitors who worked with the Council and Pension Fund during the year, to confirm the completeness of provisions and contingent liabilities. All responses requested have been received.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements. We identified upon review that the accounting policy relating to revenue recognition did not explicitly address key provisions of IFRS 15 relating to fulfilment of performance obligations. From audit procedures undertaken relating to material revenue streams within the financial statements, we are satisfied that IFRS 15 has been appropriately adopted and applied where appropriate. We are also satisfied that the policy described would not give rise to an accounting treatment which would materially differ from that which has been applied.
Audit evidence and explanations/ significant difficulties	During the audit process, remote working arrangements with the Council and Pension Fund's finance teams have been collaborative and efficient. However, delays have been experienced in obtaining information from teams within the Council outside of finance, and third party providers. For example: - Obtaining HR and payroll data from schools - Obtaining lease agreements from the Council's estates team - Obtaining access to the pensions administration system hosted by Surrey County Council We also had significant difficulties in obtaining suitable analyses and populations of debtors and creditors in order to complete our required audit testing. This has resulted in the work in this area taking significant additional audit team resource to complete.

2. Financial Statements - other communication requirements

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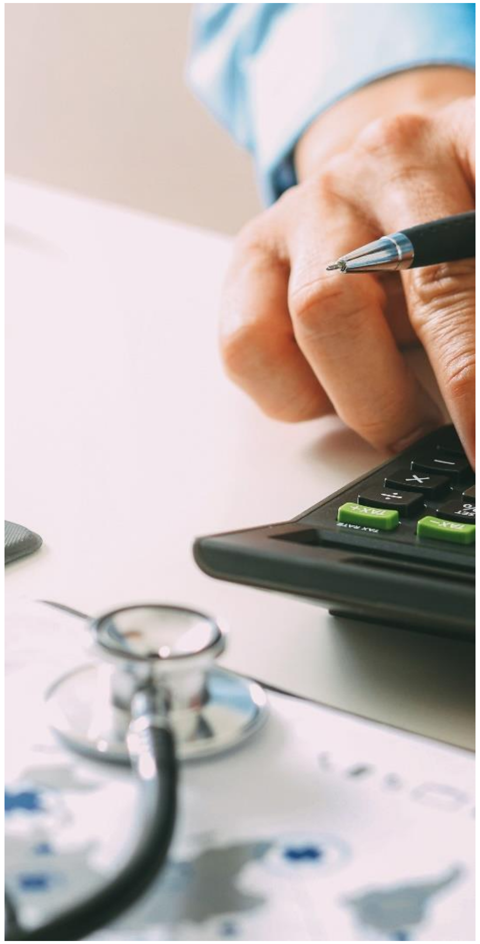
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council and Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and Pension Fund and the environment in which they operates • the Council and Pension Fund's financial reporting framework • the Council and Pension Fund's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude for both the Council and Pension Fund that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
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. No inconsistencies have been identified.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. We have nothing to report on these matters. We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. This will be completed once the opinion on the Pension Fund financial statements has been issued.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
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. • Note that work is not required as the Council does not exceed the threshold;
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audits of **the** London Borough of Hammersmith and Fulham and Hammersmith and Fulham Pension Fund in the audit reports, as detailed in Appendix E. This is because: • the national issue around infrastructure assets as detailed on page 12 will prevent us from issuing our signed auditor's report until the statutory override has been issued. • we have not yet undertaken the procedures required in ensuring the consistency of the financial statements with the pension fund annual report, as the opinion on the financial statements of the Pension Fund has not been issued. Once the opinion on the Pension Fund financial statements has been issued, we will be able to complete this work. Upon issue of the statutory override, and completion of all items on page 3, we will be in a position to complete the 2 steps above and certify closure of the 2020/21 audits.

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Our Value for Money procedures are now complete and our Auditor's Annual Report was finalised and reported to the 13 September 2022 Audit Committee meeting. Our work did not identify any significant weaknesses in arrangements, but 12 improvement recommendations were made as part of this work.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and Pension Fund. The following non-audit services were identified. We have detailed below the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Agreed upon procedures relating to pooling of housing capital receipts (Council)	5,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £5,000 in comparison to the total fee for the audit of £195,242 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. To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.
Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate (Council)	7,700	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £7,700 in comparison to the total fee for the audit of £195,242 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. To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.
Certification of Housing Benefit Subsidy Claim (Council)	43,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £43,000 in comparison to the total fee for the audit of £195,242 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. To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports. Note that this fee is still TBC.

4. Independence and ethics

Service	Fees £	Threats identified	Safeguards
Non-audit services			
CFO Insights Subscription (Council)	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 £195,242, 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. The CFO insights service provides the Council with access to various data sources, which they decide how to use and make their own decisions about the delivery of services, therefore we do not believe there is an impact on the value for money conclusion.

These services are consistent with the Council and Pension Fund's policy on the allotment of non-audit work to external auditors. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements - Council

We have identified the following 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 2021/22 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.

Assessment	Issue and risk	Recommendations
	Recording of accounts payable invoices During testing of post-year end invoices received after the year-end to gain assurance of completeness of liabilities, we identified a number of invoices which had been received by the Council in mid-2020 but not recorded in the accounts payable system until April or May 2021. Whilst we are satisfied that the expenditure relating to these invoices was correctly recorded in the appropriate accounting period, delays in administrative processes give rise to a risk of expenditure being erroneously omitted from the financial statements.	Processes should be reviewed to ensure that purchase invoices received by the Council are recorded in the accounts payable system in a timely manner. **Management response** Agreed – communications on this matter will be circulated to relevant officers to ensure timely processing of invoices.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements – Council (continued)

Assessment	Issue and risk	Recommendations
Medium	**Accurate recording of grants and contributions received in advance** During our sample testing of long-term grants and contributions received in advance, we identified two items which had been classified as developer contributions but were in fact other grants received in advance. Whilst there is no impact on the balance sheet as at 31 March 2021, as both types of receipt comprise part of the same line item, the permitted usage of grants and contributions under statute can vary and as such there is a risk that budget-setting may be impacted by inaccurate recording.	Management should implement a more comprehensive review process to ensure that grants and contributions received in advance are classified and accounted for appropriately. **Management response** Agreed – the grants process and contributions process will be reviewed.
High	**Legacy balances brought forward in debtors and creditors listings provided to audit** As part of the audit approach, we test the existence and accuracy of creditor and debtor balances recorded in the balance sheet and as such requested a listing from management, as part of the initial working paper request list for the audit, of outstanding amounts at the balance sheet date. The Council's accounting system contains a high volume of legacy balances brought forward from the previous accounting system which have not subsequently been written down effectively as amounts have been settled. This issue led to significant challenges in undertaking audit procedures in these areas and presents a risk that management will be unable to effectively analyse their outstanding creditor and debtor balances for financial management purposes.	A 'housekeeping' exercise should be undertaken by management to write down legacy balances where appropriate, to allow for effective analysis, and ensure that listings provided for audit are fit for purpose. **Management response** Agreed – a housekeeping exercise will be undertaken.
Medium	**Employee leaver forms** In our sample testing of employee leaver forms which was undertaken to gain an expectation for payroll expenditure recorded for the year, we identified a number of instances where overpayments of salaries had occurred due to no or late notification of resignation, either from the employee themselves or from their hiring manager. Whilst we are satisfied that this has not given rise to a material error in the 2020/21 financial statements, there is a risk that without sufficient monitoring of controls, more extensive overpayments could occur which are difficult for the Council to subsequently recover.	Management should put into place procedures ensure that processes and controls around employee leavers are consistently applied. **Management response** Agreed.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements – Council (continued)

Assessment	Issue and risk	Recommendations
	Misclassification of bank overdrafts The Cash and Cash Equivalents disclosure note in the financial statements included £1,687k classified as 'bank overdrafts'. Upon auditor review, it was identified that these items in fact represented uncleared items which should have been included as reconciling items on management's bank reconciliation, and not genuine overdraft amounts. Management elected not to correct this presentation as they do not consider it to be material to the financial statements. However there is a risk that should this mis-presentation continue, it could mislead the user of the financial statements with regard to the nature of the Council's cash holdings. This finding is linked to the finding around bank reconciliations identified in previous years, as outlined in Appendix B.	Management should ensure that bank balances are appropriately classified in the disclosure note to reflect the nature of these holdings, with any genuine overdrafts being presented separately on the face of the balance sheet as required by the relevant accounting framework. **Management response** Agreed – this will be implemented as part of the closure of the 2021/22 accounts.
	Process for capitalisation of employee salaries Within our sample testing of capital expenditure, we selected a number of items relating to the capitalisation of employee salaries. The basis on which these had been calculated was on an annual basis, rather than a review of actual time spent on a capital project on an ongoing basis. We are satisfied from audit procedures undertaken that this issue has not led to a material misstatement within the 2020/21 financial statements. However, there is a risk that, where this process occurs only annually, inaccurate time is recorded leading to inaccurate charges to capital and the general fund.	Processes should be implemented to capture employee time to be capitalised on a more regular basis such as monthly. **Management response** Agreed – management will look into at more frequent capitalisation where practicable - this would most likely be quarterly to coincide with the quarterly monitoring process.
	Impairment review for assets not revalued During the performance of our procedures we noted that the Council did not carry out an assessment of whether there were impairment indicators for assets that were not subject to the external valuation exercise. Due to the volatility of the property market there is a risk that the assets not revalued may be misstated.	Management should ensure that they have implemented procedures or policies to assess the assets not revalued and ensure they are not materially misstated. **Management response** Agreed, management will build this into the overall valuation process with input from our external valuers.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements – Pension Fund

We have identified the following recommendations for the Pension Fund 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 2021/22 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.

Assessment	Issue and risk	Recommendations
● Medium	**Journal entries control environment** We identified during our testing of journal entries that there is no two-stage authorisation process for journal entry postings in place. We have not identified from our testing of journal entries any material misstatements or instances of management override of controls. However, we do not test every journal and there may be undetected fraud or error	It is best practice to include either a manual or automated two-stage approval process for journal entries to evidence that entries have been subject to adequate review prior to posting. Without this approval process we consider that there is an increased risk of undetected fraud or error. **Management response** Agreed – management will investigate the possibilities and implement as necessary an offline two-stage approval mechanism.
● Medium	**Retention of supporting documentation in relation to journal entries** In our testing of journal entries, we identified that no evidence of approval had been retained for journal entries posted by an individual who had subsequently left the organisation. We are satisfied from substantive procedures undertaken that the journal entry postings themselves were appropriate and not indicative of management override of controls.	Evidence for approval of all journals should be retained in a shared location to evidence the audit trail. **Management response** Agreed - for 2021/22 all journal approvals and evidence are to be saved to a central location to ensure the process is streamlined for audit at year end.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations – Council

We identified the following issues in the audits of the Council's 2018/19 and 2019/20 financial statements, which resulted in nine recommendations being reported in our 2019/20 Audit Findings report, including those which had been identified during the 2018/19 audit but had not been subsequently resolved.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Indices used in Council Dwellings valuations During our testing of the valuation of Council Dwellings as at 31 March 2020, we identified that outdated Land Registry House Price indices had been used in the calculation of the valuations at that date by management's valuation specialist. Further evaluation identified that this could indicate that year-end valuations reported in the draft financial statements could be materially misstated. Management commissioned their valuation specialist to re-perform the valuations relating to Council Dwellings incorporating more recent information, which led to an adjustment of £11.8m to the financial statements. There is a risk that where outdated indices are used, this could cause a material error in the estimate given the high value of the estimate in the financial statements, small percentage changes can cause large absolute exceptions We recommended that management ensure that instructions to their valuation specialist stipulate that the most recent valuation indices at the date of reporting should be used as part of valuation calculations, and that changes in market conditions resulting in changes in indices are kept under frequent review.	Management continued to work with their internal and external valuer to ensure that the most up to date information is used to determine values at the balance sheet date. No similar issues were identified during the course of the 2020/21 audit, and as such this finding is considered closed.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations – Council

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Accuracy of data provided to valuation specialists** During audit testing of the valuation of the Council's investment properties, we identified three properties which had errors in the rental income which formed a key input into the calculation of the valuation of these properties as at 31 March 2020, performed by management's valuation specialists. These errors led to a likely overstatement of the valuation of these properties as at 31 March 2020, which was reported as an unadjusted misstatement in the Audit Findings Report. This was due to errors in extracting the data from the Council's systems before this was sent to the valuation specialist. Whilst we were satisfied from additional audit procedures undertaken that this issue did not lead to a material misstatement in the financial statements as at 31 March 2020, there is a risk that should sufficient quality assurance checks not be undertaken on data passed to valuation specialists, this could lead to material differences, depending on scale, going forward. We recommended that management implement a more rigorous review and reconciliation process of data such as rental income provided to valuation specialists to inform their year-end valuation calculations, to ensure that data provided is complete and accurate.	Management continued to work with their internal and external valuer to review key inputs and perform reconciliations of data to ensure that accurate and complete information is submitted to the external valuers for performance of the valuations. No similar issues were identified during the course of the 2020/21 audit, and as such this finding is considered closed.
✓	**Completeness of schools data in the financial statements** Management identified during the 2019/20 audit that the year-end data return in respect of one of the Council's maintained primary schools had been erroneously omitted from the financial statements. This led to an understatement of gross income, gross expenditure and cash balances in the draft financial statements. Whilst we were satisfied that the impact of this error in 2019/20 was immaterial, and the error was appropriately corrected for in the final draft of the financial statements, there is a risk that where reconciliation processes are not undertaken at year-end to ensure completeness of data in the financial statements, this has potential in future to lead to material errors. We recommended that management ensure that adequate year-end reconciliation processes are undertaken to gain assurance over completeness of schools data in the financial statements.	Management integrated the recommendation into their closing timetable for 2020/21. This included performing reconciliations to ensure the completeness of schools' data in the financial statements. No similar issues were identified during the course of the 2020/21 audit, and as such this finding is considered closed.

Assessment

✓ Action completed

X Not yet addressed

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B. Follow up of prior year recommendations – Council

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Partially addressed	Collection Fund accounting and closedown practices During audit testing of the Collection Fund, we identified a number of best practice control recommendations: - We noted historic debtor balances from Council Tax and NDR dating back to the 1990s. As these are unlikely to be recovered, the Council should consider writing off historic Collection Fund debtors. - For NDR provisions, the source data is extracted directly from the VOA by a third party. The Council performs checks on the VOA data which Analyse Local use in their report to confirm that the RV and other relevant details are in line with the system, however this process is not documented. - We noted issue in our Council tax benefits testing, where a large benefit of £260m was applied (and immediately reversed) to an account. The reason that this account has such a large absolute value is that a benefit was applied due to human error by a user as a result of posting the claim number into the amount box rather than the benefit. - It was identified through testing that the NDR Rateable Value disclosed in Note 2 to the Collection Fund account was overstated by £8,883k. This was a result of management using Rateable Value reports from the Valuation Office Agency dated February 2020, rather than the most up to date information as at year-end. We recommended that: - Management consider writing off historic Collection Fund debtors - Management document reconciliations of VOA data used by their specialist - Management put controls in place to prevent excessive payments being applied to Council Tax accounts. - Management put into place processes to ensure that the most up to date VOA information is used in preparation of the financial statements.	Management reviewed data entry controls within the system to prevent excessive charges or credits. Management further noted that they have a robust detective and preventative controls in place to guard against making significant or anomalous payments and they would continue to work with internal colleagues and specialists to ensure there are implemented. During the 2020/21 audit, we again identified a high volume of historic debtor balances in sample testing which could be considered for writing off. This recommendation is therefore ongoing. No issues were identified during the course of the 2020/21 audit in respect of other findings noted, and as such this finding is considered closed.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations – Council

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	Bank reconciliation The Council 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. We recommended that the Council should review the bank reconciliation process with Hampshire IBC to ensure the bank reconciliation process can be performed promptly. In 2020/21, a further issue was identified in respect of testing of the Council's bank reconciliation as at 31 March 2020, in that the cash book figure in the bank reconciliation did not agree to the year-end general ledger position. Management explained that this was due to team members continuing to post transactions during the day when the bank reconciliation had been performed. We recommended that management ensure that after completion of the year-end bank reconciliation during closedown, no transactions are subsequently posted until the new financial year has been opened on the general ledger.	This issue recurred in 2020/21, and was also identified within schools bank account reconciliations as at 31 March. Management explained that they continue to work with the system service provider to resolve this issue, and the recommendation is therefore ongoing.
✓	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 recommended 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. In 2019/20, work on this recommendation remained ongoing.	This issue was resolved in 2020/21 as evidenced by the documentation provided in the controls assurance report from the auditors of Hampshire County Council, who host the Council's financial systems.

Assessment

✓ Action completed

X Not yet addressed

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B. Follow up of prior year recommendations – Council

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	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 recommended 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. In 2019/20, work on this recommendation remained ongoing.	This issue was resolved in 2020/21 as evidenced by the documentation provided in the controls assurance report from the auditors of Hampshire County Council, who host the Council's financial systems.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations – Council

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Financial Sustainability In 2018/19, we reported that the Council was using its reserves to meet ongoing pressures on Dedicated Schools Grant funding and to invest in regeneration projects. Whilst the Council's reserves were currently sufficient, this will not be sustainable in the medium term. We recommended that 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. In 2019/20, we reported that, in light of the Covid-19 pandemic, the Council had put a hold on any significant new unfunded financial commitments. However, the Council incurred a net revenue overspend in 2019/20 which was met from existing reserves, and was forecasting a net revenue overspend again in 2020/21. This recommendation was therefore carried forward.	Management noted that they continue to keep under review, but the Council's level of reserves increased significantly in 2020/21. In part this related to the carry forward of £51.4m regarding the financial impact of Covid-19. The majority of this is not new money for the council to spend. It is required to fund existing liabilities regarding business rates reliefs (£41m) and business grants (£3.9m). The reserves include, in line with accounting practice, £46.0m relating to developer contributions. The use, and monitoring of such contributions, is subject to a separate approval and monitoring process. This issue will be considered closed as going forward, findings relating to financial sustainability will be reported as part of our value for money procedures in our separate Auditor's Annual Report.
x	Employee Contracts In 2018/19, 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 recommended 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. In 2019/20, work on this recommendation remained ongoing.	Management noted that the recommendation was considered as impractical as it would involve the review of over 2,000 employee files to check to see if there was a signed contract on file and would have added little value as the situation would not be capable of amendment. In addition this recommendation would not have implemented during COVID when resources with P and T were being applied to more urgent activities to support the organisation during the Pandemic. In the current process, we do not require employees to sign their employment contract as the whole process is now online. Every new employee gets a copy of the contract via email as soon as they complete their New Employee Step online. This recommendation is therefore ongoing.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations – Pension Fund

We identified the following issues in the audit of the Pension Fund's 2019/20 financial statements, which resulted in two recommendations being reported in our 2019/20 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Lump sum payments process** Prior to the start of the audit, the Fund's management alerted the audit team to the fact that a significant overpayment had been made to an individual alongside their lump sum payment during the year due to human error in inputting an extra digit. This was as a result of a manual process in place whereby the calculation for the lump sum payment had not been subject to sufficient scrutiny, with review being based on whether the coding of the payment was appropriate rather than whether the amount had been calculated correctly. Once the overpayment was identified, this was raised for repayment, which subsequently occurred. The Fund's management also commissioned an internal audit review into how this occurred and how controls in place could be strengthened, which raised a number of recommendations for management to implement. We were satisfied from our audit testing of lump sum benefit payments that there were no further anomalies during the year and that, following the repayment, this did not lead to a wider issue in 2019/20. However, there remains a risk that this issue could recur without additional control processes being implemented. We recommended that management implement the recommendations of internal audit in respect of strengthening controls in the payment process.	Further controls were subsequently implemented on all manual payments over £25k in accordance with internal audit recommendations. No further instances of overpayment were identified during the 2020/21 audit process. Therefore this issue is considered to be adequately addressed.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations – Pension Fund

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	Data retention on Altair pensions administration system During our testing of starters and leavers from the Pension Fund, we identified a number of instances where correspondence with the members was not retained on the Altair pensions administration system in accordance with documented procedures. This issue affected 1/25 starters and 15/25 leavers selected for testing. We recommended that management retain correspondence with Pension Fund members within the system to maintain a complete record and ensure that information held is up to date.	At the time of the 2020/21 audit, the Pension Fund was in the process of transferring administration provider from Surrey County Council to the Local Pensions Partnership Administration, which it anticipates will present an opportunity for service improvement. Management have ensured that record retention has been highlighted to the new provider as an audit requirement. The transfer is expected to be completed by early 2022. Note that we have continued to find similar issues in our testing for 2020/21 but this would have no numeric/monetary impact on the statements and as such is considered an administrative issue only. This issue is expected to be addressed by the transfer of the administration services in the 2021/22 year. We have identified this as an area of potential risk for the 2021/22 year audit and we will follow this up in work for that audit.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments – Council

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 2021. This table will be updated in the final version of this report and findings shared with the Audit Committee as those charged with governance in advance of issuing our audit opinion on the financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
Double counting of property valuation In reviewing revaluation movements recorded in the fixed asset register, we identified that management had double-counted one of the revalued assets in the financial statements. The financial statements have been adjusted to correct this error, which has led to a decrease of £3.8m in Property Plant and Equipment recognised in the Balance Sheet, and a corresponding increase of £3.8m in Other Operating Expenditure recorded in the CIES. Various other statements and notes are impacted by the amendment, including the Movement in Reserves Statement and Cash Flow Statement.	3,778	(3,778)	3,778
Split of Other Land and Buildings and Surplus Assets revaluation between Revaluation Reserve and Surplus or Deficit on Provision of Services In review of the fixed asset register, a formula error was identified which meant that the split of the revaluation movements in respect of Other Land and Buildings and Surplus Assets, between the Revaluation Reserve and the Surplus or Deficit on Provision of Services, as stated in the draft set of financial statements, was incorrect. The impact on the Comprehensive Income and Expenditure Statement was a reclassification of £8.5m between the Cost of Services (COS) and Other Comprehensive Income (OCI). The impact on the Balance Sheet was a corresponding reclassification between the Revaluation Reserve and the Capital Adjustment Account, both of which are within the Balance Sheet line for 'Unusable Reserves'. There is no impact on the Council's useable reserves position, as a result of the statutory accounting entries required for capital transactions. Various other statements and notes are impacted by this amendment, including the Movement in Reserves Statement and Cash Flow Statement.	(8.528) (COS) 8,528 (OCI)	0	(8.528) (COS) 8,528 (OCI)
Overall impact	**3,778**	**(3,778)**	**3,778**

C. Audit Adjustments – Council (continued)

Impact of adjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
Overstatement of debtors and creditors due to misposting In our testing of debtors, we identified a credit balance of £4.02m incorrectly posted to creditors where it should have been netted off within debtors. This grossed up debtors and creditors; so net assets is not impacted overall and there is no impact on the comprehensive income and expenditure from this adjustment.	Nil	4,020 (debtors) 4,020 (creditors)	Nil
Overall impact	3,778	(3,778)	3,778

C. Audit Adjustments – Council

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. This table will be updated in the final version of this report and findings shared with the Audit Committee as those charged with governance in advance of issuing our audit opinion on the financial statements.

Disclosure amendment	Adjustment agreed?
Restatements of prior period comparative figures In initial review of the financial statements, we identified a number of areas where management had included footnotes stating that 2019/20 comparative figures had been restated. This included the Movement in Reserves Statement, Note 16 – Debtors and Note 31 – Related Parties. None of the 'restatements' made were individually above our trivial reporting threshold. We would only expect restatements of prior period audited information to correct material errors which were subsequently identified, in accordance with IAS 8. As none of these restatements were material, we therefore requested that management revert the prior period comparatives to the audited 2019/20 figures, however management elected not to make these amendments in the final draft of the financial statements.	x
Movement in Reserves Statement The Code of Practice on Local Authority Accounting requires total in-year movements to be shown for the statutory General Fund, including earmarked and schools reserves, and Housing Revenue Account (HRA), including HRA earmarked reserves. Management have elected not to present total columns after the General Fund reserves and HRA reserves, instead presenting totals at each reporting date for the statutory General Fund and statutory HRA in a footnote to the Movement in Reserves Statement, but not showing the in-year movements. Management have elected not to rearrange their presentation of the note, on the basis that sufficient explanation is given in the footnotes around the component parts of the General Fund and HRA to permit the users of the financial statements to derive the total in-year movements.	x
Balance Sheet The Code 3.4.2.62 requires the balance sheet to include line items including g) investments in associates and joint ventures. This was omitted in the draft accounts. The Balance Sheet was amended so as to include this classification.	✓
Note 1 – Expenditure and Funding Analysis The order in which the columns within Note 1 were presented was amended to ensure compliance with the Code of Practice on Local Authority Accounting.	✓
Note 5 - Material Items of Income and Expense In our review of this note we highlighted that the description of the material items in 2019/20 described the assets as under construction which was not accurate as the assets were in fact surplus assets. The commentary was amended to make clear that these were not assets under construction.	✓
Note 9 – Property, Plant and Equipment – useful lives of assets We identified through audit testing of surplus assets that useful lives for this type of asset were incorrectly stated as 41-46 years, whereas a range of 50-54 years had been estimated by management's valuation specialist and applied to the accounting estimate. The disclosure of useful lives used was correctly updated in the final draft of the financial statements.	✓
Note 12 – Assets Held for Sale From initial review of the financial statements we identified that £13,229k of assets held for sale had been classified as long-term assets on the balance sheet but current assets in the disclosure note. Auditor evaluation of management's workings and the nature of the assets concluded that classification as long-term was appropriate. The disclosure note was therefore amended to reflect this. There is no impact on the balance sheet from this amendment.	✓

C. Audit Adjustments – Council

Misclassification and disclosure changes (continued)

Disclosure amendment	Adjustment agreed?
Note 17 – Cash and Cash Equivalents The disclosure note in the financial statements includes £1,687k classified as 'bank overdrafts'. Upon auditor review, it was identified that these items in fact represented uncleared items which should have been included as reconciling items on management's bank reconciliation, and not genuine overdraft amounts. Management have elected not to correct this presentation as they do not consider it to be material to the financial statements. There is no impact on the carrying value of cash and cash equivalents recorded in the balance sheet.	x
Note 20 – Provisions Following auditor review of the nature of movements on the NDR appeals provision, management realigned the movements disclosed within the disclosure note to reflect their nature, such that 'Additional provisions' decreased from £8,339k to £3,992k, 'amounts used' decreased from £16,358k to nil and 'unused amounts reversed' increased from nil to £12,011k. There is no impact on the value of provisions recognised in the balance sheet.	✓
Note 21 – Financial Instruments – balances We identified a number of errors within the 'Financial Instruments – Balances' table in section (i) of the disclosure note, all of which have been corrected for in the final draft of the financial statements: • The short-term creditors figure was understated by £42,207k as a result of a formula error • Cash at bank (including schools bank accounts) had been erroneously omitted from the cash and cash equivalents figure, resulting in an understatement of £10,814k • 2020/21 comparatives disclosed for short-term creditors did not correspond to the audited 2020/21 financial statements • £9,890k of long-term investments which lay outside the scope of financial instrument disclosures had erroneously been included • £7,192k of long-term debtors which related to prepayments, and therefore did not represent financial instruments, were erroneously included.	✓
Note 21 – Financial Instruments – interest expenses In section (iii) of the disclosure note, interest expenses of £11,675k had been erroneously disclosed under both the financial liabilities at amortised cost' and 'financial assets measured at fair value through profit and loss' columns within the table due to a formatting error. This was amended to	✓
Note 21 – Financial Instruments – fair value disclosures Management had erroneously omitted the PFI liability from the fair value disclosure in section (iv) of the disclosure note. This was correctly amended for in the final draft of the financial statements. In addition, the narrative within Note 21 around the fair value of PWLB loans as calculated using the premature redemption rate, included for comparison to the table showing the fair value at the new loan certainty rate, was amended to correctly show the comparative fair value as £401m whereas the draft accounts showed £335m.	✓
Note 21 – Financial Instruments – refinancing and maturity risk disclosures We identified in audit of the disclosure note that two loans which the Council had made to third parties, with a total value of £1,080k, had been erroneously classified as debtors. In addition, these loans had been erroneously omitted from the maturity analysis disclosure. Management have elected not to amend for this error in the final financial statements on the basis that it is not material to the users of the financial statements.	x

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C. Audit Adjustments – Council

Misclassification and disclosure changes (continued)

Disclosure amendment	Adjustment agreed?
Note 25 – Officers' Remuneration – bandings of employees receiving more than £50,000 remuneration We identified that the totals disclosed in a each banding disclosed were incorrect in the first draft of the financial statements as a result of formula errors in management's workings. These were corrected in the final version of the financial statements.	✓
Note 25 – Officers' Remuneration – Exit Packages Testing of exit packages recorded in the disclosure note identified that one exit package, with a total value of £109k, had been recorded in the incorrect accounting period, as the individual eventually left the Council in June 2021. Management have elected not to amend the financial statements to correct this error as they do not consider it to be material to the financial statements.	x
The bandings within the disclosure note were also amended to ensure compliance with the CIPFA Code, which led to the disaggregation of exit packages above £100k into bandings of £50k as required.	✓
Note 30 – Grant Income 'Capital grants and contributions' credited to taxation and non-specific grant income, recorded at £44,311k in the first draft of the financial statements were disaggregated into non-material line items in the final draft of the financial statements to achieve fair presentation in accordance with IAS 1.	✓
Note 30 – Grant Income – non-current grants and contributions received in advance In testing of 'Developer contributions' in Note 30, forming part of non-current grants and contributions received in advance on the balance sheet, we identified two sample items which had been misclassified as 'Developer contributions' where these should have been classified as 'Other capital grants'. The projected impact of this classification error is £654k. Management have elected not to correct for this error in the final draft of the 2020/21 financial statements as they do not consider it to be material to the financial statements. There is no impact on the balance sheet as both classifications fall within the same line item.	x
Note 31 – Related Parties In our review and testing of Senior Officers Remuneration disclosures it was noted that expenditure relating to 2 posts was omitted from disclosure as the payments were made to agencies rather than through payroll. Our view was that the Code requires these amounts to be disclosed as key management personnel provided by a separate management entity (agency). Note 31 was updated to include the payments for these 2 posts.	✓
Note 31 – Related Parties In our review of this note we highlighted that transactions between the Wormwood Scrubs Charitable Trust and the Council had not been disclosed. Although the transactions were not material to the Council in total, the requirements of the Code are that transactions should be disclosed where they are material to either related party, and it was agreed that the total transactions (£813k expenditure from the Trust to the Council) would be considered material to the Trust. The Note was amended to include disclosure of these transactions.	✓
Note 31 – Related Parties A number of amendments were made to the disclosure note to ensure that this only included financial information which related to third parties meeting the definition of a 'related party' in accordance with IAS 24.	✓

C. Audit Adjustments – Council

Misclassification and disclosure changes (continued)

Disclosure amendment	Adjustment agreed?
Note 33 – Interests in Companies The disclosure note was updated to reflect material transactions with group entities, to reflect the disclosure requirements of IAS 24.	✓
Note 34 – Contingent Assets The first draft of the financial statements included disclosure of a material contingent asset relating to discounted market sale units. Following auditor challenge, management determined that these either did not meet the definition for contingent assets under IAS 37 and the Code, or the element which did was clearly immaterial. This disclosure note was therefore removed in the final draft of the financial statements.	✓
Note 36 - Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty The disclosure note was updated to correctly include the carrying value of the net defined benefit liability, which is subject to estimation uncertainty, as required by IAS 1.	✓
Note 39 – Critical Judgements in Applying Accounting Policies The first draft of the financial statements included a paragraph around 'Accounting for Schools – Transfer of Capital Grants', which upon review, management did not consider to be one of the 'judgements in applying accounting policies that had the most significant effect on amounts recognised', as required to warrant disclosure in accordance with IAS 1. This paragraph was therefore removed from the disclosure note. In addition, management enhanced the narrative included around 'Accounting for Schools – Recognition of Schools' to more clearly explain the impact of the judgement taken on the financial statements.	✓

A number of other minor presentational and disclosure changes were made during the course of the audit, which are individually and in aggregate immaterial to the financial statements.

C. Audit Adjustments – Council

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below. This table will be updated in the final version of this report and findings agreed with the Audit Committee as those charged with governance in advance of issuing our audit opinion on the financial statements.

Detail	CIES £'000	Balance Sheet £'000	Impact on total net expenditure £'000	Reason for not adjusting
Incomplete data submitted to Pension Fund actuary During our audit of the Pension Fund, we identified that the Fund did not include all net current assets in its submission of data to the actuary, as a result of timing differences. The Council's share of this amounted to £2.6m, which represents an overstatement of the liability.	(2,599)	2,599	(2,599)	This was not considered to be a material adjustment given the materiality limits specified in Section 2. In addition, to make an amendment, the liability would need to be re-estimated by the Pension Fund's actuary.
Errors identified in post year-end expenditure invoice sample testing In our sample testing of purchase invoices received after year-end to gain assurance over the completeness of expenditure and associated creditors recorded in the financial statements, we identified four items which related to 2020/21 but had not been accrued for in-year. The factual value of these errors was £106,390. The projected error across the population of invoices which was subject to sample testing, assuming a consistent error rate, is shown in the table. This represents an understatement of the liability on the balance sheet, with a corresponding understatement of expenditure in the CIES and capital expenditure in the balance sheet.	964	(1,094) (Short-term creditors) 130 (PPE)	964	The adjustments shown in the table represent extrapolated errors rather than factual misstatements. This was not considered to be a material adjustment given the materiality limits specified in Section 2.
Understatement of Covid-19 Sales, Fees and Charges support grant income We identified in our testing of Taxation and Non-Specific Grant Income recognised in the CIES that in respect of the Covid-19 Sales, Fees and Charges support grant income, £1.1m additional income was eventually received by the Council than the amount which had been recorded in the financial statements. This led to an understatement of Taxation and Non-Specific Grant Income in the CIES and a corresponding understatement of short-term debtors in the balance sheet.	(1,098)	1,098	(1,098)	This was not considered to be a material adjustment given the materiality limits specified in Section 2.

C. Audit Adjustments – Council

Impact of unadjusted misstatements (continued)

Detail	CIES £'000	Balance Sheet £'000	Impact on total net expenditure £'000	Reason for not adjusting
Errors identified in other services expenditure sample testing In our sample testing of transactions comprising 'other services expenditure', we identified eight errors which had led to a number of under and overstatements in recorded expenditure in the CIES and corresponding creditors recorded in the balance sheet. The table shows the potential projected impact of these errors assuming a consistent error rate across the population which was subject to sample testing. This represents a projected understatement of expenditure in the CIES and corresponding understatement of short-term creditors in the balance sheet.	1,487	(1,487)	1,487	The adjustments shown in the table represent extrapolated errors rather than factual misstatements. This was not considered to be a material adjustment given the materiality limits specified in Section 2.
Schools bank reconciliations including transactions from 2021/22 accounting period We identified in our testing of a sample of schools' year-end bank reconciliations that a number of transactions through the bank account in April 2021 had been erroneously recorded in 2020/21. These should have been recorded as creditors or debtors as appropriate, given that cash had not been exchanged at the year-end date. The table shows the potential projected impact of these errors assuming a consistent error rate across the population which was subject to sample testing. This represents an overstatement of recorded cash balances and a corresponding understatement of recorded short-term debtors in the balance sheet.	0	1,427 (1,427)	0	The adjustments shown in the table represent extrapolated errors rather than factual misstatements. This was not considered to be a material adjustment given the materiality limits specified in Section 2.
Classification of Grant Income We identified through testing of grant income that the Covid 19 Clinically Extremely Vulnerable grant had been credited to 'Taxation and non-specific grant income' in the CIES, whereas this is a ringfenced grant to support vulnerable individuals therefore should have been credited to services. This represents an overstatement of taxation and non-specific grant income and an understatement of gross income in the net cost of services.	574 (574)	0	574 (574)	This was not considered to be a material adjustment given the materiality limits specified in Section 2.

C. Audit Adjustments – Council

Impact of unadjusted misstatements (continued)

Detail	CIES £'000	Balance Sheet £'000	Impact on total net expenditure £'000	Reason for not adjusting
Error identified in fees and charges income sample testing In our sample testing of fees and charges income, we identified one transaction of £8k whereby an entry had been erroneously posted to income rather than expenditure. This was corrected, however the correction had been posted twice, leading to an overstatement of income in the cost of services (Resources directorate) and a corresponding overstatement of expenditure recorded within the same directorate. The table shows the potential projected error assuming a consistent error rate across the fees and charges income within the Resources directorate.	2,583 (2,583)	-	2,583 (2,583)	The adjustments shown in the table represent extrapolated errors rather than factual misstatements. This was not considered to be a material adjustment given the materiality limits specified in Section 2.
Heritage assets valuation Our testing of the valuation of Heritage Assets held in the Council's Balance Sheet identified that management did not update the carrying amount of their Heritage Assets to reflect the latest independent valuation report. This has resulted in a discrepancy between the carrying value and the independent valuation at the Balance Sheet date.	-	1,477 (Heritage Assets) (1,477) (Revaluation Reserve)	-	This was not considered to be a material adjustment given the materiality limits specified in Section 2.
Errors identified in creditors sample testing In our sample testing of creditors, we identified 2 balances (£1.3m Better Care Fund creditor and £2.3m Mayoral CIL balance) were in fact funding amounts received in previous years which no longer had any repayment/clawback conditions attached and were therefore more appropriately classified within earmarked reserves.	-	3,600 (Creditors) (3,600) (Earmarked Reserves)	-	This was not considered to be a material adjustment given the materiality limits specified in Section 2.
Overall impact	(1,246)	1,246	(1,246)	

Impact of prior year unadjusted misstatements

No non-trivial unadjusted misstatements were identified in the 2019/20 financial statements.

C. Audit Adjustments – Pension Fund

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 and unadjusted misstatements

At the time of writing, no non-trivial misstatements have been identified in the financial statements, which management had adjusted for. This position will be updated in the final version of this report, which will be discussed with the Audit Committee as those charged with governance in advance of issuing our audit opinion on the financial statements.

Misclassification and disclosure changes

A number of minor presentational and disclosure changes to the financial statements have been agreed with management. There are no individually non-trivial amendments which have been identified.

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The [ABC] Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Fund Account £'000	Net Assets Statement £'000	Impact on total net expenditure £'000	Reason for not adjusting
Timing differences between Fund Manager data and custodian report In testing of one investment asset, a variance was identified between information provided by the Fund Manager and that provided by the custodian. This was as a result of timing differences.	(936)	936	(936)	Management do not consider the difference to be material.
Overall impact	(936)	936	(936)	

Impact of prior year unadjusted misstatements

There were no non-trivial unadjusted misstatements reported in previous years which impact upon the 2020/21 financial statements.

D. 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	£195,242	£TBC
Pension Fund Audit	£33,000	£TBC
Total audit fees (excluding VAT)	£228,242	£TBC

Both PSAA and DLUHC have recognised the expanded scope of local authority audit since scale fees were published in 2017.

To offset fee increases for the 2020/21 audit, the Council has therefore been allocated additional funding of £24,900 from PSAA's distribution of its 2020 surplus, and £65,078 in additional grant funding from DLUHC – part of an overall £15m allocated to the local authority sector as a whole following a commitment made in response to the Redmond Review into Local Authority Audit and Financial Reporting.

The Pension Fund has been allocated £3,190 from PSAA's distribution of its 2020 surplus, and £8,336 from DLUHC grant funding.

Non-audit fees for other services	Proposed fee	Final fee
Agreed upon procedures relating to pooling of housing capital receipts	£5,000	£5,000
Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate	£7,700	£7,700
Certification of Housing Benefit Subsidy Claim	£25,000	£TBC
CFO Insights Subscription	£12,500	£12,500
Total non-audit fees (excluding VAT)	**£50,200**	**£TBC**

The fees reconcile to the financial statements.

E. Audit opinion – Council

Our audit opinion is included below.

We anticipate we will provide the Council with an unmodified audit report.

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

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of the London Borough of Hammersmith and Fulham (the 'Authority') for the year ended 31 March 2021, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Account, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, and notes to the financial statements, including a summary of significant accounting policies. 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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 are responsible for concluding on the appropriateness of the Director of Finance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast

E. Audit opinion – Council

significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Director of Finance with respect to going concern are described in the 'Responsibilities of the Authority, Director of Finance and Those Charged with Governance for the financial statements' section of this report.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, 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 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 the 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 in April 2020 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 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. 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 matters 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, the other information published together with the financial statements in the Statement of Accounts 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.

E. Audit opinion – Council

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities set out on page x, 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 Director of Finance. The Director of Finance 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance 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 Director of Finance 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 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.
- We enquired of senior officers and the Audit Committee concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risks of management override of controls and fraud in expenditure recognition. We determined that the principal risks were in relation to:

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E. Audit opinion – Council

- Journal entries posted which met a range of criteria determined during the course of the audit, in particular those posted around the reporting date which had an impact on the Comprehensive Income and Expenditure Statement,
- Accounting estimates made in respect of assets and liabilities in the Balance Sheet, and
- Expenditure incurred by the Authority relating to the Covid-19 pandemic, which was included on returns made to MHCLG which formed the basis of grant income and support received by the Authority.

- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Director of Finance has in place to prevent and detect fraud;
  - journal entry testing, with a focus on entries meeting the risk criteria determined by the audit team;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of land and buildings, including council dwellings and investment property, and the valuation of the net defined benefit liability;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of land and buildings, including council dwellings and investment property, and the valuation of the net defined benefit pensions liability.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA/LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

E. Audit opinion – Council

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

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 undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

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 for the London Borough of Hammersmith and Fulham for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report'
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

We are satisfied that this work does not have a material effect on the financial statements.

E. Audit opinion – Council

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.

Signature:

Paul Dossett, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

Date:

E. Audit opinion – Pension Fund

Our audit opinion is included below.

We anticipate we will provide the Pension Fund with an unmodified audit report, including an emphasis of matter paragraph drawing attention to disclosures relating to the qualification of the financial statements of one of the Fund's infrastructure investment managers as at 31 December 2020, and its potential impact on the Fund's investment in the associated infrastructure fund.

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

Opinion

We have audited the financial statements of Hammersmith and Fulham Pension Fund (the 'Pension Fund') administered by London Borough of Hammersmith and Fulham (the 'Authority') for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. 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 2020/21.

In our opinion, the financial statements:

give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of the fund's assets and liabilities;

have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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 Pension Fund's 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 are responsible for concluding on the appropriateness of the Director of Finance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised

E. Audit opinion – Pension Fund

2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Director of Finance with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements' section of this report.

Emphasis of Matter – legal challenge facing Aviva infrastructure investment manager

We draw attention to Note 4 of the financial statements, and the disclosure that one of the pension fund's infrastructure investment managers is facing legal challenge from a former construction contractor relating to a contractual dispute. The carrying value of the total infrastructure portfolio in the Pension Fund is £26 million. Our opinion is not modified in respect of this matter.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's financial statements. Our opinion on the Pension Fund's 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 Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements or our knowledge of the Pension Fund 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 Pension Fund 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund 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;

E. Audit opinion – Pension Fund

- 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 in relation to the Pension Fund.

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities [set out on page 18], 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 Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance 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 Pension Fund's financial statements, the Director of Finance is responsible for assessing the Pension Fund'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 Pension Fund will no longer be provided.

The Audit Committee is Those Charged with Governance for the Pension Fund. 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 Pension Fund's 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and

E. Audit opinion – Pension Fund

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of senior officers and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - journal entries posted which met a range of criteria determined during the course of the audit, in particular those posted around the reporting date which had an impact on the Fund Account, and
  - accounting estimates made in respect of the valuation of assets and liabilities in the Net Assets Statement.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Director of Finance has in place to prevent and detect fraud;
  - journal entry testing, with a focus on entries meeting the criteria determined by the audit team;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of level 3 investments and the IAS 26 pensions liability valuation;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team's communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of level 3 investments and the IAS 26 pensions liability valuation.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government pensions sector
  - understanding of the legal and regulatory requirements specific to the Pension Fund including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

E. Audit opinion – Pension Fund

– the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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.

[Signature]

Paul Dossett, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]

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Appendix 3

London Borough of Hammersmith & Fulham
Hammersmith Town Hall, King Street, London, W6 9JU

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

[Draft - Date Pending Audit Opinion]

Dear Sirs

London Borough of Hammersmith and Fulham
Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of the London Borough of Hammersmith and Fulham for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the Council 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 2020/21 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

i. We have fulfilled our responsibilities for the preparation of the Council'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 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the 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 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. Such accounting estimates include the valuation of land and buildings, including Council Dwellings and Investment Properties, the assumptions used in the valuation of the net defined benefit liability, the valuation and completeness of provisions, and expected credit loss allowances in respect of short- and long-term debtors. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. 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.

vii. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the Council has been assigned, pledged or mortgaged

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

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 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’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 financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The 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 financial statements.

xiv. We have updated our going concern assessment. We continue to believe that the Council’s financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

a. the nature of the Council means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
c. the Council’s system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Council'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’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. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. 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.

xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xviii. We have disclosed to you the results of our assessment of the risk that the 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 Council 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 financial statements.

xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

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'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 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's financial and operating performance over the period covered by the Council's financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 23 November 2022.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Council

Appendix: Unadjusted misstatements

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below. This table will be updated in the final version of this report and findings agreed with the Audit Committee as those charged with governance in advance of issuing our audit opinion on the financial statements.

Detail	CIES £'000	Balance Sheet £'000	Impact on total net expenditure £'000	Reason for not adjusting
Incomplete data submitted to Pension Fund actuary During our audit of the Pension Fund, we identified that the Fund did not include all net current assets in its submission of data to the actuary, as a result of timing differences. The Council's share of this amounted to £2.6m, which represents an overstatement of the liability.	(2,599)	2,599	(2,599)	Management do not consider the omission to be material. In addition, to make an amendment, the liability would need to be re-estimated by the Pension Fund's actuary.
Errors identified in post year-end expenditure invoice sample testing In our sample testing of purchase invoices received after year-end to gain assurance over the completeness of expenditure and associated creditors recorded in the financial statements, we identified four items which related to 2020/21 but had not been accrued for in-year. The factual value of these errors was £106,390. The projected error across the population of invoices which was subject to sample testing, assuming a consistent error rate, is shown in the table. This represents an understatement of the liability on the balance sheet, with a corresponding understatement of expenditure in the CIES and capital expenditure in the balance sheet.	964	(1,094) (Short-term creditors) 130 (PPE)	964	The adjustments shown in the table represent extrapolated errors rather than factual misstatements. Management do not consider these errors or their potential projected impact to be material.
Understatement of Covid-19 Sales, Fees and Charges support grant income We identified in our testing of Taxation and Non-Specific Grant Income recognised in the CIES that in respect of the Covid-19 Sales, Fees and Charges support grant income, £1.1m additional income was eventually received by the Council than the amount which had been recorded in the financial statements. This led to an understatement of Taxation and Non-Specific Grant Income in the CIES and a corresponding understatement of short-term debtors in the balance sheet.	(1,098)	1,098	(1,098)	Management do not consider this understatement to be material.

Impact of unadjusted misstatements (continued)

Detail	CIES £'000	Balance Sheet £'000	Impact on total net expenditure £'000	Reason for not adjusting
Errors identified in other services expenditure sample testing In our sample testing of transactions comprising 'other services expenditure', we identified eight errors which had led to a number of under and overstatements in recorded expenditure in the CIES and corresponding creditors recorded in the balance sheet. The table shows the potential projected impact of these errors assuming a consistent error rate across the population which was subject to sample testing. This represents a projected understatement of expenditure in the CIES and corresponding understatement of short-term creditors in the balance sheet.	1,487	(1,487)	1,487	The adjustments shown in the table represent extrapolated errors rather than factual misstatements. Management do not consider these errors or their potential projected impact to be material.
Schools bank reconciliations including transactions from 2021/22 accounting period We identified in our testing of a sample of schools' year-end bank reconciliations that a number of transactions through the bank account in April 2021 had been erroneously recorded in 2020/21. These should have been recorded as creditors or debtors as appropriate, given that cash had not been exchanged at the year-end date. The table shows the potential projected impact of these errors assuming a consistent error rate across the population which was subject to sample testing. This represents an overstatement of recorded cash balances and a corresponding understatement of recorded short-term debtors in the balance sheet.	0	1,427 (1,427)	0	The adjustments shown in the table represent extrapolated errors rather than factual misstatements. Management do not consider these errors or their potential projected impact to be material.
Classification of Grant Income We identified through testing of grant income that the Covid 19 Clinically Extremely Vulnerable grant had been credited to 'Taxation and non-specific grant income' in the CIES, whereas this is a ringfenced grant to support vulnerable individuals therefore should have been credited to services. This represents an overstatement of taxation and non-specific grant income and an understatement of gross income in the net cost of services.	574 (574)	0	574 (574)	Management do not consider this adjustment to be material.

Impact of unadjusted misstatements (continued)

Detail	CIES £'000	Balance Sheet £'000	Impact on total net expenditure £'000	Reason for not adjusting
Error identified in fees and charges income sample testing In our sample testing of fees and charges income, we identified one transaction of £8k whereby an entry had been erroneously posted to income rather than expenditure. This was corrected, however the correction had been posted twice, leading to an overstatement of income in the cost of services (Resources directorate) and a corresponding overstatement of expenditure recorded within the same directorate. The table shows the potential projected error assuming a consistent error rate across the fees and charges income within the Resources directorate.	2,583 (2,583)	0	2,583 (2,583)	The adjustments shown in the table represent extrapolated errors rather than factual misstatements. Management do not consider these errors or their potential projected impact to be material.
Overall impact	(1,246)	1,246	(1,246)	

Unadjusted disclosure errors:

Disclosure amendment	Adjustment agreed?
Restatements of prior period comparative figures In initial review of the financial statements, we identified a number of areas where management had included footnotes stating that 2019/20 comparative figures had been restated. This included the Movement in Reserves Statement, Note 16 – Debtors and Note 31 – Related Parties. None of the 'restatements' made were individually above our trivial reporting threshold. We would only expect restatements of prior period audited information to correct material errors which were subsequently identified, in accordance with IAS 8. As none of these restatements were material, we therefore requested that management revert the prior period comparatives to the audited 2019/20 figures, however management elected not to make these amendments in the final draft of the financial statements.	x
Movement in Reserves Statement The Code of Practice on Local Authority Accounting requires total in-year movements to be shown for the statutory General Fund, including earmarked and schools reserves, and Housing Revenue Account (HRA), including HRA earmarked reserves. Management have elected not to present total columns after the General Fund reserves and HRA reserves, instead presenting totals at each reporting date for the statutory General Fund and statutory HRA in a footnote to the Movement in Reserves Statement, but not showing the in-year movements. Management have elected not to rearrange their presentation of the note, on the basis that sufficient explanation is given in the footnotes around the component parts of the General Fund and HRA to permit the users of the financial statements to derive the total in-year movements.	x

Appendix 3

Note 21 – Financial Instruments – refinancing and maturity risk disclosures We identified in audit of the disclosure note that two loans which the Council had made to third parties, with a total value of £1,080k, had been erroneously classified as debtors. In addition, these loans had been erroneously omitted from the maturity analysis disclosure. Management have elected not to amend for this error in the final financial statements on the basis that it is not material to the users of the financial statements.	x
Note 25 – Officers' Remuneration – Exit Packages Testing of exit packages recorded in the disclosure note identified that one exit package, with a total value of £109k, had been recorded in the incorrect accounting period, as the individual eventually left the Council in June 2021. Management have elected not to amend the financial statements to correct this error as they do not consider it to be material to the financial statements.	x
Note 30 – Grant Income – non-current grants and contributions received in advance In testing of 'Developer contributions' in Note 30, forming part of non-current grants and contributions received in advance on the balance sheet, we identified two sample items which had been misclassified as 'Developer contributions' where these should have been classified as 'Other capital grants'. The projected impact of this classification error is £654k. Management have elected not to correct for this error in the final draft of the 2020/21 financial statements as they do not consider it to be material to the financial statements. There is no impact on the balance sheet as both classifications fall within the same line item.	x

Appendix 4

London Borough of Hammersmith & Fulham
Hammersmith Town Hall, King Street, London, W6 9JU

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

[Draft - Date Pending Audit Opinion]

Dear Sirs

Hammersmith and Fulham Pension Fund
Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Hammersmith and Fulham Pension Fund for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the 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 2020/21 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

i. We have fulfilled our responsibilities for the preparation of the 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 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the 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 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. Such accounting estimates include the valuation of investments, in particular those held at level 3 in the fair value hierarchy which have significant unobservable inputs into the valuation techniques, and the disclosure of actuarial present value of promised retirement benefits. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the Fund has been assigned, pledged or mortgaged

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. 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.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

x. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached in Appendix 1. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Fund and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii. We have updated our going concern assessment. We continue to believe that the Fund’s financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that that :

   a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Fund’s system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

xiv. We are satisfied that the legal challenges facing one of the Fund’s infrastructure investment managers do not give rise to a potential material misstatement of the valuation of the associated investment in the Fund’s financial statements as at 31 March 2021.

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 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. access to persons within the Fund via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. 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.

xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xviii. We have disclosed to you the results of our assessment of the risk that the 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 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 financial statements.

xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

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. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

xxiii. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

xxiv. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the administering authority's Audit Committee at its meeting on 23 November 2022.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Fund

Appendix 1: Unadjusted misstatements

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The [ABC] Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Fund Account £'000	Net Assets Statement £'000	Impact on total net expenditure £'000	Reason for not adjusting
Timing differences between Fund Manager data and custodian report In testing of one investment asset, a variance was identified between information provided by the Fund Manager and that provided by the custodian. This was as a result of timing differences.	(936)	936	(936)	Management do not consider the difference to be material.
Overall impact	(936)	936	(936)	

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 23/11/2022

Subject: Audit Plan for 2021/22 audit

Report of: Paul Dossett, Grant Thorntons

Responsible Director: Sukvinder Kalsi, Director of Finance

SUMMARY

Grant Thornton will present their audit plan for 2021/22 for the Committee to note and comment on.

RECOMMENDATIONS

1. To note the content of the external auditor's Audit Plan for 2021/22 (Appendix 1)

2. To note the content of the Informing the Audit Risk Assessment Report for 2021/22 (Appendix 2)

LIST OF APPENDICES:

Appendix 1 – Grant Thornton Audit Plan 2021-22

Appendix 2 – Informing the Audit Risk Assessment

Grant Thornton

Audit Plan for London Borough of Hammersmith and Fulham and Hammersmith and Fulham Pension Fund

Year ending 31 March 2022

23 November 2022

Contents

Your key Grant Thornton team members are:

Paul Dossett
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E paul.dossett@uk.gt.com

Andy Conlan
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key matters

Factors	Our response

Council developments

As for all London Boroughs, the financial position in for the 2022/23 year remains challenging, although positively the Council did deliver an surplus outturn result of £6.7m for 2021/22. There are ongoing growth pressures in demand led services, such as housing and social care, increasing pressures from homelessness, changing economic conditions and a continuing greater reliance on income generated locally. The fall out and recovery from the pandemic has resulted in additional spending pressures and an ongoing hit to the Council's income streams, and the cost of living crisis continues to see inflation rising to unplanned levels. The future of funding remains highly uncertain as the sector awaits an updated Fiscal Statement in November 17th (with grant funding allocations in December) which could herald a new wave of austerity. The balance of funding in the budget between direct NHS support and social care support is still highly uncertain. In the MTFS the Council is forecasting a large revenue budget gap over the years through to 2025/26, which will require either identification of savings/cost efficiencies, or the use of reserves which would need to be replenished.

The Council has pledged to reach net zero emissions by 2030 as part of declaring a climate and ecological emergency in July 2019. The apparent impact of climate change in more extreme (and costly) weather events and increasing concern generally, is driving an increased demand for Authorities and businesses to accelerate net zero plans and to flesh these plans out with what investment and changes to operations may be required to make such targets a reality. This is also increasingly becoming an area of concern for Audit Committees in terms of how they oversee this risk.

We note that there has been a high turnover is Executive Officers at the Council during the 2021/22 and 2022/23 financial years. Turnover at this level will always raise potential risks of loss of corporate memory and knowledge, which could impact on key processes such as end of year financial statements and budget setting. Our discussions with and work through the 2020/21 audit and Value for Money work has given us comfort that the Council has taken appropriate measures to ensure these officers are either replaced with appropriate permanent appointments or interim appointments, and that management support in their teams is sufficient.

Infrastructure Assets

The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. In addition, the Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. The Council has material infrastructure assets, at a gross and net value basis, there is therefore a potential risk of material misstatement related to the infrastructure balance. For the 2021/22 audit we have carried out audit inquiries to understand the control environment around the recognition and derecognition of infrastructure assets. In common with most other authorities there is not a clear mechanism by which existing infrastructure assets which still have a net book value on the balance sheet being depreciated are derecognised when the asset is replaced. As there is not a system by which the Council could accurately identify which infrastructure asset has been replaced (the Council instead relying on the useful economic lives being an accurate lifetime for the assets so they would be depreciated in full at approximately their replacement cycle) it is not possible to quantify what the misstatement could be. This is a national issue effecting all local government audits. CIPFA are in the process of implementing a statutory override in this area of the accounts. This is expected to be introduced by the end of December 2022, and once this is in place we will be able to sign the 2020/21 audit opinion. This issue should therefore be resolved and closed before we complete the 2021/22 audit fieldwork and as such we are satisfied this does not present a risk for the 2021/22 audit.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, is still to be finalised and will be discussed and confirmed with the Chief Finance Officer.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- Recommendations have been agreed in respect of matters identified through previous audit work, on both the financial statements and arrangements to secure VFM, the planning report. We are still completing our risk assessment work as we issue this Audit Plan, and we will be following up with your finance team on progress made on these recommendations.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control – refer to page 7.
- We identified an other audit risk relating to transfer of services for administration of member data from Surrey County Council to the Local Pensions Partnership Administration. This confers a risk for the completeness and accuracy of member data – refer to page 9.
- We will consider the Council's planned response to the climate emergency and potential impacts on financial reporting in the current year.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audits of the London Borough of Hammersmith and Fulham ('the Council') and Hammersmith and Fulham Pension Fund ('the Pension Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council and the Pension Fund. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council and Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Pensions committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Pensions Committee of their responsibilities. It is the responsibility of the Council and Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council and Pension Fund are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council and Pension Fund's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as follows:

Council
- The risk that the valuation of land and buildings in the accounts is materially misstated.
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.
- The risk of management override of controls.

Pension Fund
- The risk of management override of controls.
- The risk that the valuation of level 3 investments in the accounts is materially misstated

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

Council

We have determined materiality to be £10.2m (PY £9.3m), which equates to 1.5% of the Council's gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.510m (PY £0.465m).

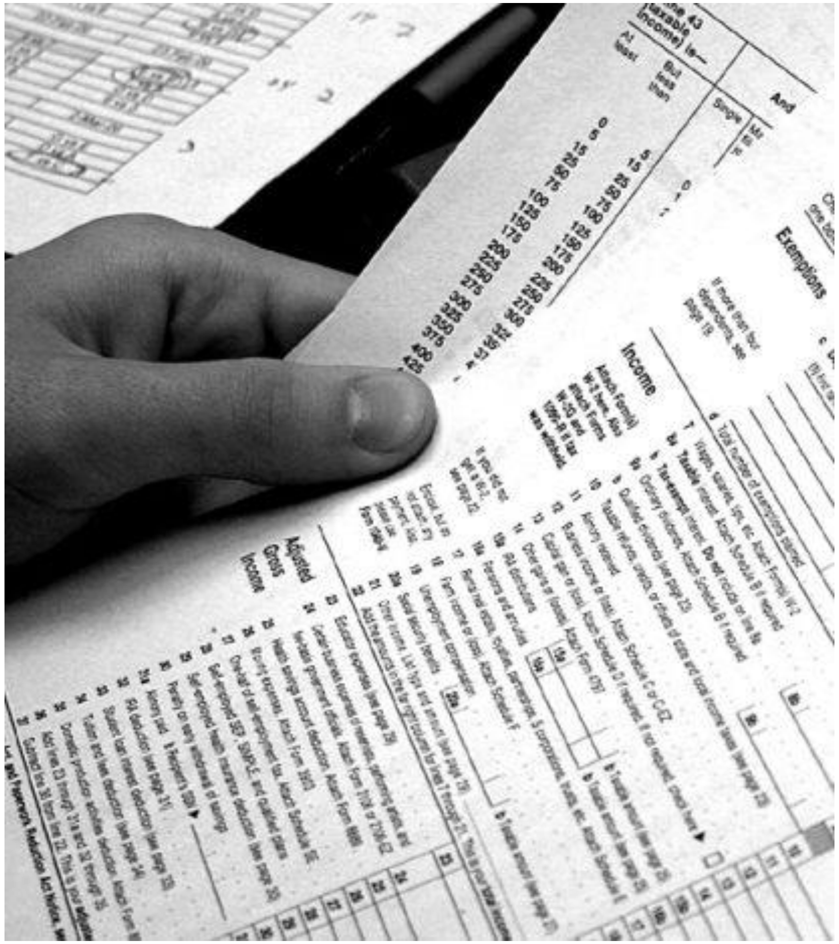
Pension Fund

We have determined materiality to be £12.5m (PY £11.5m), which equates to 0.95% of the Pension Fund's net assets as at 31 March 2021. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.625m (PY £0.575m).

Value for Money arrangements

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

Introduction and headlines cont.



Audit logistics

Our planning and final audit phases will take place between November 2022 and February 2023. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our expected fee for the Council audit will be £212,742 (PY: £TBC our final fee is still to be determined as the 2020/21 audit is still ongoing) for the Council, and £38,000 (PY: £33,000) for the Pension Fund. These fees are subject to the Council and Pension Fund delivering a good set of financial statements and working papers. See pages 17 and 18 for additional breakdown of the fees.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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..

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 fraudulent revenue recognition (rebutted)	Council and Pension Fund	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. Having considered the risk factors set out in ISA240 and the nature of the Council and Pension Fund 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; - the culture and ethical frameworks of local authorities, including London Borough of Hammersmith and Fulham, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk at for the London Borough of Hammersmith and Fulham or Hammersmith and Fulham Pension Fund.	Significant risk rebutted.
Risk of fraud related to expenditure recognition under Practice Note 10 (rebutted)	Council and Pension Fund	We have also considered the risk of material misstatement due to the fraudulent recognition of expenditure. We have considered each material expenditure area, and the control environment for accounting recognition. We have considered the risk factors in Practice Note 10 as they apply to the Council and Pension Fund expenditure streams. We were satisfied that this does not present a significant risk of material misstatement in the 2021/22 accounts as: - The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong; - We have not found significant issues, errors or fraud in expenditure recognition in the prior years audits; - Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition. Therefore, we do not consider this to be a significant risk at for the London Borough of Hammersmith and Fulham or Hammersmith and Fulham Pension Fund.	Significant risk rebutted.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Council and Pension Fund	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces 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, which was one of the most significant assessed risks of material misstatement.	We will: • Evaluate the design effectiveness of management controls over journal entries; • Analyse the journal entry listing and determine the criteria for selecting high risk unusual journals; • Test unusual journal entries recorded during the year and after the draft accounts stage for appropriateness and corroboration; • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of land and Buildings	Council	The Council revalues its Land and Buildings, Council Dwellings, Surplus Assets and Investment Property on an annual basis to ensure that the carrying value is not materially different from the current value (for Land and Buildings and Council Dwellings) or fair value (for Surplus Assets and Investment Properties) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.8 billion Land and Buildings, £81m Investment Property) and the sensitivity of this estimate to changes in key assumptions. Management has engaged the services of a valuer to estimate the current value as at 31 March 2022. We therefore identified valuation of Land and Buildings, Council Dwellings, Surplus Assets and Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement. This significant risk is particularly focused on the valuers' key assumptions and inputs to the valuations as these are the greatest sources of estimation uncertainty/sensitivity.	We will: • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluate the competence, capabilities and objectivity of the valuation expert; • Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met; • Engage our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation; • Use our auditor's expert valuer to challenge and evaluate the appropriateness of obsolescence factors (for assets valued under the existing use value methodology); • Use our auditor's expert valuer to challenge and evaluate the appropriateness of rental yields as a management's expert valuer's key assumption within their estimate of investment property valuation; • Test revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements; • Assess the value of a sample of assets in relation to market rates for comparable properties; and • Test a sample of beacon properties in respect of Council Dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability - assumptions applied by the professional actuary in their calculation	Council	The Authority's pension fund net liability, as reflected in its 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 (approximately £553 million in the Authority's balance sheet at the 31 March 2021) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their calculation of the net liability. We have concluded that there is not a significant risk of material misstatement due to the source data used by the actuary in their calculation (we would reconsider this if it becomes apparent at the year-end that there significant special events relating to the source data (such as bulk transfers, redundancies or other significant movements of staff) which would need to be given special consideration during the audit. Despite not being considered a significant risk we still carry out testing and consideration of the source data to obtain sufficient and appropriate audit evidence that there is no material misstatement.	We will: • Update 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; • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • Assess the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud, Goodwin and Guaranteed Minimum Pension cases; • Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • Test 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; • Undertake 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 the report.
Valuation of Level 3 Investments	Pension Fund	The Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. 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 (£131 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 and/or custodians as valuation experts to estimate the fair value as at 31 March 2022.	We will: • Evaluate management's processes for valuing Level 3 investments; • Review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met; • Independently request year-end confirmations from investment managers and the custodian; • For a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2022 with reference to known movements in the intervening period; • In the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert; and • Where available review investment manager service auditor report on design and operating effectiveness of internal controls.

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Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Minimum Revenue Provision	Council	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. MRP is required to be charged with respect to borrowing obtained as part of acquiring assets to be held in the General Fund (GF). No MRP charge is made in respect of borrowing for the acquisition of assets held in the Housing Revenue Account (HRA). According to regulations, this is on the basis that HRA assets should be self-financing, with local authorities being required to make an annual charge from the HRA to their Major Repairs Reserve in place of MRP, to maintain functionality of housing assets. MRP represents one of the few elements of capital financing in local authority financial statements which is a true charge to useable reserves, and therefore over time has the potential to have a significant impact on the Council's longer term financial sustainability. As a result of findings across the sector as a whole whereby MRP has been miscalculated or not calculated in accordance with the statutory guidance, we have identified this as a risk requiring specific audit attention.	We will: • Gain an understanding of the Council's current policy for calculating the MRP charge for the year and evaluate whether this is in accordance with the statutory guidance; • Evaluate whether the MRP policy has been appropriately understood and approved by the Council's members; • Substantively test the inputs into the MRP calculation back to supporting evidence and the financial statements; • Evaluate key ratios in relation to borrowing, CFR and MRP and benchmark the Council's position against that of its closest peers, documenting and corroborating the reasons for any anomalies.
Breach of the HRA ringfence	Council	As stated above the Housing Revenue Account (HRA) should be self financing. The HRA is strictly ringfenced to ensure that expenditure on maintaining dwellings and managing tenancies is balanced by rents charged to tenants and that rents cannot be subsidised by council tax or vice versa. As a result of findings across the sector as a whole whereby there were transactions which breached the HRA ringfence either intentionally or otherwise , we have identified this as a risk requiring specific audit attention.	We will: • Specifically identify and test any unusual journals which impact the HRA and General Fund in unexpected transactions; • Tailor into our existing work programmes across expenditure, income and balance sheet substantive testing, additional procedures to confirm that the impact of the transaction on the General Fund or HRA is corroborated by the evidence and substance of the underlying transaction.
Completeness and accuracy of member data	Pension Fund	The administration of member data has transferred from Surrey County Council to the Local Pensions Partnership Administration. There is a risk that the completeness and accuracy of member data could be impacted in the transfer of data, or where changes in the systems and processes around member data administration have transferred to a new service provider. There could therefore be a risk around the completeness and accuracy of member data on the system and then as summarized in the financial statements. There could also be a risk around completeness and accuracy of benefit payments.	We will: • Gain an understanding of how the Altair data transfer was undertaken and how the Pension Fund obtained their own assurances over the completeness and accuracy of the transfer. • Test the completeness/accuracy of data transfer through closing/opening balance reconciliation, and through detailed substantive testing as appropriate.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. We identified 1 recommendation in our 2020/21 audit in relation to the Council's estimation process for valuation of land and buildings. This recommendation will be followed up in completion of our risk assessment procedures.

Introduction

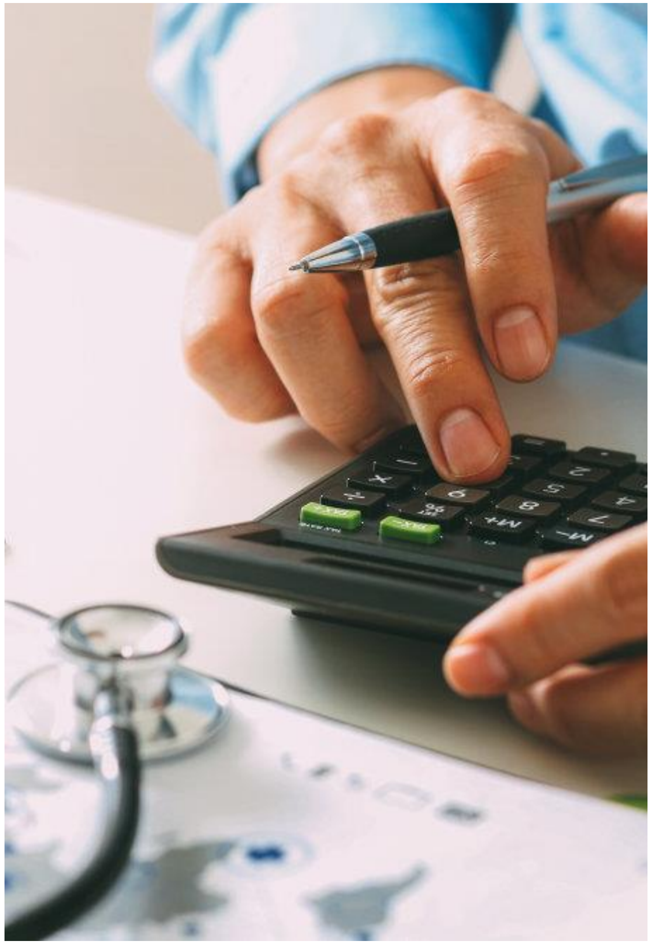
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

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Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainly is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we have sent inquiries to management that will be presented at the Audit Committee as part of our Informing the Audit Risk Assessment report.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

Council

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £10.2m (PY £9.3m) for the Council, which equates to 1.5% of gross expenditure for the year.

Pension Fund

We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £12.5m (PY £11.5m) for the Pension Fund, which equates to approximately 0.95% of the Pension Fund's prior year net assets.

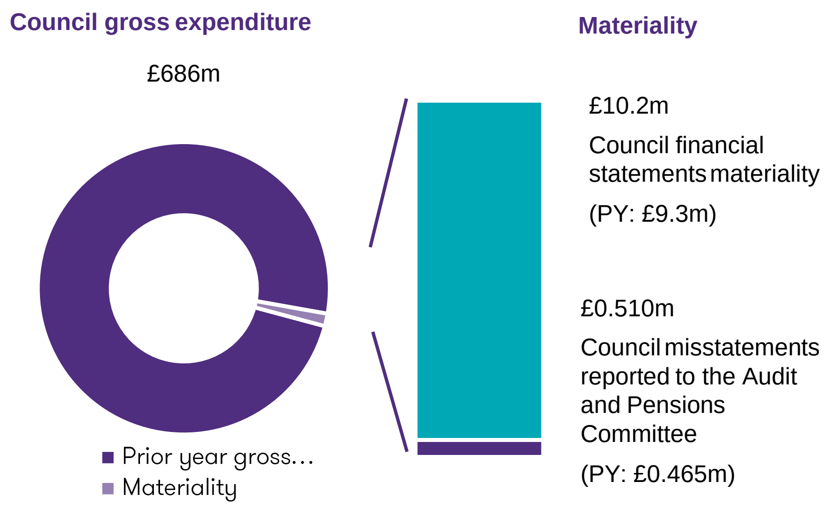
We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £0.1 for senior officer remuneration disclosures in the Council's financial statements and Key Management Personnel disclosures in the Pension Fund.

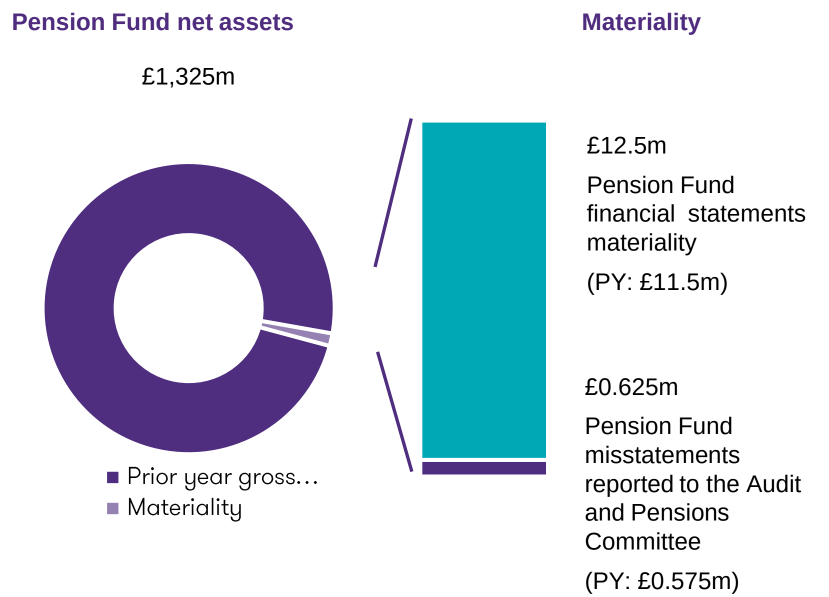
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Pensions Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.510m (PY £0.465m). In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.625m (PY £0.575m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Pensions Committee to assist it in fulfilling its governance responsibilities.





Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office(NAO) issued updated guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources . When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

Audit logistics and team

Paul Dossett, Key Audit Partner

Paul is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit and Pensions Committee, the Chief Executive and the Director of Finance. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Paul will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit work. Paul will sign the Council and Pension Fund audit opinions.

Andy Conlan, Audit Senior Manager

Andy is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit and Pensions Committee, Director of Finance and finance team. He will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. He will be responsible for the delivery of our work on the Council's arrangements in place to secure value for money.

Rob Williams, Council Audit Incharge

Robert is responsible is for management and delivery of the Council audit fieldwork. He will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management.

Ella Connick, Pension Fund Audit Incharge

Ella is responsible is for management and delivery of the pension fund audit fieldwork. She will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of items for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on pages 10-12 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2021/22, as set out below, is detailed overleaf:

	Propose Fee 2020/21	Actual Fee 2020/21 Note 1	Proposed fee 2021/22
London Borough of Hammersmith and Fulham Council Audit	£195,242	£TBC	£212,742
Hammersmith and Fulham Pension Fund Audit	£33,000	£TBC	£38,000
Total audit fees (excluding VAT)	£228,242	£TBC	£250,742

Note 1 – 2020/21 fee variances have been discussed with your Chief Finance Officer, and an interim fee variance of £20,000 for the Council audit was agreed. We have had to complete significant additional audit work particularly around closing our testing of debtors and creditors areas of the audit where we had particular difficulties in working with some of the Councils analyses and populations, and where some older legacy balances were difficult to obtain sufficient and appropriate audit evidence. We also had to complete additional work around the national issue around infrastructure assets (see our Audit Findings Report 2020/21 for full information on this). Note that all fee variances are subject to review and approval by PSAA.

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of financial statements , supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

	Council	Pension Fund
Scale fee published by PSAA (Note inflationary uplift made by PSAA in 2021/22	£132,242	£16,170
Ongoing increases to scale fee first identified in 2019/20 and 2020/21		
Raising the bar/regulatory factors, including additional focus on PPE and Pensions	£26,000	£8,830
Additional work on Value for Money (VfM) under new NAO Code	£26,000	£0
Impact of new auditing standards – ISA 540 (Auditing accounting estimates)	£10,000	£6,000
Impact of new auditing standards – ISA 240 (Fraud) and ISA 700 (Forming an opinion)	£7,000	£2,000
New issues for 2021/22		
FRC response – additional review and involvement of an External Quality Control Reviewer (EQCR)	1,500	-
Remote Working – ongoing impact of working remotely which demonstrably causes public audits to take longer (Note fee to be confirmed based on the extent of remote working and impact)	10,000	5,000
Increase to scale	£80,500	£21,830
Total audit fees (excluding VAT)	**£212,742**	**£38,000**

Independence and non-audit services

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Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and Pension Fund.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit Subsidy Claim	25,000	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 £25,000 in comparison to the total fee for the Council audit of £212,742 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.
Agreed upon Procedures relating to the Pooling of Housing Capital Receipts	5,000	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 £5,000 in comparison to the total fee for the audit of £212,742 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.
Agreed upon Procedures relating to the Teachers' Pensions end of year certificate	7,700	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 £7,700 in comparison to the total fee for the audit of £212,742 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.
Xxx	37,700		

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations

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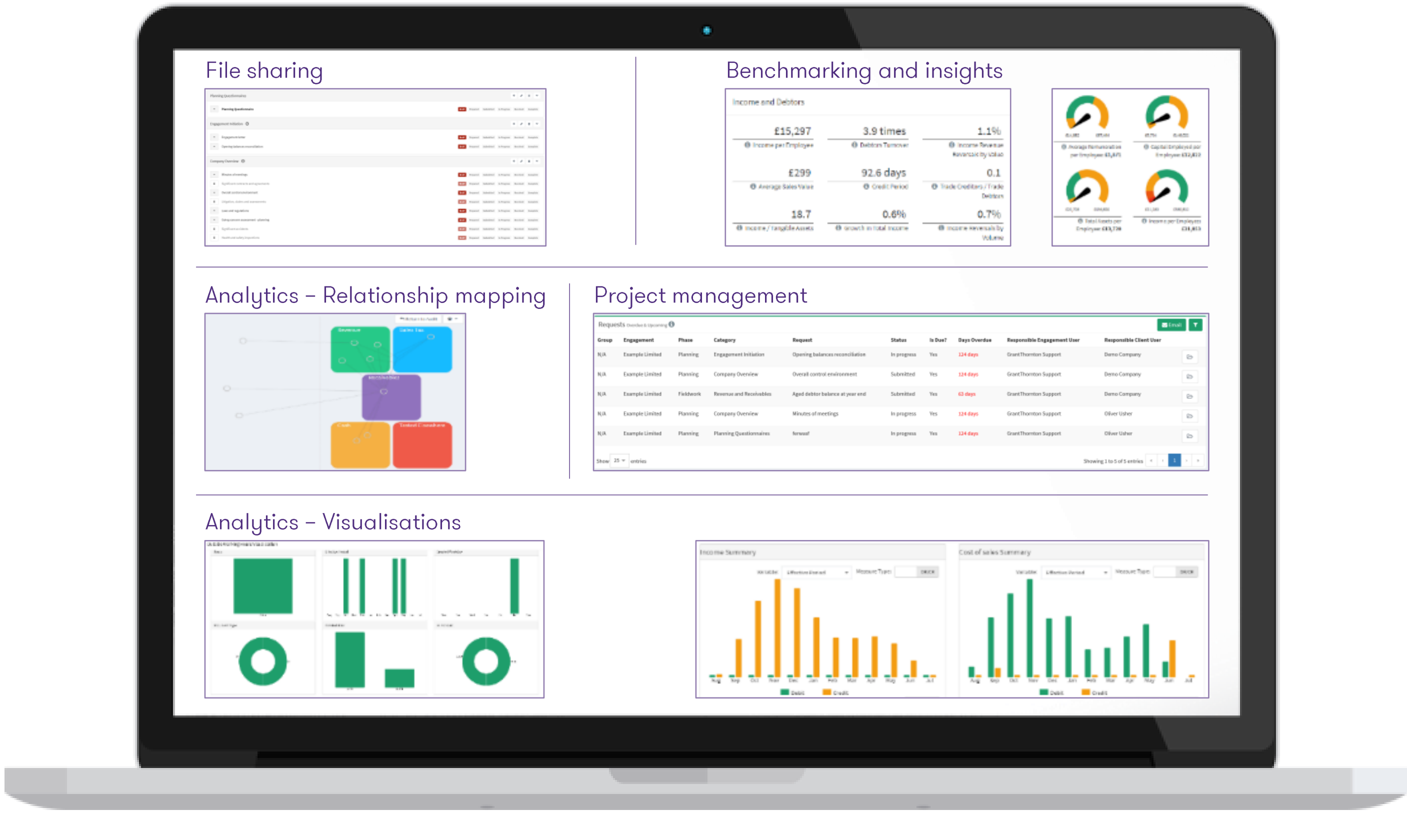


Inflo

Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data

File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work

Project management

- Facilitates oversight of requests
- Access to a live request list at all times

Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Appendix A
Audit Market Developments

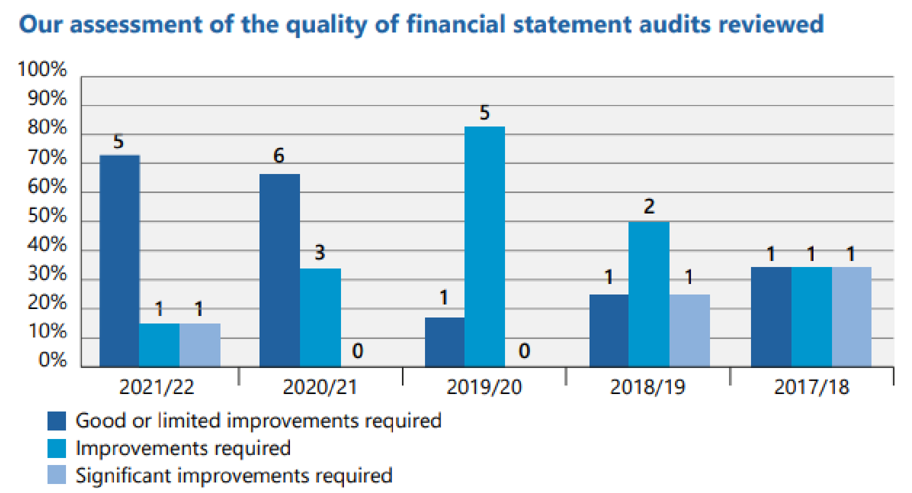
Financial Reporting Council Report On The Quality Of Local Audit

In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

The ICAEW identified one of our files requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found here.

Financial Reporting Council

ICAEW

Audit Market Developments (continued)

Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and Value for Money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found here

Public Sector Audit Appointments

Grant Thornton

Informing the audit risk assessment for London Borough of Hammersmith and Fulham 2021/22

23 November 2022

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Grant Thornton

Purpose

The purpose of this report is to contribute towards the effective two-way communication between LBHF's external auditors and Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the LBHF's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from LBHF's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?	The 2021/22 financial year has seen the continued impact of the Covid-19 pandemic on the local and national economy, as well as the emerging cost of living crisis. These issues will affect both income and expenditure and valuation of assets, as well as potentially impacting on the Council's reserves.
2. Have you considered the appropriateness of the accounting policies adopted by LBHF? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	Yes – the Council has reviewed the accounting policies; there have been no events or transactions that have given cause for significant change.
3. Is there any use of financial instruments, including derivatives? If so, please explain	Yes – as set out in the Financial Instruments note to the Accounts (both the Council and Pension Fund) – activity in 2021/22 is broadly similar to that of previous years and there are no derivatives.
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	None other than the residual transactions relating to the Covid-19 pandemic response, although this was significantly less than in 20/21.

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	The impact of the Covid-19 pandemic continues to be closely monitored. Assets have been valued with due regard to the pandemic and in accordance with RICS or other industry guidelines
6. Are you aware of any guarantee contracts? If so, please provide further details	We are not aware of any material guarantee contracts.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	The Council is not aware of the existence of any significant loss contingencies and/or un-asserted claims that may affect the financial statements.
8. Other than in house solicitors, can you provide details of those solicitors utilised by LBHF during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Council has an internal Legal Department, supported by third parties which are commissioned where necessary – contact details will be provided to the auditor.

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General Enquiries of Management

Question	Management response
9. Have any of the LBHF's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	Whilst some instances of fraud have been reported in year (see later response) there is nothing, to the best of management's knowledge, which materially affected the Council's financial statements.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Link Asset Services - The Council has consulted with Link who have provided treasury advice and in relation to general treasury investment. PwC – The Council subscribes to a tax advice helpline for provision of advice regarding indirect taxation (typically VAT and SDLT). Wilks Head & Eve and Lambert Smith Hampton – property valuation Analyse Local – Collection Fund provisions Hymans Robertson LLP – Pension Fund Actuary Deloitte - Pension Investment Advisors Major capital and regeneration projects typically require procurement of professional advice concerning, amongst other things (and as relevant), legal and property consultation etc. Details are available from relevant services and project managers.
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Expected Credit Losses on debtors are provided and reported against debtor lines using an appropriate methodology based on the nature of the debt. The Council's investments are generally short term money market investments with no material risk (usually AAA rated). See Accounting Estimates summary for further information.

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As LBHF’s external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from LBHF’s management.

Fraud risk assessment

Question	Management response
1. Has LBHF assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the LBHF's risk management processes link to financial reporting?	Yes, the risk has been considered. The Council operates a Corporate Anti-Fraud Service (CAFS). It consists of trained managers, investigators and intelligence officers who investigate allegations of fraud against the Council, or who undertake pro-active fraud reviews (similar to audits) of Council services. The Committee receives detailed reports from the anti-fraud service every six months. The Council publishes guidance for staff for identifying and reporting suspected fraud. This includes a dedicated and anonymous 'whistleblowing' process. Over the past year, the Anti-bribery and Corruption Policy, Anti-Money Laundering Policy, Fraud Response Plan have been reviewed and are refreshing the risk assessment to inform our work. For the period 1 April 2021 to 31 March 2022, CAFS identified 131 positive outcomes, including 22 recovered tenancies. Fraud identified has a notional value of over £670,000. A comprehensive risk register is maintained by the Council and is reviewed each quarter. This risk registers consider all risks including fraud. A risk update report is presented to the Audit Committee each quarter and as an annual risk report, covering the councils risk strategy and management action.
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	The Council has a robust framework of internal controls and effective processes and policies to prevent; fraud, bribery, money laundering etc. However, there are always areas within any organisation that are at risk of fraud. As part of the preparation of the annual audit plan, a fraud risk assessment is carried out to ensure that those areas of high risk are included. These areas include procurement, employee fraud, and tenancy fraud. Other areas of risk to fraud are Right to Buy, NNDR, Council Tax (Single Payer Discounts), Blue badges and Freedom passes, all of which are subject to audit reviews. The Council has continued to review new and emerging fraud risks, including those related to the Covid-19 pandemic. Covid-19 business grants were assessed to be an emerging risk area, and robust pre-assurance checks were provided for the various streams of government grant funding provided for distribution to local business and the various discretionary schemes where businesses had to apply to submit evidence of hardship to obtain a grant.

Fraud risk assessment

Question	Management response
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within LBHF as a whole, or within specific departments since 1 April 2021? If so, please provide details	Please see the Corporate Anti-Fraud Service performance report for the year ending 31 March 2022 which is considered by Strategic Leadership Team Assurance meetings and presented to the Audit Committee: CAFS report
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	See response to question 3 above.
5. Have you identified any specific fraud risks? If so, please provide details Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within LBHF where fraud is more likely to occur?	Certain areas will be susceptible to increased risk of fraud as set out in the response to question 2, above. The Council reports fraud risks and detected instances of fraud through the periodic fraud reporting to the Audit Committee.
6. What processes do LBHF have in place to identify and respond to risks of fraud?	The Council operates a Corporate Anti-Fraud Service (CAFS). It consists of trained managers, investigators and intelligence officers who investigate allegations of fraud against the Council, or who undertake pro-active fraud reviews (similar to audits) of Council services. The Committee receives detailed reports from the anti-fraud service every six months. The Council publishes guidance for staff for identifying and reporting suspected fraud. This includes a dedicated and anonymous 'whistleblowing' process. Over the past year, the Anti-bribery and Corruption Policy, Anti-Money Laundering Policy, Fraud Response Plan have been reviewed and are refreshing the risk assessment to inform our work.

Fraud risk assessment

Question	Management response
7. How do you assess the overall control environment LBHF, including: • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details	Internal controls, including segregation of duties, are in place and these controls are reviewed regularly as part of the work carried out by Internal Audit and the Corporate Anti-Fraud Service (CAFS). The majority of transactional finance services are carried out at Hampshire Integrated Business Centre which has in built system controls and provides separation of duties from Council officers. The Council receives a ISAE 3402 Type 2 Report on the suitability, design and operating effectiveness of controls at the IBC and also an annual confirmation from the IBC of their awareness of any fraud. Other internal controls are in place for transactions processed within the Council. Not applicable – internal controls are in place. The other controls in place in place include access control, supervisor review/authorisation, reconciliation, training and policies and procedures. No
8. Are there any areas where there is potential for misreporting? If so, please provide details.	No

Fraud risk assessment

Question	Management response
9. How does LBHF communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details	The Council publishes guidance for staff for identifying and reporting suspected fraud. This includes a dedicated and anonymous 'whistleblowing' process. The guidance is published both on the council internet and intranet pages Staff are expected to report any suspected fraud or irregularity. For a summary of activity and issues reported please see the Corporate Anti-Fraud Service performance report for the year ending 31 March 2022: here
10. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	There will, naturally, be posts which are at a higher risk of fraud and corruption than others; these will typically be posts which: • are involved in the granting of financial aid, relief and benefits etc. • have access and authority to set up new customers and access to cash and bank accounts • have responsibility for the award of significant contracts We have a variety of specific controls in place including separation of duties, access control and independent reconciliation for the areas highlighted. In addition, global controls include the governance structure (as set out in the constitution), the Corporate Revenue and Capital monitoring processes and anti-bribery and anti-fraud policies. Procedures are regularly reviewed and internal controls tested and assessed through the internal audit process to ensure that they are sound enough to prevent or detect fraud insofar as is possible.

Fraud risk assessment

Question	Management response
11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details How do you mitigate the risks associated with fraud related to related party relationships and transactions?	No The risks are mitigated by the annual declaration and examination of these relationships and transactions in the Statement of Accounts.
12. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	Fraud risks and outcomes are reported to Audit Committee on a six-monthly basis. The Director of Audit Fraud, Risk and Insurance has the ability to report directly to the Chair of the Audit Committee or the Chief Executive where appropriate. A comprehensive risk register is maintained by the Council and is reviewed each quarter. This risk registers consider all risks including fraud. A risk update report is presented to the Audit Committee each quarter and as an annual risk report, covering the Council's risk strategy and management action. Please see the Corporate Anti-Fraud Service performance report for the year ending 31 March 2022: CAFS report
13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	Please see the Corporate Anti-Fraud Service performance report for the year ending 31 March 2022: CAFS report
14. Have any reports been made under the Bribery Act? If so, please provide details	No reports have been made under the Bribery Act in 2021/22.

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Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that LBHF's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does LBHF have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the LBHF's regulatory environment that may have a significant impact on the LBHF's financial statements?	Policies and procedures are established across the organisation to ensure compliance with laws and regulations. This includes an Employee and Members Code of Conduct. These are available via the Council's intranet. All decision reports require legal implications to be completed which include compliance with laws and regulations. The Council has an in-house legal team and a Monitoring Officer who considers legality, conduct and the proper operation of the Council's constitution and governance arrangements. The Monitoring Officer is part of the Strategic Leadership Team. Management are not aware of any changes to the Council's or Pension Fund's regulatory environment that may have a significant impact on the Council's or Pension Fund's financial statements.
2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	Fraud risks and outcomes are reported to Audit Committee on a six-monthly basis. The Director of Audit, Fraud, Risk and Insurance has the ability to report directly to the Chair of the Audit Committee or the Chief Executive where appropriate.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details	Not to management's knowledge.
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	There are no material litigations, claims or contingent liabilities which may affect the financial statements.

Impact of laws and regulations

Question	Management response
5. What arrangements does LBHF have in place to identify, evaluate and account for litigation or claims?	The Council's Legal Services are provided by the legal team. They review outstanding litigation and correspondence to identify to assess the likelihood and quantum of outstanding and potential claims. The Council's Finance Board are also asked to disclose any litigations and claims they are aware of as part of year-end out-turn processes.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No.

Related Parties

Matters in relation to Related Parties

LBHF are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by LBHF;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any body that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
1. Have there been any changes in the related parties including those disclosed in LBHF's 2020/21 financial statements? If so please summarise: • the nature of the relationship between these related parties and LBHF whether LBHF has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions	There have not been any significant changes from the previous year.
2. What controls does LBHF have in place to identify, account for and disclose related party transactions and relationships?	All members complete a declaration of pecuniary interests under the Localism Act 2011 and the Code of Conduct (adopted July 2012) and it is the responsibility of members to inform Legal services of any new interests. The register of interests can be found on the Council's website. As part of the preparation of the financial statements, management also undertake a specific exercise each year to identify related party transactions and relationships and these are disclosed in the Statement of Accounts. Information for this disclosure is gathered from the Council's members and chief officers through a formal process.
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	Members are required to declare and to excuse themselves as necessary from decision making where they have a pecuniary interest (see Declaration of Interest, Section 21 p. 169 of the constitution: Constitution. Internal controls are in place to ensure that finance processes and procedures are followed when a payment is being made, including segregation of duties for authorisation and payment, and invoices are being raised regardless of whether they are related parties' transactions or not.

Related Parties

Question	Management response
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	To our knowledge, the Council has not engaged in any transactions which could be considered outside the normal course of business. Any significant transaction would however, be captured by standing authorisation processes and limits as set out in the financial procedure rules as part of the constitution.

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by LBHF will no longer continue?	LBHF has a medium term financial strategy updated annually which will highlight funding gaps in future years and mitigating action will be taken to address these. In the unlikely event that statutory services can no longer be provided, the Section 151 officer will issue a Section 114 notice and no new expenditure will be permitted by the Council until a balanced budget can be set.
2. Are management aware of any factors which may mean for LBHF that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	The Council has set a balanced budget for 2022/23 and general government grant funding has increased by an estimated £6.2m year-on-year, however this sits in the context of an overall reduction of government funding of £58m during the period 2010/11 to 2022/23 - a real terms funding cut of 55%. Despite the challenging economic climate, LBHF has a healthy level of reserves and there is no indication that any statutory services will no longer be provided.
3. With regard to the statutory services currently provided by LBHF, does LBHF expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for LBHF to cease to exist?	LBHF expects to continue to deliver statutory service for the foreseeable future.
4. Are management satisfied that the financial reporting framework permits LBHF to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Yes. The Council has a statutory duty to carry out many of its functions so has no choice but to be a going concern. The MTFS process and the reserves strategy provided elsewhere show that the Council has firm control of its allocation of resources, even given the ongoing financial pressures. Clear reporting lines and management of longer term commitments such as Capital spend, PWLB borrowing and Pensions mean the Council has a good handle on the management of items in the statements that have a long term impact.

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

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Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	There are a number of areas in which estimates require significant judgement, for example: depreciation, valuation of assets, provisions including Business Rate appeals, the recoverability of debtors, pension liabilities, and pension asset values.
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	The Council and the Pension Fund identifies and assesses the major sources of estimation uncertainties as part of the preparation of the statement of accounts.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Management consider the information available within the Council and information provided by staff and advice of external experts. The approach to significant estimates will form part of discussions at the Council's Finance Board and will be agreed by the Director of Finance.
4. How do management review the outcomes of previous accounting estimates?	Actual outcomes, when available, are compared to estimates to know and understand when estimates are materially different to actuals.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	No.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Management will periodically review the need for specialist skills in arriving at accounting estimates. The key areas remain property valuation, financial instrument valuation, assessment of pension liability and estimation of business rate appeals provision and there are established processes in place for obtaining expert advice in these areas.
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Significant estimates are, generally, assessed with the support of external expertise. Consideration of control activities, process, methods and models will form part of the contracting and instruction process. Relevant in-house experts and/or the relevant clienting function will review method statements and outputs etc in concert with corporate finance (and the expert as necessary) prior to the inclusion of estimates in the accounts. Corporate finance undertake reasonableness checks, such as analytical review of outputs and seek explanations for changes as necessary.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	See response to question 7 above.

Accounting Estimates - General Enquiries of Management

Question	Management response
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements.	See response to question 7 above.
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Yes
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The statements of accounts includes a disclosure on the assumptions made about the future and other major sources of estimation uncertainty whish is reviewed by the members of the Audit Committee.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Assets valued in accordance to CIPFA Accounting Code of Practice and RICS regulations . The Valuer has arrived at their opinion of Current Value and Fair Value from referring to recent comparable market transactions. For specialised properties, the Current Value has been derived using Depreciated Replacement Cost methodology.	Valuation Procedure Note 2021-22 provides detailed guidance on asset selection, appropriate valuation methodologies used and roles and responsibilities for the year-end asset valuation process. Valuation and Property Services officers ensure accuracy and integrity of the property data kept on TechForge (site plans, rental income , lease and tenure information) by preforming regular reviews and reconciliations. TechForge property data is annually reconciled with the Corporate Asset Register. All year-end valuation reports are reviewed by the Corporate Finance and Valuation and Property Services officers to ensure that any material fluctuations in the property values are queried with the external valuers who performed the valuations.	Yes, external valuers Wilks, Head & Eve (WHE)	Impact of COVID-19 and Brexit have been considered by Wilks, Head & Eve in their revaluation report The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, and for the avoidance of doubt, our valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. For more detail regarding the assumptions made in valuations, please refer to the valuation year-end certificates issued by WHE.	No

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Council dwelling valuations	Assets valued in accordance to CIPFA Accounting Code of Practice, RICS regulations and 'Stock Valuation for Resource Accounting Guidance for 2016'. Issued by MHCLG using Existing Use Value – Social Housing (EUV-SH) method of valuation	Please see previous for land and buildings	Yes, external valuers Wilks, Head & Eve	WHE valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards, except as identified above. Componentisation of dwellings using structure, externals, roof and M&E as major components was applied. Dwellings stock valued on beacon basis. For more detail regarding the assumptions made in valuations, please refer to the valuation year-end certificates issued by WHE.	No
Investment property valuations	Assets valued in accordance to CIPFA Accounting Code of Practice and RICS regulations, using Fair Value as a method of valuation.	Please see the above for land and buildings	Yes, external valuers Wilks, Head & Eve	Please see the above for land and buildings. In addition, Fair Value hierarchy was applied to the investment properties' valuations, as required by IFRS 13.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	Straight line method using opening Gross Book Value (GBV) of depreciable element of the asset over estimated Useful Expected Life (UEL)	Working papers containing calculated depreciation charges for the year are distributed to the departments for a review prior to posting on the ledger to ensure they are within their expectations but also to check that the cost centres for the charges are accurate.	Corporate Capital accountant in liaison with project management to determine UELs of non-property related assets. Property related assets' GBV and UELs are determined by the external valuers as a part of year-end valuations	For the assets in value over £5m which are not componentised in our fixed asset register, the external valuer is asked to value each material component separately. Corporate Finance use this information to recalculate depreciation charges based on componentisation and to assess if there is any material difference between the depreciation charged on the asset as whole and the depreciation charge for the componentised asset. This exercise was carried out in 2021/22 and no material difference in depreciation charges was noted. Depreciation is calculated in line with the accounting policy.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rates used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	Officers challenge methods provided and agree reasonableness of estimates. The Strategic Investment Manager asks for confirmation of any significant movements in valuation assumptions, and the reasons why.	Yes – Actuary Hymans Robertson LLP	Actuary using financial assumptions that comply with IAS26. The structure of the liabilities is substantially the same as at the latest formal valuation. CPI assumption. Salaries are assumed to increase at 1.0% p.a. above CPI. Sensitivity analysis is undertaken on major assumptions (appendix 3 IAS 26).	No

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Level 2 investments	Where market prices are not available, for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.	Officers maintain constant dialogue with the custodian and fund managers. Monitoring of asset valuations forms part of the quarterly performance report which is taken to Pension Fund Committee every quarter. The Fund takes professional advice in relation to investments/asset allocations in response to the funding level.	The Pension Fund contracts the custodian, Northern Trust, to undertake accounting notes for the Fund, this includes levelling. Officers also liaised with the Fund Managers on the levelling process and the most appropriate classification for that asset class.	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.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Level 3 investments	Where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data, such instruments would include unquoted equity investments and hedge fund of funds, neither of which the Fund currently invests in. These funds are valued according to non-exchange based market valuations. As a result of this, the final realised value of investments may differ slightly from the valuations resented in the accounts.	Officers maintain constant dialogue with the custodian and fund managers. Monitoring of asset valuations forms part of the quarterly performance report which is taken to Pension Fund Committee every quarter. The Fund takes professional advice in relation to investments/asset allocation in response to the funding level.	The Pension Fund contracts the custodian, Northern Trust, to undertake accounting notes for the Fund, this includes levelling. Officers also liaised with the Fund Managers on the levelling process and the most appropriate classification for that asset class.	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.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
NNDR Appeals provisions	Detailed analysis of information on rateable values	The Analyse Local estimation model has been rigorously tested during development by comparison to previously settled proposals and appeals.	Yes	Alternative estimates were not considered.	No
Significant accruals	Significant accruals are mostly based on documentary evidence and where this is not available, an analytical calculation is done to arrive at the appropriate accrual.	Documentary evidence or analytical calculation.	No	Alternative estimates were not considered;.	No
Credit loss and impairment allowances	Historic risk of default	Regular reporting	Yes	N/A - no accounting entries made due to small value.	No

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Agenda Item 7

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 23/11/2022

Subject: External Audit Appointment of Grant Thornton 2023-28

Report of: Craig Tucker, Finance Manager (Corporate Accountancy)

Responsible Director: Sukvinder Kalsi, Director of Finance

SUMMARY

This report is to notify the committee of the appointment of Grant Thornton by the PSAA as external auditor for 2023-28.

RECOMMENDATIONS

1. That the Committee note the appointment of Grant Thornton by the PSAA as external auditor for 2023-28.

2. That the Committee note the potential significant increase in audit fees for the 2023-28 cycle.

Wards Affected: All

H&F Values

Our Values	Summary of how this report aligns to the H&F Values
• Being ruthlessly financially efficient	As part of the financial governance of the Council, and to ensure the Council is using its resources effectively, there is a need to appoint a suitable external auditor.

Financial Impact

This report is in regard to external audit and is wholly of a finance nature.

Legal Implications

Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires the Council to appoint a local auditor to audit its accounts by 31 December in the preceding year for a maximum period of five years.

The procedure for appointment of a local auditor is set out in Section 8 of the Act and requires the Council to consult and take account of the advice of its auditor panel on the selection and appointment of the auditor.

If the Council fails to appoint a local auditor, under section 12 of the Act, the Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

Section 17 of the Act gives the Secretary of State the power to make regulations in relation to an ‘appointing person’ specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 and gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person. This report shows the result of this procurement by the sector-led ‘appointing person’ regime.

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Background Papers Used in Preparing This Report
None.

Background

1. In order to appoint an external auditor for the period 2023-28, the Council opted in to the ‘appointing person’ arrangements provided through PSAA. The decision to opt-in was brought to Audit Committee in November 2021 and was approved by Full Council in February 2022, as part of the 2022/23 budget report.

2. The ‘appointing person’ regime is, in effect, a sector-led audit-appointment consortium operated by PSAA who are appointed by the government. These arrangements exist under the Local Audit and Accountability Act 2014 and have succeeded arrangements previously managed and administered by the Audit Commission between 1983 and 2015.

3. The Council has previously opted-in to the PSAA ‘appointing person’ arrangements, in common with 98% of the sector.

Proposed Appointment

4. On 17 October 2022 the PSAA notified the Council that Grant Thornton had been reappointed as external auditor for the Council and the Pension Fund. Once the Audit Committee have had a chance to discuss this appointment, the PSAA will be contacted to either accept or object to the appointment of Grant Thornton.

5. It is proposed that we accept this appointment. The Council has a good working relationship with Grant Thornton at both committee and officer level, and there will be a benefit in having continuity during the audit process.

Proposed Fee Increases

6. On 3 October 2022 the PSAA issued a press release announcing successful bidders but with a warning that fees could increase by up to 150%. This would be for all auditors that are part of the framework.

7. Using 2021/22 figures as a basis, this would be an increase from approximately £200k to £500k. For comparison, Audit Commission fees prior to 2012 were approximately £400k. Since 2012 fees have been around £200k, with KPMG and then Grant Thornton.

8. The PSAA advised that there will be a formal consultation regarding fees next year and that they will raise the extra cost as an issue with the Department for Levelling Up, Housing and Communities. There is likely to be responses to the consultation from representative bodies such as CIPFA and the Society of London Treasurers, which LBHF officers will feed into.

Timetable

October/November 2022	Consult with LBHF officers and Audit Committee members
24 November 2022	Respond to PSAA with decision on appointment of Grant Thornton
30 November 2022	Response from PSAA to any objection raised to the appointment
31 December 2022	Final confirmation of appointment of auditor for 2023-2028
Autumn 2023	Consultation on the proposed fee increases.

List of Appendices
None.

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 23/11/2022

Subject: Internal Audit Progress Report (September to October 2022)

Report of: David Hughes, Director of Audit, Fraud, Risk and Insurance

Responsible Director: Director of Audit, Fraud, Risk and Insurance

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Summary

This report summarises the status of work included in the 2022/23 Internal Audit Plan as at the end of October 2022. Eight audits have been finalised, one of which received a Substantial assurance opinion, five receiving Satisfactory assurance and two Limited assurance.

The status of audits confirmed for inclusion within the Plan, is shown in Appendix 2.

Recommendations

1. For the Board to note and comment on the report.

Wards Affected: None

H&F Values

Please state how the subject of the report relates to our values – delete those values which are not appropriate

Our Values	Summary of how this report aligns to the H&F Priorities
• Being ruthlessly financially efficient	The work undertaken by Internal Audit helps 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

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Background Papers Used in Preparing This Report
None.

DETAILED ANALYSIS

Internal Audit Work to August 2022

1. The Audit Committee are provided with updates at each meeting on progress against the Annual Audit Plan and on any limited or no assurance audits issued in the period.

2. The Audit Plan for 2022/23 was reviewed by the Audit Committee in March 2022. To ensure that the Annual Audit Plan is more responsive to changing risks and challenges, it has been developed as a '3 plus 9-month' plan. This approach allows for the first three months to be identified in detail with the remaining nine months being more flexible to suit the needs of the Council at the time. The Plan is reviewed and updated following discussions with Directors, taking into account changing risks and priorities. The revised Plan is reported to the Committee on a quarterly basis and any significant changes in the coverage of the Plan will be highlighted.

3. Four assurance levels are used and when an audit is completed, an assurance opinion is provided. A description of each of the assurance levels is summarised below:

Assurance Level	Description
Substantial Assurance:	There is a sound system of internal control designed to achieve their objectives and the control processes tested are being consistently applied.
Satisfactory Assurance:	While there is generally a sound system of internal control, there are weaknesses which put some of the objectives at risk; and/or there is evidence that the level of non-compliance with some of the control processes may put some of the objectives at risk.
Limited Assurance:	Weaknesses in the system of internal control are such as to put the objectives at risk; and/or the level of non-compliance puts the objectives at risk.
Nil Assurance:	Control processes are generally weak, leaving the processes/systems open to significant error or abuse; and/or Significant non-compliance with basic control processes/systems open to error or abuse.

4. Since the last report to Committee, seven audits have been completed:

Department	Audit	Assurance Opinion
Schools	William Morris 6th Form	Limited
Resources	Mortuary	Satisfactory
Economy	Tenant Service Charges	Limited
	Direct Labour Organisation (DLO)	Satisfactory
	Housing Repairs - Operations	Satisfactory
	Housing Repairs – Call Centre	**Substantial**
Economy – Digital Services	IT Asset Management & Access Control	Satisfactory
	IT Ransomware	Satisfactory

5. A summary of each of the Limited Assurance reports is set out in Appendix 3.

6. In addition, one advisory review has been completed in the following area:

- Equalities Impact Assessments.

Although no assurance opinion is given for advisory reviews, the implementation of any recommendations made will be followed up during the year and reported to the Committee.

Internal Audit Opinion

7. Although no overall assurance opinion can be given at this stage, the S151 Officer and the Committee can be assured that sufficient internal audit work is in progress to ensure an appropriate assurance opinion can be provided by the end of the financial year.

8. Appendix 1 shows the finalised audits as at the end of October 2022 and the status of the remaining planned audits is shown in Appendix 2.

Follow ups

9. A total of 22 recommendations have been followed up in the year to date. Implementation of medium and high priority recommendations has been consistently effective with 75% of medium and high priority recommendations fully implemented with a further 25% partly implemented.

Consultation

10. The report has been subject to consultation with the Strategic Leadership Team.

Legal Implications

11. 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.

12. 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.

13. There are no particular legal implications arising from this report.

Implications verified by Grant Deg, Assistant Director, Legal Services on 31/10/2022.

Financial Implications

14. The Internal Audit Plan for 2022/23 will be delivered within the approved 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.

15. Any resource implications from the implementation of the recommendations by services will have to be contained within the relevant Directorate approved budgets.

Implications verified by Sukvinder Kalsi, Director of Finance on 31/10/2022.

Risk Management

16. 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 Moira Mackie, Head of Internal Audit on 28 October 2022.

List of Appendices:

Appendix 1 Summary of Audit Reports finalised as at end of October 2022
Appendix 2 Audit Plan 2022-23 Status Report
Appendix 3 Summary of Limited Assurance Reports

Internal Audit – Finalised Audits

Plan Area	Auditable Area	Issued	Assurance level given	High Priority Recs	Medium Priority Recs	Low Priority Recs	Reported to Committee
Resources	Equalities Impact Assessment (2021/22)	Oct-22	Advisory	0	6	0	Nov-22
Resources	Mortuary	Oct-22	Satisfactory	0	3	1	Nov-22
Children's Services	SEN Processes (2021/22)	Jun-22	Advisory	n/a	n/a	n/a	Sep-22
Children's Services	No Recourse to Public Funds (2021/22)	Jun-22	Advisory	3	4	1	Sep-22
Schools	Bayonne Nursery (2021/22)	Jul-22	Satisfactory	0	3	4	Sep-22
Schools	St John's XIII Primary	Jul-22	Advisory	8	8	2	Sep-22
Schools	William Morris 6th Form (2021/22)	Oct-22	Limited	2	2	4	Nov-22
Economy	Lift Maintenance (2021/22)	Aug-22	Satisfactory	0	2	0	Sep-22
Economy	Fire Safety (2021/22)	Aug-22	Satisfactory	0	4	1	Sep-22
Economy	Disrepair Legal Claims (2021/22)	Aug-22	Limited	3	6	0	Sep-22
Economy/ Finance	Tenant Service Charges (2021/22)	Sep-22	Limited	2	3	0	Nov-22
Economy	Direct Labour Organisation (2021/22)	Oct-22	Satisfactory	1	3	2	Nov-22
Economy	Housing Repairs - Operations	Oct-22	Satisfactory	0	2	1	Nov-22
Economy	Housing Repairs – Call Centre	Oct-22	**Substantial**	0	0	2	Nov-22

APPENDIX 1

Internal Audit – Finalised Audits

Plan Area	Auditable Area	Issued	Assurance level given	High Priority Recs	Medium Priority Recs	Low Priority Recs	Reported to Committee
Digital Services	IT Asset Management & Access Control	Sep-22	Satisfactory	0	0	1	Nov-22
Digital Services	IT Ransomware	Sep-22	Satisfactory	0	3	0	Nov-22
Environment	Leisure Centres (2021/22)	Jun-22	Satisfactory	1	5	1	Sep-22
Environment	NNDR (2021/22)	Jul-22	**Substantial**	0	0	1	Sep-22
Environment	Council Tax (2021/22)	Jul-22	**Substantial**	0	0	1	Sep-22
Environment	Housing Benefit (2021/22)	Jul-22	**Substantial**	0	0	2	Sep-22
Environment	Funding Claim (VPACH)	May-22	Advisory	0	0	0	Sep-22

Definitions of Recommendations:

Priority	Description
High (Fundamental)	Recommendations represent fundamental control weaknesses, which expose the organisation to a high degree of unnecessary risk.
Medium (Significant)	Recommendations represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk.
Low (Housekeeping)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.

APPENDIX 2

Internal Audit Plan 2022/23 – Status of Audits

The Plan is reviewed and updated following discussions with Directors, taking into account changing risks and priorities. The status of audits in the current Plan is shown below:

Plan Area	Draft Report Issued	In Progress/ Due to Start	Not yet Due	To be Confirmed	Deferred
Cross-cutting	**2021/22:** • Debt Management (May 2022)	• RFE Testing (ongoing through the year)		• Contract Monitoring Framework (from 2021/22)	
Finance	• Capitalisation of Works (Jun 22)	• Pension Investments (Q3)	• Risk Management (advisory) (Q3-4)		• VAT: IA decision to defer based on priorities
Resources	• Adaptive Tech (Oct-22) • Registrar Service (Oct-22)	• Pensions Administration (Q3)			• Right to Work (Advisory): IA decision as Hants controls sufficient.
Children's Services	**2021/22:** • Raising Payments on Mosaic (Advisory) (Aug-22)	• Supporting People Claims (on-going) • New Placements Team (Q1)	• Shared Service Governance (Q4) • Children's & Finance – Business Support (Q4)	• Safety Valve Funding • Post 16 Provision	
Schools	**2021/22:** • Old Oak Primary (May-22) **2022/23:** • The Good Shepherd Primary (Aug-22) • Holy Cross RC Primary (Sep-22) • Larmenier Sacred Heart Primary (Sep-22)	• Normand Croft Community (Q2) • Jack Tizard (Q3) • St John's Walham Green (Q3)	• St Peter's CE Primary (Q4) • Wormholt Park Primary (Q3) • Randolph Beresford Nursery (Q4) • Addison Primary (Q4) • Melcombe Primary (Q4)		

APPENDIX 2

Internal Audit Plan 2022/23 – Status of Audits

Plan Area	Draft Report Issued	In Progress/ Due to Start	Not yet Due	To be Confirmed	Deferred
Social Care & Public Health	**2021/22:** • Hospital Discharge (Oct-22)	**2022/23:** • Disabled Facilities Grants (Q1)	• Commissioning & Procurement – Equipment Contract (Q3/Q4)	• Social Care: Data Analytics	
Economy	**2021/22:** • Capital Projects – Post Completion Records (Aug-22) • HRA Cost Apportionment (Jun-22)	• Neighbourhood CIL (Q3) • Leaseholder Debt (Q3) (from 2021/22)		• IHMS	
Economy: **Digital Services**		Digital Services: • IT Audit Needs Assessment (Q2)		• Infrastructure Resilience • Disaster Recovery	
Environment		• Resident Experience and Access Programme (Q2-Q3) • Libraries (Q3)	• NNDR (Q4) • Council Tax (Q4) • Housing Benefits (Q4)	• Hammersmith Bridge	

APPENDIX 3

Summary of Limited Assurance Reports

Ref	Audit and Scope	Details
1	**William Morris 6th Form** Audits of the Council's schools are carried out using an established probity audit programme, usually on a five-year cycle unless issues dictate a more frequent review. The programme is designed to audit the main areas of governance and financial control. The programme's standards are based on legislation, the Scheme for Financing Schools and accepted best practice and the purpose of the audit is to help schools establish and maintain robust financial systems.	The audit identified that good practices were in place in respect of governance, budget management, reporting and payroll processing. Two high and two medium priority recommendations were made to address the following findings: • Purchase orders were not always raised and evidence of goods received and invoice authorisation was not evident (high). • The school's two voluntary accounts were not audited annually (last audit noted as 2019-20) and there was no evidence of monthly reconciliation of the accounts (high). • There was no evidence of independent review or authorisation of the school's procurement card statements (medium). • The school's asset register was incomplete and hadn't been independently reviewed (medium). In addition, four low priority (best practice) recommendations were made It was noted that the School Business Manager (SBM) left the school at the end of August 2021 and the Finance Manager, who was new to the school, took up the interim position. The recommendations were agreed, and all but one has been confirmed as already implemented with progress being made on the one outstanding recommendation (audit of voluntary accounts) which is due to be completed by December 2022.

APPENDIX 3

Summary of Limited Assurance Reports

Ref	Audit and Scope	Details
2	**<u>Tenant Service Charges</u>** Tenant service charges were introduced in April 2012 as fixed charges and were intended to cover the costs of communal services provided as part of social housing tenancy agreements, which are split between the tenants of blocks and/or estates. The audit scope reviewed the following areas: • Policies and procedures • Identification and allocation of attributable costs • The charging framework. • Alignment to leaseholder service charges • Management Information and reporting.	Tenant service charges include caretaking; CCTV; communal lighting; concierge; door entry; estate cleaning; grounds maintenance; TV aerials; lift maintenance; window cleaning; and fire alarms. The service charge will vary depending on the size and nature of the property. The Housing Revenue Account (HRA) is a self-funding financial entity, which means that it must be self-financing with income from rents, service charges and reserves funding all expenditure. Therefore, the costs of providing communal services should be fully recovered from tenants. Two high and three medium priority recommendations were made relating to (and summarised below):: • The framework for setting service charges established in 2012 (high). • The need to transition to a new approach for service charges based on fair and equitable recovery of service costs (high). • The importance of working with tenants in relation to services provided and the charges (medium). • The reporting arrangements for service charge policy and financial matters, needed to be embedded (medium). • Improving the policies and procedures for identifying and apportioning communal service costs (medium). The Housing Service had already established a Project Team (from April 2022) to progress these matters and considerable work was undertaken during the summer. This led to a report that was approved by Cabinet on the 10th October that regularised matters on service charges identified by the audit review (including the full recovery of costs, apportionment of service costs and reporting arrangements for service charge policies). Other related matters continue to be implemented especially working with tenants on service standards.

Agenda Item 9

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 23/11/2022

Subject: Corporate Anti-Fraud Service Half-Year Report – 1 April 2022 to 30 September 2022

Report of: David Hughes, Shared Services Director for Audit, Fraud, Risk and Insurance

Responsible Director: Director for Audit, Fraud, Risk and Insurance

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Summary

The Council takes its responsibilities to protect the public purse very seriously and is committed to protecting the public funds it administers. This report provides an account of fraud-related activity carried out during the past year to minimise the risk of fraud, bribery and corruption occurring within and against the Council.

Work is undertaken by the Corporate Anti-Fraud Service (CAFS), providing a complete, professional counter-fraud and investigation service for fraud attempted or committed against the Council and reinforces the Council's commitment to preventing, detecting and deterring fraud and corruption.

For the period 1 April 2022 to 30 September 2022, CAFS identified 62 positive outcomes. The fraud identified has a notional value of over £440,000.

Recommendation

1. For the Committee to note and comment on the report.

Wards Affected: None

Our Values	Summary of how this report aligns to the H&F Priorities
Being ruthlessly financially efficient	CAFS supports the Council in its statutory obligation under Section 151 of the Local Government Act 1972 to ensure the protection of public funds and to have an effective system of prevention and detection of fraud and corruption.

Contact Officer(s):

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Background Papers Used in Preparing This Report

None

1. INTRODUCTION

1.1. This report provides an account of fraud-related activity undertaken by the Corporate Anti-Fraud Service (CAFS) from 1 April 2021 to 30 September 2022 to minimise the risk of fraud, bribery and corruption occurring within and against the Council.

1.2. CAFS remains a shared service providing the Council with a complete, professional counter-fraud and investigation service for fraud attempted or committed against the authority.

1.3. All CAFS work is conducted within the appropriate legislation and through the powers and responsibilities set out within the financial regulations section of the Council's constitution. CAFS ensures the Council fulfils its statutory obligation under the Local Government Act 1972 to protect public funds and to have an effective system of preventing and detecting fraud and corruption.

1.4. The report also details activity and performance against the Council's Anti-Fraud and Corruption Strategy to assess its effectiveness, highlights some of the current and emerging areas of fraud risk and provides an overview of the effectiveness of the Council's arrangements to minimise the risk of fraud.

1.5. During the half year to 30 September 2022, CAFS investigated 339 cases, including 43 new referrals, and concluded 97 investigations. A conclusion ranges from a successful prosecution, through prevention activity, to 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.

Activity	Cases	Fraud types	Closed	Live
Live cases as at 01/04/21	296	Tenancy & Housing cases	66	195
New referrals received	53	Internal Staff	4	4
Closed investigations *(Positive outcome 62)*	107	High/Medium risk fraud	18	12
		Low-risk fraud	16	9
Live cases as at 01/04/22	242	POCA	3	22

1.7. For the period 1 April 2022 to 30 September 2022, CAFS identified 62 positive outcomes. The fraud identified has a notional value of over £440,000, detailed in the following table.

Activity	Half-year 2020/21		Half-year 2021/22		**Half-year 2022/23**	
	Fraud proved	Notional Values (£'s)	Fraud proved	Notional Values (£'s)	**Fraud proved**	**Notional Values (£'s)**
Housing application fraud *(incl. tenancy correction)*	-	-	9	18,120	**8**	**21,300**
Right to Buy	1	3,500	2	4,700	**1**	**116,200**
Advisory Reports (pro-active)	1	5,000	1	3,000	**6**	**18,100**
Prevention subtotal	2	8,500	12	25,820	**15**	**155,600**
Tenancy Fraud (Council and Registered Providers)	2	32,500	8	103,500	**15**	**234,284**
Internal Staff	8	28,000	-	-	**2**	**10,000**
Business Grants and Business Interruption Fund (COVID support)	24	240,000	32	174,367	**-**	**-**
High/Medium risk fraud (e.g. NNDR, Blue Badge/Resident Permits)	2	63,500	7	5,936	**4**	**28,215**
Low-risk fraud (e.g. Freedom passes, Council Tax, SPD)	6	4,186	4	22,288	**24**	**11,571**
Detection subtotal	42	368,186	51	306,091	**45**	**284,070**
Proceeds of Crime (POCA)	1	25,000	-	-	**1**	**2,060**
Press releases and publicity	-	-	-	-	**1**	**2,000**
Deterrence subtotal	1	25,000	-	-	**2**	**4,060**
Total	45	401,686	63	331,911	**62**	**443,730**

1.8. Details of noteworthy cases are reported in Appendix 2.

2. WHISTLEBLOWING

2.1 The Council's whistleblowing policy continues to be the primary support route for staff wishing to report a concern.

2.2 Since April 2022, CAFS has received no new referrals via the Council's whistleblowing policy.

3. ANTI-FRAUD AND CORRUPTION STRATEGY

3.1 The Council's Anti-Fraud & Corruption Strategy covering 2020/23 is based on five key themes: GOVERN, ACKNOWLEDGE, PREVENT, PURSUE and PROTECT.

3.2 The Strategy is designed to heighten the Council's fraud resilience and demonstrate its protection and stewardship of public funds. It contains an action plan to provide management with a tool to ensure progress and transparency concerning counter-fraud activities.

i) GOVERN

A robust framework of procedures and policies

3.3 Minimising any losses to fraud and corruption is essential to ensuring that all of the Council's resources are used for their intended purposes and ensuring we remain ruthlessly financially efficient.

3.4 Staff are often the first to spot possible cases of wrongdoing early and are therefore encouraged and expected to raise any concern they may have without fear of recrimination. Any concerns raised will be treated in the strictest confidence and appropriately investigated.

3.5 A well-publicised anti-fraud and corruption strategy and framework of policies help build and develop a robust anti-fraud culture. This culture encourages staff and service users to participate in fraud prevention and report suspicions.

3.6 Therefore, CAFS must update anti-fraud policies to support and guide Council staff, ensure compliance with laws and regulations, guide decision-making, and streamline internal processes. The key anti-fraud policies are regularly reviewed, revised and presented to the Audit Committee for review and approval.

ii) ACKNOWLEDGE

Committing support and resource to tackle fraud

3.7 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.

3.8 All CAFS investigators are members of the Government Counter Fraud Profession (GCFP), which provides a professional structure with common standards and competencies for those in counter-fraud roles.

Demonstrating that it has a robust anti-fraud response

3.9 Counter-fraud activity is reported to the Audit Committee twice per year, detailing performance and action in line with the Anti-Fraud and Corruption Strategy. The annual performance report also describes the activity, achievements and outcomes against the strategic objectives. See Appendix 1.

3.10 CAFS report on investigation outcomes, including successful prosecutions, prevention activity, actions that deter fraud, or no further action where assurance is obtained that there is no case to answer.

iii) PREVENT

3.11 Prevention includes corporate investigations which cover a wide range of different counter-fraud activities, including, but not limited to, financial investigations, complex third-party fraud investigations, contractor or employee fraud, or actions and activities that contribute towards a practical assurance framework.

- Malicious emails: The Council received a serious allegation regarding Council staff. The information was from an anonymous email claiming to be the victim and demanding the Council pay them compensation. CAFS immediately referred the matter to the appropriate law enforcement agency. They confirmed that their enquiry had been closed following analysis and advised the Council to treat the allegation as a hoax. Historically they had received two identical copies of the same allegation, the email address was fake, and the alleged victim had failed to reply to their request for more detailed information.

3.12 In addition to the specialist investigative role, CAFS continue to provide advice and support across the organisation, including the Council's partners and contractors.

3.13 Advice varies between fraud risk, fraud prevention and detection, money laundering and other criminal activity, and misconduct and misuse of public funds. Some of the matters may progress to a criminal investigation, but appropriate action, including disciplinary or loss recovery, is taken in all cases.

- Fraud Awareness: CAFS attended the Multi-Agency Safeguarding Hub to provide bespoke fraud awareness training to twenty-five managers and social workers in Social Care. The course focused on fraud risks associated with care provisions and direct payments, especially financial abuse. Topics included:

  - Misspent funds – payments not being used as per the care agreement
  - False documents – timesheets, payslips, etc.
  - Financials - third-party fraud
  - Multiple claims – multiple care packages for the same assessed need
  - Falsifying worksheets - Provider claiming for work not carried out

  The session concluded with a questions and answers session where CAFS discussed case studies with colleagues to help illustrate how fraud can occur in practice.

- RIPA Training: Working in partnership with the Community Safety Unit, CAFS organised eLearning for colleagues across ASB and LET on the Regulation of Investigatory Powers Act 2000 (RIPA). The eLearning course, designed and produced by CAFS, covers all aspects of RIPA to ensure delegates understand the lawful use of directed surveillance. Topics covered include Human Rights Act, how to apply RIPA, the authorisation process and a section on social media.

3.14 This element, along with the 'preventative – deterrent' nature of CAFS work, is hard to quantify, but where appropriate, CAFS will highlight this activity within their reports to this Committee.

Housing/Tenancy Fraud

3.15 CAFS provides an investigative service to all aspects of housing, including requests for the succession or assignment of tenancies, allegations of subletting or other forms of tenancy breaches, and right-to-buy applications.

3.16 Between 1 April 2022 to 30 September 2022, CAFS successfully recovered 15 properties which were being misused. These have now been allocated or made available to those in genuine need of housing support within the community.

3.17 Units recovered included three- and four-bedroom properties, which are in high demand by families needing support and assistance. Furthermore, of the 15 recoveries, 12 involved the return of keys and vacant possession without the need for lengthy and costly legal action and ensuring properties could be promptly reallocated.

3.18 Full details of the successful investigation activity regarding social housing are detailed below:

Landlord	Location	Postcode	Size (bedrooms)	Reason for recovery	Outcome
SBHG	Northcroft Court	W12	2	Subletting	Court possession
Council	Jim Griffiths House	SW6	2	Abandonment	Keys returned
SBHG	Vespan Road	W12	1	False succession	Keys returned
Council	Chaplain House	W12	2	Abandonment	Keys returned
Council	Linacre Court	W6	1	Subletting	Keys returned
Council	Ashcroft Square	W6	1	False succession	Keys returned
Council	Terrick Street	W12	3	False succession	Court possession
Council	Barton Road	W14	1	Subletting	Keys returned
Council	New Kings Road	SW6	4	Abandonment	Keys returned
Council	Laurel Bank Gardens	SW6	1	Abandonment	Keys returned
Council	Comeragh Road	W14	1	Subletting	Keys returned
Council	Burlington Road	SW6	1	Abandonment	Keys returned
Council	Ashcroft Square	W6	2	Abandonment	Keys returned
Council	Ancill Close	W6	1	False statement	Keys returned
NHG	Nasmyth Street	W6	2	Subletting	Court possession

iv) PURSUE

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.

3.20 CAFS have an Accredited Financial Investigator within the service to ensure that fraud recoveries are a crucial objective of all investigations.

3.21 The Accredited Financial Investigator was asked to assist colleagues from Kensington and Chelsea trading standards. His actions led to a cash seizure of over £10,000 from an illegal “car clocking” operation. These seized funds covered the costs of the Financial Investigator's work and the cost of bringing the scammers to justice.

V) PROTECT

3.22 This aspect of the Strategy covers counter-fraud activity to protect public funds, residents and the community from fraud and the Council from future scams.

3.23 CAFS work closely with registered social landlords across the borough to help them tackle tenancy fraud in their stock.

3.24 Tenancy fraud in affordable housing reduces the number of units available for those in genuine need of assistance. By supporting local housing associations, CAFS try to protect all affordable housing in the borough.

3.25 CAFS also remain an active member of the National Anti-Fraud Network (NAFN). NAFN disseminate national fraud alerts, which are circulated by CAFS, to the appropriate departments. The early warning about possible future scams helps to ensure that CAFS can protect the Council against new and emerging fraud risks.

CONSULTATION

5.1 The report has been subject to consultation with the Strategic Leadership Team.

EQUALITY IMPLICATIONS

6.1 There are no equality implications arising from this report.

LEGAL IMPLICATIONS

7.1 A range of legislation governs the work of CAFS, including the Police and Criminal Evidence Act, the Criminal Procedures Investigation Act, the Regulation of Investigatory Powers Act, the Fraud Act, the Prevention of Social Housing Fraud Act, the Proceeds of Crime Act, and Data Protect Act.

7.2 There are no particular legal implications arising from this report.

Implications verified by Grant Deg, Assistant Director, Legal Services on 31/10/2022.

FINANCIAL AND RESOURCES IMPLICATIONS

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

Implications verified by Sukvinder Kalsi, Director of Finance, on 31/10/2022.

RISK MANAGEMENT

9.1 The delivery of the counter-fraud strategy and associated policies contributes to the management of fraud risks faced by the Council, with proactive exercises supporting managers to put effective counter-fraud and corruption controls in place in their systems and processes.

Implications verified by Moira Mackie, Head of Internal Audit, on 28 October 2022.

List of Appendices:

Appendix 1 – Strategic objectives and counter-fraud activity, including notable cases.

STRATEGIC OBJECTIVES	ACTIVITY AND ACHIEVEMENTS
GOVERN	
Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation.	CAFS has established and communicated the framework of anti-fraud procedures and policies that demonstrate a commitment to integrity and ethical values and act as an effective fraud deterrent. The policies and procedures are regularly reviewed to ensure they remain "fit for purpose" and incorporate any legislative or regulatory changes. These policies are presented annually to the Audit Committee for review and approval. Details of counter-fraud activity continue to be reported to the Audit Committee twice yearly, detailing performance and action in line with the Anti-Fraud and Corruption Strategy. Reports contained details of assurance work, significant cases, and fraud loss. CAFS also try to value fraud losses and calculate savings where fraud is identified, or preventive actions stop any financial loss.
ACKNOWLEDGE	
Accessing and understanding fraud risks: identify and assess the Council's fraud risk exposure, the changing patterns in fraud and corruption threats and the potential harmful consequences to the authority.	All counter-fraud activity undertaken annually is used to inform fraud risk levels. While this includes individual cases and outcomes, the data obtained from proactive operations, service reviews and risk assessments are invaluable. CAFS have demonstrated significant flexibility and innovation to respond to changing fraud risks and provided considerable support to the Council's response during the Covid pandemic. CAFS have well-established measurement criteria to calculate the value of preventative measures and the benefits of action and activities designed to deter potential fraud. In addition, CAFS has a detailed set of notional fraud values underpinned by a comprehensive handbook showing how CAFS has calculated the economic loss due to fraud in many different and diverse areas of the Council.
Committing the right support and tackling fraud and corruption.	The Council maintains a dedicated resource, the Corporate Anti-Fraud Service (CAFS), responsible for tackling fraud across the organisation and ensuring these counter-fraud specialists have the right skills commensurate with the full range of counter-fraud and corruption activity. CAFS has ensured that LBHF is one of the first local authorities to become a full member of the Government's Counter Fraud Profession (GCFP), bringing together individual and organisational counter-fraud learning from across the public sector. As a result, all CAFS investigators are members of the GCFP,

	providing a professional structure with common professional standards and competencies for those in counter-fraud roles. CAFS officers continue to enhance personal development by utilising the Council's Learning Zone to improve and maintain core skillsets and competencies, blended with specialist training to ensure investigators maintain Continuing Professional Development (CPD) per their membership of GCFP.
Demonstrating that it has a robust anti-fraud response **Communicating the risks to those charged with Governance**	CAFS investigate allegations of fraud thoroughly and to the highest professional standards, where appropriate, seek the full range of civil, criminal and disciplinary sanctions and seek redress where possible. CAFS reports on counter-fraud activity to the Audit Committee twice a year, detailing performance against the Anti-Fraud and Corruption Strategy and its effectiveness. The report should include details of assurance work, significant cases and the level of fraud loss. During the half year to 30 September 2022, CAFS investigated 339 cases, including 43 new referrals, and concluded 97 investigations. A conclusion ranges from a successful prosecution, through prevention activity, to action that deters fraud or no further action where there is no case to answer.
PREVENT	
Making the best use of information and technology	CAFS continue to use and participate in existing technological fraud prevention/detection methods. CAFS participates in the biennial National Fraud Initiative (NFI), an electronic data-matching exercise coordinated by the Cabinet Office. The exercise aims to identify possible fraud, error, and overpayments within public bodies. The most recent activity, 2021/22, identified 318 instances of fraud or error, amounting to a value of over £190,000
Enhancing fraud controls and processes	CAFS review existing controls and process connected with individual fraud investigations. Where weak control processes are identified, take action to improve them and reduce the risk of further fraud. CAFS regularly assesses new and emerging fraud risks, ensuring the controls cover many possible fraud schemes and risk exposure.
Developing a more effective anti-fraud	Through requests for advice and assistance, CAFS constantly ensures that staff and management know

culture	their responsibilities to prevent fraud and corruption. CAFS will continually refresh and promote the Council's anti-fraud-related policies and procedures, using internal publicity and training to enhance understanding and communicate them across the organisation. CAFS will maintain and refine a corporate anti-fraud training cycle, including regular refresher courses and e-learning modules, which should be mandatory for relevant groups of staff Design and deliver classroom-based training courses on fraud and fraud recognition that complement existing eLearning courses. Activity raises awareness of fraud and highlights the risks and consequences of fraud against the Council and its impact on the broader community.
Communicating its' activity and successes	CAFS continue to build its intranet presence with a new Sharepoint site providing details about the service and showcasing anti-fraud policies. Where fraud reviews identify areas for improvement, CAFS produces outcome reports and service reviews for management that highlight the action taken to enhance or improve fraud controls.
PURSUE	
Prioritising fraud recovery and use of civil sanctions **Developing capability and capacity to punish offenders**	CAFS continues to ensure that the counter-fraud specialists have the right skills commensurate with the full range of counter-fraud and corruption activity and apply a full range of sanctions. This has now been evidenced through the GCFP, where the membership process included evidencing competencies, suitable methods to review and assess staff training, and a commitment to personal development. Within the Service, CAFS have an accredited financial investigator who can use the powers of the Proceeds of Crime Act to seize and confiscate cash and assets obtained through fraudulent and unlawful means.
Collaborating across departmental, geographical and sectoral boundaries	CAFS has a memorandum of understanding (MoU) and protocols to facilitate joint working and liaise proactively with organisations and agencies to assist in countering fraud, sharing resources, skills and learning, good practice and innovation, and information. In addition to the Council's data-sharing agreements with agencies such as the Police or DWP, CAFS also have MoUs with UK Border Agency, HMRC and local Housing Associations. CAFS continue to actively maintain the authorities' membership in the National Anti-Fraud Network (NAFN) and the London Borough of Fraud Investigators Group (LBFIG).

	The Head of Service is an Executive Board Member of both NAFN and LBFIG and an Executive Board member of the Fighting Fraud and Corruption Locally Board, the responsible body for designing and implementing the national counter-fraud strategy for local authorities.
PROTECT	
Recognising the harm that fraud can cause in the community.	CAFS continues to work closely with housing associations across LBHF and similar stakeholders to help prevent and detect fraud at the earliest opportunity. Working with housing associations has helped prevent and detect social housing fraud, protecting the community's affordable housing units. CAFS also provides support and guidance as requested across the community to help residents and stakeholders protect themselves against fraud and advice on referring their concerns to appropriate bodies when fraud occurs.

Source	Fraud Review	Details
Fraud Risk Review	The Executive Head Teacher of an H&F primary school raised a concern regarding the school's petty cash, which was the responsibility of the Schools Business Manager (SBM). The Head discovered several envelopes in the petty cash tin containing receipts and change but no corresponding expense claim forms. A decision was taken for Internal Audit and CAFS to conduct a visit to the school so that a review of processes could be undertaken, with CAFS focusing on petty cash processes and transactions.	A physical inspection found that the school's petty cash was securely stored in a lockable tin in the school office/reception area. Additionally, the school have a petty cash policy which outlines all the procedures and protocols for the appropriate management of petty cash. The policy specified the amount of money that should be held and the authorisation process that staff must follow. **Findings** CAFS reviewed 62 petty cash transactions and found claims were not being uploaded onto the school's financial management system, and 17 claims had not been appropriately authorised. In addition, seven transactions had no supporting documentation or receipts. One transaction was recorded as 'Christmas Crackers and tablecloths for Christmas dinner for children", but investigations revealed that the same transaction included a Gin Gift Pack and an Irish Cream Gift Set. When investigators tried to reconcile the petty cash, they found transactions for November 2021 exceeded £1,300, although the policy clearly states that petty cash holding must not exceed £250 in a month. Overall, CAFS found numerous discrepancies and missing information which showed that SBM had failed to maintain accurate record keeping of petty cash transactions. As a result, expense claims were processed that failed to follow the school's petty cash policy, and the SBM replenished the cash with amounts far above the prescribed limits. **Conclusion** CAFS presented a report to the Executive Head Teacher and a recommendation for Human Resources to review the failings of the SBM, including a failure to follow procedures. However, ahead of disciplinary action, the SBM tendered their resignation.
Fraud Risk Review	Discretionary Housing Payment (DHP) is a scheme designed to help people who need more	The subsequent CAFS investigation found all three applications to be false. However, because the fraudsters had used false identities, CAFS could not trace the

	financial support with their housing costs. The Benefits Service raised concerns with CAFS concerning three DHP applications, which appeared fraudulent. Vigilant DHP officers spotted three applications that had used identical details, such as a landlord, tenancy address and contact number, which suggested an organised fraud attempt.	perpetrators to take further action. CAFS review of the claims found that the applicants had tried to circumvent existing controls by providing genuine names and addresses for landlords, but they had used fake documents to complete their DHP application. CAFS provided advice and guidance to strengthen the existing anti-fraud measures further. For example, CAFS suggested using the DWP's searchlight checking system and introducing a DHP database so that commonality between applications, which may indicate fraud, can be quickly identified.
Fraud Risk Review	The Head Teacher of an H&F primary school alerted CAFS that they had been victim to fraud. The school had sent a cheque for swimming lessons to Greenwich Leisure Centre, which they claimed never to have received. Upon checking with the bank, the school discovered an unknown third party had altered the payee details on the cheque. CAFS visited the school to review controls and to ensure the school had implemented suitable fraud-preventative measures.	CAFS did not detect any other occurrence of fraud with cheques issued by the school. Therefore this appears to be an isolated incident. However, there is an inherent risk of continuing to use cheques, and CAFS advised that they need to consider using BACS payments. CAFS advised the school that cheques over £1,000 should be diarised, and the school should contact the recipient after three working days to confirm receipt of the cheque. CAFS also advised the school to update their current financial procedure to include the end-to-end process for completing cheque payments. CAFS also put the school in touch with the Council's finance department and advised the school to submit a claim form to the bank to recover the loss. They are now in the process of setting up BACS payments for future transactions. Fraud awareness training for schools in LBHF is now scheduled for October 2022.
Fraud Risk Review	Referral from the Local Support Payments (LSP) Team following a complaint from a service user	The eGift to the value of £1,210 has been spent, and a balance of only £51 remains. The system showed that someone other than the correct recipient had used it to

	who had received payments via an eGift card, but when she tried to use the card, it had already been used. LSP is provided to help those in need following an emergency or a crisis. Payments are not given as cash but as goods or store vouchers for specific goods in response to a particular need. The qualifying criteria include individuals claiming a qualifying benefit such as universal credit, ESA, JSA, Incapacity benefit, DLA, etc.	purchase electrical items from two stores located in Liverpool. Although the team passed the matter to the Police, they said they would not be taking further action regarding the missing funds. CAFS tried to locate the possible offender, but an alias appears to have been used, which was untraceable. Attempts were made to obtain communication data from the contact details provided by Argos. However, following receipt of the information, it was determined that there was insufficient evidence to identify a suspect CAFS could pursue. Accordingly, all reasonable lines of enquiry were exhausted, and the investigation was closed. CAFS undertook a risk review of the fraud controls, including changes made because of this fraud. CAFS used this information to update the risk register, including lowering residual risk.

	Case Description

1.	**RIGHT TO BUY (RTB) -** CAFS received a referral from the Right to Buy (RTB) Team when the valuer went to the one-bedroom property in Barton Road, W14, and found residents at the address who referred to the tenant as "landlord". Initial enquiries by CAFS investigators revealed little financial data to link the tenant to the address. Additionally, when officers enquired with the Council's gas safety team, the signatures on file did not match the tenant's. CAFS conducted several unannounced visits, and eventually, a female answered the door saying that she was the tenant and her landlord was based in Dubai. She was unaware that this was a Council property. Investigators obtained a witness statement from the subtenant, and she also showed officers receipts for rent and bank transfers. CAFS recommended that Housing serve a "notice seeking possession" on the property. This prompted the tenant to contact the investigators, although the tenant was reluctant to cooperate. Eventually, he submitted written authority to relinquish the tenancy, fearing any further action by the Council might affect his residency in UAE. CAFS intervention has ensured that the Council did not lose the property under the RTB scheme. It has now been allocated to someone in genuine need of assistance.
2.	**DIRECT PAYMENTS**: CAFS received a referral from Social Care concerning the potential misuse and mismanagement of direct payments. Direct payments are provided to individuals to organise their care and support package providing more flexibility over how it is arranged. Funds are paid directly to the client responsible for purchasing their care and support. The subsequent CAFS investigation soon found that funds were not being used appropriately. Social Care had assessed the client as requiring 56 hours of care per month at the cost of £900, but his financial records revealed he was not fully utilising these funds. However, there was no evidence that the care he purchased was insufficient or failed to support his needs, so the care package appeared excessive for his actual needs. The client was only not spending all the money on care, he was using £700 per month, but the excess was being spent on personal items, including travel, food and online purchases. Therefore, CAFS findings showed financial mismanagement and the misuse of personal budgets. CAFS recommended that Social Care reassess the care package to ensure it is commensurate with the client's needs. The reassessment identified a reduction of the care plan from 56 hours to 46 hours per month, reducing the spending accordingly and creating an annual saving for the Council of £1,934. Additionally, the client has since been invoiced for £2,771. The amount CAFS identified as wrongfully spent on personal transactions.
3.	**DISCRETIONARY HOUSING PAYMENT (DHP):** As part of the work that identified a need to review risks associated with the DHP process, CAFS was alerted to a suspicious claim for additional financial support regarding housing costs.

	The application was for a rental deposit of £1,200 and advanced rent. However, vigilant officers became suspicious of supporting evidence. CAFS investigation soon discovered that the application had provided a real name and address for a landlord. However, when approached, they knew nothing of the application or any proposed rental or tenancy in their name. Additionally, investigators found the evidence that supports the claim to be false. The bank account provided on the application form was a “mule” account. Fraudsters set up a mule account, usually using a stolen identity. Once open, it can be used to transfer illicit funds or receive stolen monies without authorities being able to trace any transactions back to the fraudster. With no traceable owner, the case was closed with no further action possible, although a false claim had been stopped and prevented.
4.	**POCA CASH SEIZURE:** CAFS provided Financial Investigator support for Trading Standards at Kensington & Chelsea, who were investigating a case of suspected "car clocking". Car clocking is a term used to describe the process of illegally reducing a car's recorded mileage, helping it appear fresher and more attractive to prospective buyers. Intelligence suggested this was a cash-based business, and officers obtained entry warrants under the Consumer Rights Act 2015 for two addresses. While searching a property in Shepherd's Bush, officers found a large bundle of cash in a safe. The money was secured in an evidence bag, labelled and seized. There were reasonable grounds to suspect that the money was from the proceeds of crime, which once counted totalled £10,300. Furthermore, evidence linked the address and subjects to the unlawful selling of vehicles. To effectively freeze the money, CAFS Accredited Financial Investigator (FI) applied to the court to grant detention of the cash pending further investigation regarding the source of the funds. In addition, the FI continued to work closely with RBKC Trading Standards gathering further evidence to link the money to the crime. Eventually, the two defendants were summonsed to court under the Fraud Act offences, but before the hearing, they forewent their claim to the monies and signed a disclaimer requesting that the funds be put towards costs. Following guilty pleas, both defendants received suspended sentences and electronically monitored curfews and unpaid work rehabilitation activities. In addition, the judge ordered £10,300 to be paid towards costs, including payments to LBHF for the FI work. In passing sentence, the judge commended the Trading Standards investigator and all officers who assisted her, including LBHF's FI.
5.	**DWP SECURITY BREACH –** The Department for Works and Pension (DWP) alerted the Council to a possible security incident regarding unauthorised access to DWP data on the Searchlight system. Searchlight is the Local Authority portal which allows designated Council officers to

	access DWP records and check customer information. DWP have very strict rules governing the use of Searchlight. The alert informed the Council that an officer had breached protocol. The information provided by the DWP included the audit trail and screenshots of the individual's activity in the Searchlight system. This showed that they had accessed the DWP records of a family member. Under the Memorandum of Understanding between the Council and DWP, where a person deliberately accesses, attempts to access or browses DWP data without a legitimate business reason or appropriate authorisation, the security breach is considered extremely serious. As a result, DWP removed their access to Searchlight pending investigation. The subsequent investigation found the officer had checked the welfare status of a family member, which is strictly against the system usage. However, there was no evidence of fraudulent activity or any attempts to commit fraud. The system is "read-only", and records cannot be changed or amended. Additionally, the individual provided substantial mitigation for their actions. Following an investigative interview in March 2022, CAFS presented the findings to Human Resources to progress the matter per the Council's Disciplinary Procedure. A Disciplinary Hearing was held in April 2022. The officer admitted the allegations to the Chair of the Hearing and detailed mitigating factors. A Final Written Warning was issued on the grounds of misconduct, and the warning would remain on the personnel file for 36 months. Any further incidents of misconduct could lead to termination of employment.
6.	**TENANCY FRAUD (Shepherds Bush Housing Group):** An anonymous call to the fraud hotline alleged that an SBHG property located on Becklow Road, W12, was being sublet. Visits made to the property with SBHG housing officers were unsuccessful, but an unknown female kept answering the intercom. She would not allow officers access but stated that the tenant was in Portsmouth with her son. Investigators then conducted a second out-of-hours visit to the address where the tenant's son answered the door. He confirmed his mother was not in Portsmouth but in Jamaica. A female was also present and then admitted to being the person on the intercom and providing the wrong information. She said that she did not know what to say. Neither would admit subletting, saying they were looking after the property for the tenant while she was away. However, further enquiries revealed the tenant had been overseas for significantly long periods. This information and the evidence gathered during visits were used in the subsequent repossession hearing, where SBHG were granted outright possession. The two-bedroom property has now been relet to someone in the community who genuinely needs housing assistance.
7.	**TENANCY FRAUD (Notting Hill Genesis):** CAFS received a referral from Notting Hill Genesis (NHG) asking for assistance to investigate one of their properties suspected of being unlawfully sublet. The tenant had succeeded his late mother's two-bedroom flat in Nasmyth Street, W6. However,

	neighbours told the Housing Officer that he never lived at the address or moved in. The flat was renovated and let out straight away. CAFS investigation revealed that the tenant owned two other properties, both being let, but could not find an alternative address for him other than Nasmyth Street. Therefore, CAFS Investigators made an unannounced visit to the address to verify his residency. When officers conducted the early morning visit, they found a young couple living at the address, but they refused to cooperate with CAFS officers or allow them access. CAFS obtained finance records for the tenant, which showed a few transactions with the subtenant's name as a reference. Further checks then exposed payments from estate agents Marsh & Parson. They were approached and confirmed they were the letting agents for the Nasmyth Street address. The tenant had instructed Marsh & Parson to collect rent and entered a rental collection agreement with them regarding the NHG tenancy address. CAFS presented the evidence to NHG, who began possession action with immediate effect, which swiftly concluded with the tenant's eviction.
8.	**DIRECT PAYMENTS:** CAFS received a referral from Adult Social Care concerning the potential misuse and mismanagement of direct payments, payments made to support an individual's care needs. If a person is eligible for council-funded support, they can choose how their money is managed. Some people have their support funding managed by a social worker, but others prefer to have more control over what happens to the money they are entitled to. These are direct payments. In this instance, the individual received payments directly into their bank account so they could choose the care provider and make arrangements themselves. Payments were being made to support approximately 60hours per month of care. In addition, the care package provided payments to fund a live-in carer. The CAFS study found the payments to the carer were infrequent, suggesting possible mismanagement of the direct payments and a concern that the correct level of care was not being provided. When challenged, the client explained that they transfer payments to a separate account and pay the carer from there. However, when the investigator examined this account, it showed further discrepancies, although there were no apparent signs the individual's actions were fraudulent. CAFS recommended that Adult Social Care undertake a review of the care plan, and this led to the following actions; • The client had been overpaid £7,480. They were invoiced, and recovery has commenced. • The care plan was reduced to 44 hours per month, reducing the direct payments by £10,570 per annum. • Finally, to avoid future mismanagement, Adult Social Care will also change the care plan from direct payments to managed commissioned care to ensure the client receives the right level of support.
9.	**TENANCY FRAUD**: At the start of the pandemic, CAFS received a referral from an informant that the tenant of a property in Linacre Court was not a resident. They reported that several people had been seen moving in and out of the property over a long period.

	Unfortunately, the pandemic disrupted the CAFS investigation, where changes to legislation, per the Coronavirus Act 2020, and social distancing restrictions affected some of the proposed activities. The investigator commenced desk-based enquiries, including financial checks and the interrogation of Council data, but these proved negative, and open-source searches did not provide any breakthroughs. Additionally, reviews on utility data were inconclusive. Eventually, the investigator found a link via a previously unknown mobile phone number and traced its activity. This linked her to an alternative address, so she was invited for questioning. During the meeting, she confessed that she did not always stay at the property and that her family stayed there when they came to the UK. However, she refused to admit that it was not her main and principal home but agreed to give up her tenancy and signed a vacation notice on the basis that the matter was closed. The tenant returned the keys in April 2022, enabling the Council to secure vacant possession without needing a costly and lengthy possession hearing.
10.	**SUCCESSION** (Shepherds Bush Housing Group): SBHG asked CAFS for assistance in 2021 when they discovered the tenant of a flat in Vespan Road, W12, had passed away while in Grenada. She died in 2019, but her grandson had just applied for succession for himself and his daughter. Succession is a legal term used when a person takes over a tenancy when the tenant dies and relates to the statutory right of certain people to succeed in the tenancy. In some instances, a qualifying family member can succeed if residing with the late tenant for 12 months before death. The grandson claimed to have lived at the address for the past three years, although initial checks by the investigator found no record of him linked to the property. Instead, they discovered that he held a social tenancy with Leeds City Council since 2017, where he claimed welfare benefits. He terminated this tenancy in March 2020, but this was six months after his grandmother's death. Given the information obtained, SBHG served a notice to quit on the Vespan Road address, but the grandson challenged this defending his entitlement to succeed. However, he was invited to attend an interview where CAFS investigators reminded him of his Leeds tenancy. At that point, he decided not to pursue the claim for succession, returning the keys.
11.	**NON-RESIDENCY -** CAFS received an anonymous tip-off via the Fraud Hotline suggesting that a four-bedroom Council property in New Kings Road had been taken over by the tenant's daughter, having been permanently moved to a care home.

	A review of the file showed that the daughter had failed to notify the Council of the change. It suggested that she had taken on the property and circumvented the succession process. CAFS contacted Social Care to trace the tenant's whereabouts, revealing that the tenant was now in a care home in Kew. It also showed that this was a permanent move due to the tenant care requirements and long-term illness. Working with the Housing officer, contact was made with the daughter, who was quick to relinquish the property to avoid any further action, and keys were surrendered immediately to avoid any lengthy and costly court time.
12.	**ABANDONMENT** - A case was referred to CAFS following a failed gas safety inspection at a one-bedroom property in Laurel Bank Gardens, SW6. The Voids Officer advised CAFS that they attended a forced entry in response to a severe leak affecting the flat below the tenancy address. The Officer suspected the tenancy address was unoccupied as there were no made-up beds, boxes all packed up like someone was moving out and failed contact for at least two weeks before we forced entry. CAFS's initial attempts to trace and locate the tenant were unsuccessful, but a check with UK Border suggested that the tenant had departed the UK for Iraq at the end of 2019 and hadn't returned since. This intelligence was corroborated by electricity usage data, indicating minimal usage throughout the subject's absence from the UK. Given the above and the failed contact, CAFS advised Housing to serve a Notice to Quit on the property, after which keys were returned to Housing Management and the property recovered with vacant possession.
13.	**ABANDONMENT** - A case was referred to CAFS following a failed gas safety inspection at a one-bedroom property on Burlington Road, SW6. In cases of failed entry, CAFS work with the Voids Officers to locate tenants living elsewhere and amass evidence that will expedite the recovery of Council properties no longer being lawfully used by the tenants. In this instance, the CAFS investigation traced the tenant to employment in Bournemouth before establishing an alternative address for them in Poole Road, Bournemouth. This showed that the tenant was not using Burlington Road as their main and principal home. CAFS presented the evidence to the Housing Officers who served Notices to Quit on the Burlington Road property. However, the tenant returned the keys and signed a vacation notice, avoiding the need for potentially lengthy and costly court action to regain possession. The one-bedroom accommodation has now been relet to someone genuinely needing support and assistance.

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 23/11/2022

Subject: Anti-Fraud Policy Review

Report of: David Hughes, Director for Audit, Fraud, Risk and Insurance

Responsible Director: Director for Audit, Fraud, Risk and Insurance

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Summary

In accordance with the terms of reference the Committee is responsible for the effective scrutiny of anti-fraud arrangements and activities, the Audit Committee:

- review anti-fraud policies; and,
- is responsible for gaining assurance that policies are kept up to date and are fit for purpose.

This paper contains three revised anti-fraud policies, reported in the appendices to this report, for review and approval. They are:

- Whistleblowing Policy;
- Anti-Bribery Policy;
- Anti-Money Laundering Policy; and,
- Fraud Response Plan.

Recommendation

1. For the Committee to review and note the report.

Wards Affected: None.

H&F Values

Please state how the subject of the report relates to our values – delete those values which are not appropriate.

Our Values	Summary of how this report aligns to the H&F Priorities
Being ruthlessly financially efficient	CAFS supports the Council in its statutory obligation under Section 151 of the Local Government Act 1972 to ensure the protection of public funds and to have an effective system of prevention and detection of fraud and corruption.

Contact Officer(s):

Name: Andy Hyatt
Position: Head of Fraud
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Background Papers Used in Preparing This Report

None.

1. INTRODUCTION

1.1 In accordance with the terms of reference the Committee is responsible for the effective scrutiny of anti-fraud arrangements and activities, the Audit Committee:

- review certain anti-fraud policies; and,
- is responsible for gaining assurance that policies are kept up to date and are fit for purpose.

1.2 This paper contains four anti-fraud policies, reported in the appendices to this report, for review and approval. They are:

- Whistleblowing Policy,
- Anti-Bribery Policy,
- Anti-Money Laundering Policy, and,
- Fraud Response Plan.

2. ANTI-FRAUD POLICIES

2.1 Minimising any losses to fraud and corruption is an essential part of ensuring that all of the Council's resources are used for the purposes for which they are intended and ensuring we remain ruthlessly financially efficient.

2.2 Staff are often the first to spot possible cases of wrongdoing at an early stage and are therefore encouraged and, indeed, expected to raise any concern that they may have, without fear of recrimination. Any concerns raised will be treated in the strictest confidence and will be appropriately investigated.

2.3 It is therefore vitally important that anti-fraud policies are kept up to date to support and guide Council staff, ensuring compliance with laws and regulations, giving guidance for decision-making, and streamlining internal processes.

3. OPTIONS AND ANALYSIS OF OPTIONS

3.1 The Shared Service Director of Audit, Fraud, Risk and Insurance is required to provide an annual report and opinion on the Council's system of internal control under the Public Sector Internal Audit Standards. This includes having appropriate arrangements for protecting, detecting and deterring fraud against the Council.

4. CONSULTATION

4.1 The report and appended policies have been subject to consultation with the Strategic Leadership Team.

5. EQUALITY IMPLICATIONS

5.1 There are no equality implications arising from this report.

6. LEGAL IMPLICATIONS

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

6.2 There are no particular legal implications arising from this report.

Implications verified by Grant Deg, Assistant Director, Legal Services on 31/10/2022.

7. FINANCIAL AND RESOURCES IMPLICATIONS

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

Implications verified by Sukvinder Kalsi, Director of Finance, on 31/10/2022.

8. RISK MANAGEMENT

8.1 The delivery of the counter fraud strategy and associated policies contributes to the management of fraud risks faced by the Council, with proactive exercises supporting managers to put effective counter fraud and corruption controls in place in their systems and processes.

List of Appendices:

Appendix 1: Whistleblowing Policy
Appendix 2: Anti-Bribery Policy
Appendix 3: Anti-Money Laundering Policy
Appendix 4: Fraud Response Plan

Reviewed in September 2022

REPORTING CONCERNS AT WORK

WHISTLEBLOWING POLICY

Author: Mary Lamont
Last reviewed. September 2022
Reviewers: David Hughes, Andy Hyatt, Dave Rogers

1. Policy Statement

1.1 The London Borough of Hammersmith & Fulham are committed to achieving the highest standards of service, including honesty, openness and accountability and recognises the hugely important role employees have in achieving that goal. H&F will not tolerate any malpractice or wrongdoing in the administration and delivery of its services. The expectation is that employees will want to raise concerns they have about the way services are being provided, or about possible fraud, theft or corruption issues.

1.2 This policy applies to all employees and officers. Other individuals performing functions in relation to Council work, such as agency staff and contractors, are also encouraged to use it.

1.3 It is important to the business that any fraud, misconduct or wrongdoing by staff or officers is reported and properly dealt with. We therefore encourage all individuals to raise any concerns that they may have about the conduct of others in the business or the way in which the business is run. This policy sets out the way in which individuals may raise any concerns that they have and how those concerns will be dealt with.

1.4 This policy is intended to encourage and enable staff to raise any concerns or suspicions without fear of victimisation or recrimination. H&F have introduced this policy to enable colleagues to report their concerns with confidence.

1.5 If something is troubling you, which you think we should know about please use this procedure. If however you are aggrieved about your personal position please use the Council's Workplace Concerns and Resolution Procedure. This procedure offers specific support and the means to take these issues forward. This whistleblowing procedure is primarily for the expression of concerns where the interests of the Council, it's assets, users or the staff are at risk.

2. Background

2.1 The law provides protection for staff that raise legitimate concerns about specified matters. These are called "qualifying disclosures". A qualifying disclosure is one made in the public interest by a worker who has a reasonable belief that:

- a criminal offence;
- a miscarriage of justice;
- an act creating risk to health and safety;
- an act causing damage to the environment;
- a breach of any other legal obligation; or
- concealment of any of the above;

Is being, has been, or is likely to be, committed.

2.2 It is not necessary for the worker to have proof that such an act is being, has been, or is likely to be, committed - a reasonable belief is sufficient. The worker has no responsibility for investigating the matter - it is the organisation's responsibility to ensure that an investigation takes place.

2.3 A worker who makes such a protected disclosure has the right not to be dismissed, subjected to any other detriment, or victimised, because he/she has made a disclosure.

2.4 H&F encourages staff to raise their concerns under this procedure in the first instance. If a worker is not sure whether to raise a concern, he/she should discuss the issue with his/her line manager, a member of People & Talent (HR) or, if appropriate, Trade Union colleagues.

3. Principles

- Everyone should be aware of the importance of preventing and eliminating wrongdoing at work. Staff should be watchful for illegal or unethical conduct and report anything of that nature that they become aware of.

- Any matter raised under this procedure will be investigated thoroughly, promptly and confidentially, and the outcome of the investigation reported back to the worker who raised the issue as appropriate.

- No member of staff will be victimised for raising a matter under this procedure. This means that the continued employment and opportunities for future promotion or training will not be prejudiced because he/she has raised a legitimate concern.

- Victimisation of a member of staff for raising a qualified disclosure will be a disciplinary offence.

- If misconduct is discovered as a result of any investigation under this procedure the organisation's disciplinary procedure will be used, in addition to any appropriate external measures.

- Maliciously making a false allegation is a disciplinary offence.

- An instruction to cover up wrongdoing is itself a disciplinary offence. If told not to raise or pursue any concern, even by a person in authority such as a manager, staff should not agree to remain silent. They should report the matter to a director.

4. Your protection

4.1 H&F is committed to this policy. If you raise a qualified disclosure, you will be protected. We will not extend this assurance to someone who maliciously raises a matter they know to be untrue. Employees who knowingly make false accusations can expect to face appropriate disciplinary action.

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4.2 The Council will not tolerate the harassment or victimisation of anyone raising a genuine qualified disclosure. However, we recognise that you may nonetheless want to raise a concern in confidence under this Policy. If you ask us to protect your identity by keeping your confidence, we will not disclose it without your consent. If the situation arises where we are not able to resolve the concern without revealing your identity (for instance because your evidence is needed in court), we will discuss with you how we will proceed.

4.3 It should be noted that if you want to raise a concern in confidence, it may be more difficult for us to look into the matter or to protect your position. Investigations into anonymously raised concerns are likely to be limited by the sufficiency of the information provided. Anonymous referrals will be followed up at the discretion of the Council. In exercising that discretion, the factors that will be taken into account will include:

- The seriousness of the matters raised;
- The sufficiency and detail of information provided;
- The credibility of the concern; and
- The likelihood of confirming the allegation and obtaining further evidence from attributable sources.

5. Reporting your concern

5.1 As a first step, you should normally raise concerns with your immediate manager or their superior. This depends, however, on the seriousness and sensitivity of the issues involved and who is thought to be involved in the malpractice. If you feel management are in some way involved or are condoning the activity you should approach any of the following:

- The Head of People Operations, dave.rogers@lbhf.gov.uk
- The Assistant Director, People & Talent, mary.lamont@lbhf.gov.uk
- The Council's Monitoring Officer, david.tatlow@lbhf.gov.uk
- The Shared Service Director of Audit, Fraud, Risk and Insurance, david.hughes@rbkc.gov.uk
- The Head of Fraud, andy.hyatt@lbhf.gov.uk

To raise a concern independently you can either do so by calling our confidential external whistleblowing hotline, Safecall, on **0800 915 1571** or by completing and submitting an online form via the Safecall website: https://report.safecall.co.uk/en-US/file-a-report/.

Safecall provide a 24 hour a day, 7 days a week service via a freephone number. When contacting Safecall you will be put in touch with an operator who is trained to receive a report about concerns in the workplace. Once you raise your concern the process is as per the flowcharts set out in Annex 1.

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5.2 All matters relating to items covered under the grievance procedures should be referred to the Head of People Operations, (dave.rogers@lhbf.gov.uk).

5.3 If the matter is definitely related to fraud or corruption against the Council, you should always immediately contact the Shared Service Director of Audit, Fraud, Risk and Insurance. Any approach will be treated with the strictest confidence.

5.4 The earlier you express the concern, the easier it is to take action. Although you are not expected to prove the truth of an allegation, you will need to demonstrate to the person contacted that there are sufficient grounds for your concern.

5.5 Once you have told us of your concern, we will look into it to assess initially what action should be taken. This may involve an internal inquiry or a more formal investigation. We will tell you who is handling the matter, how you can contact him/her and whether your further assistance may be needed. All matters relating to fraud will be investigated by the Shared Service Director of Audit or the Shared Service Head of Fraud.

5.6 The person undertaking the review is required to acknowledge your referral and once the investigation is underway, they are expected to keep you aware of developments, however they will not be able to tell you the precise action and the outcome taken where this would infringe a duty of confidence owed by the Council to someone else.

5.7 If your concern is that your line manager is involved in the wrongdoing, has failed to make a proper investigation or has failed to report the outcome of the investigation then the Shared Service Director of Audit can review the investigation carried out, make any necessary enquiries and make their own report to Senior Management.

6. Independent Advice

6.1 Although we would hope this policy gives you the reassurance to report any concerns you may have through the internal channels, we recognise that there may be circumstances where you feel unable to follow this process and want external advice and support. This support is available from:

- Protect - https://protect-advice.org.uk/advice-line/. This is an independent charity which exists specifically to offer advice to employees with concerns.

- Trade Unions: employees may wish to be represented by or seek the advice of their staff representative when using the provisions of this policy. The principal staff side contacts are:

    - **UNISON -** Your branch can be contacted on 0208 753 2392 Monday to Friday 10am-4.30pm or by sending an email to unison@lbhf.gov.uk**.**
    - **GMB -** Dave Davies, Branch Secretary, dave.davies@lbhf.gov.uk
Tel: 02087531789

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7. Summary

DO

✓

- **Make a difference and report your concern**
- **Write down all the details of your concern.**
- **Deal with the matter quickly. Any delay could allow the problem to continue and escalate and for evidence to disappear.**

DON'T

✗

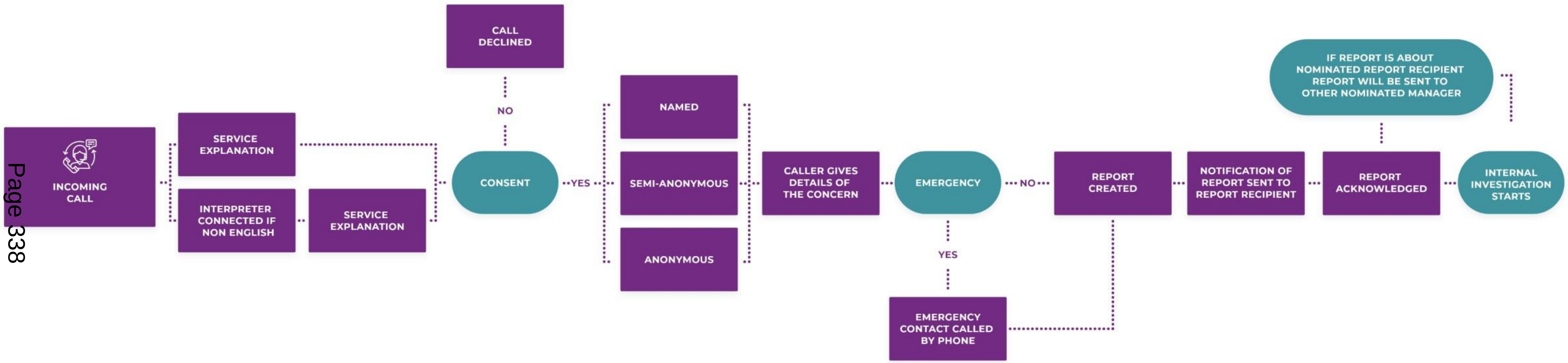
- Let it go unreported.
- Be afraid to raise concerns but use this policy's protection.
- Take matters into your own hands or alert individuals to your concerns.

Author: Mary Lamont
Last reviewed. September 2022
Reviewers: David Hughes, Andy Hyatt, Dave Rogers

Annex 1 – Safecall process flowcharts

HOTLINE REPORTS

END-TO-END WORKFLOW



Author: Mary Lamont
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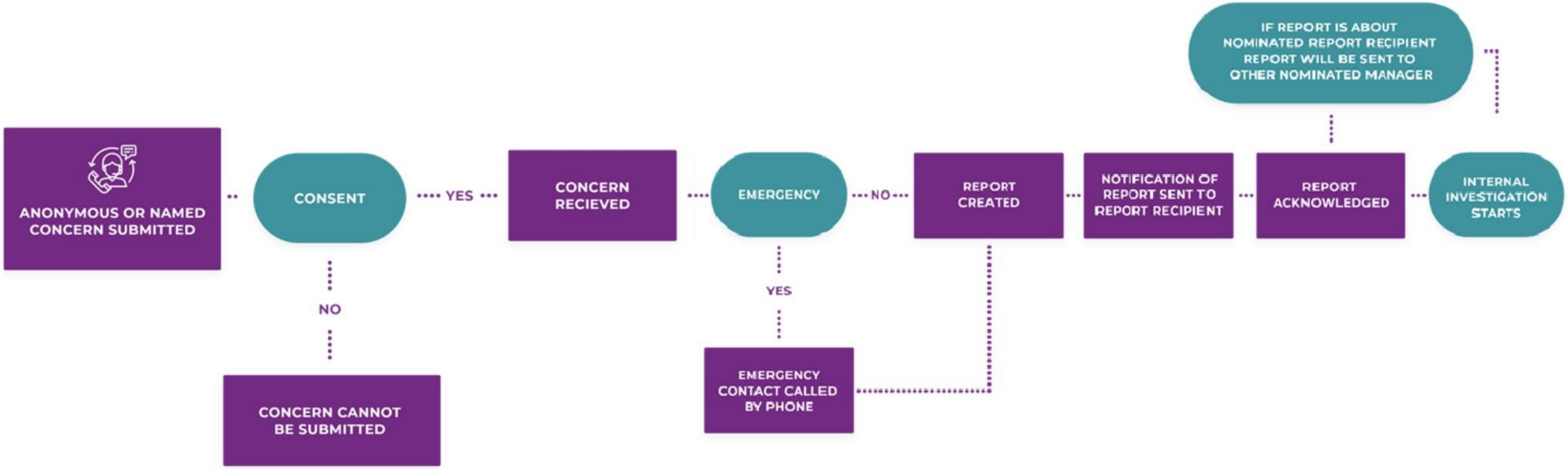
WEB REPORTS

END-TO-END WORKFLOW



Author: Mary Lamont
Last reviewed. September 2022
Reviewers: David Hughes, Andy Hyatt, Dave Rogers

Anti-bribery policy

Document Date	Date of last issue	Next Review Date
November 2022	December 2021	November 2024

1. Introduction: Policy Statement

1.1 Bribery is an inducement or reward offered, promised or provided to gain a personal, commercial, regulatory or contractual advantage. Bribery is a criminal offence and punishable for individuals by up to ten years' imprisonment.

1.2 In the spirit of transparency and honesty, we are committed to conduct all of our business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly, and with integrity in all our business dealings and relationships.

1.3 Those employed by or acting as agent for the Council and its schools will not pay bribes nor offer improper inducements to anyone for any purpose. Nor will those individuals accept bribes or improper inducements.

1.4 To use a third party as a conduit to channel bribes to others is a criminal offence. The Council does not, and will not, allow its staff or Members engage indirectly in or otherwise encourage bribery.

2. What is bribery?

2.1 A **"Bribe"** means a financial or other inducement or reward for action which is illegal, unethical, a breach of trust, or improper in any way. Bribes can take the form of money, kickback, gifts, loans, fees, hospitality, services, discounts, the award of a contract, or any other commercial or personal advantage or benefit.

2.2 **"Bribery"** includes offering, promising, giving, accepting or seeking a bribe.

2.3 All forms of Bribery are strictly **prohibited**. If you are unsure about whether an act constitutes bribery, raise it with your manager or contact People and Talent.

2.4 Specifically, you **<u>must not</u>**:

- give or offer any payment, gift, hospitality or other benefit in the expectation that a business advantage will be received in return, or to reward any business received;

- accept any offer from a third party that you know or suspect is made with the expectation that we will provide a business advantage for them or anyone else;

- give or offer any payment (sometimes called a facilitation payment) to a government official in any country to facilitate or speed up a routine or necessary procedure (even if these payments are common in certain countries); or

- threaten or retaliate against another person who has refused to offer or accept a bribe or who has raised concerns about possible bribery or corruption.

3 Conflicts of interest

3.1 All employees need to declare whether they have any personal interests that may conflict with the interests of the Council. Outside activities, additional employment or voluntary work can all create the potential for the interests of the employee to come into conflict with those of the Council.

3.2 Conflicts of interests can be damaging for the Council and those concerned, potentially leading to accusations of corruption and impropriety. In such situations the mere perception of wrongdoing can cause huge embarrassment, regardless of whether such accusations prove to be well founded or not.

3.3 All employees need to read the Council's advice regarding declarations of interest and decide whether they have any conflicting personal interests and to agree to inform the Council if these circumstances change. A copy of the policy and guidance is attached at **Annex 1**.

3.4 Because declarations of interest are fundamental to the effective operation and reputation of the Council, failing to declare an interest will always be dealt with by the Council as a disciplinary matter and is likely to be deemed gross misconduct which may result in your dismissal.

4 Gifts and hospitality

4.1 This policy is not meant to change the requirements of our gifts and hospitality.

4.2 The acceptance of gifts and hospitality, even on a modest scale, may arouse suspicion and must be capable of public justification. A register of gifts and hospitality is therefore kept centrally.

4.3 While working for the Council you may be offered gifts, as well as hospitality such as free accommodation and travel. If you are offered gifts or hospitality, you **must** register them and seek to get them approved by your manager.

4.4 Employees are still required by the Officers' Code of Conduct to record gifts or hospitality offered to them (whether accepted or not) and hospitality provided to others outside the Council.

4.5 To register them you will need to fill out a quick and easy online form which you can find **here.** You'll also find a short guide on how to do it.

4.6 Items should be recorded as they happen, rather than at the end of a fixed period. In any case, it must be recorded within one month of the event (or the date of an offer, if refused). Regular nil returns are not required.

5 Compliance with this policy

5.1 Preventing, detecting, and reporting bribery in any part of our business or supply chains is the responsibility of those working for us, or working under our control.

5.2 Employees and those working on our behalf are required to avoid any activity that might lead to, or suggest, a breach of this policy. Breaching this policy may lead to disciplinary action, which could result in dismissal for misconduct or gross misconduct.

5.3 We may terminate our relationship with other individuals and organisations working on our behalf if they breach this policy.

6 Reporting your concerns

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

- Report the matter to your line manager, their manager or the Head of Service. If for any reason this is not possible you should speak to those named below.

- You should make a note of who attempted to influence you and what was offered, who they work for, their contact details and the date and time of the incident. Also you should note any witnesses, if any.

- Members should report the incident immediately to the Leader of the Council and notify the Monitoring Officer and Director of Audit, Fraud, Risk and Insurance.

6.2 If an incident of bribery, corruption, or wrongdoing is reported, the Council will act as soon as possible to evaluate the situation. The Council has clearly defined procedures for investigating fraud, misconduct and non-compliance issues and these will be followed in any investigation of this kind.

6.3 Employees can also raise their concerns in accordance with the Council's Whistleblowing Policy.

6.4 If you have any questions about this procedure, please contact:

- The Shared Service Director of Audit, Fraud, Risk and Insurance, david.hughes@rbkc.gov.uk
- The Assistant Director, People & Talent, mary.lamont@lbhf.gov.uk
- The Head of Fraud, andy.hyatt@lbhf.gov.uk

7 Further support

7.1 People & Talent run an Employee Assistance Programme, that offers free counselling and resources to help you with work or personal issues. This is a confidential independent service available any time, any day, 24/7, 365 days per year, either by phone (0800 243 458), email, text, or online.

To access the service:

Telephone

- Call free phone: 0800 243 458
- Minicom users phone: 020 8987 6574
- Text: 020 8987 6550
- SMS(for call back) +44(0)7909 341229

Online

- Visit http://www.workplaceoptions.co.uk
- The login for H&F staff is:
- User name: lbhf
- Password: employee

hammersmith & fulham

Declarations of Interest – Guidance for Employees and Managers

1. Introduction

Employees of the Council are expected to give the highest possible standards of service to our residents, and where it is part of their duties, to provide appropriate advice to other employees and councillors with impartiality.

The people who the Council serves and works with must be confident that they will be treated objectively, fairly and with integrity. We must make sure that there is nothing to undermine their confidence in the way in which they are dealt with. Outside activities, additional employment or voluntary work may create the potential for the interests of the employee to come into conflict with those of the Council.

The purpose of declarations of interest is to ensure that employees consider any personal interests which they have and think about whether these are likely to conflict with the job which they do or their ability to do that job effectively. Declarations of interest protect both the Council and employees from allegations that people may be abusing their positions.

Everyone must make a declaration of interest on joining the Council and annually at the time of their appraisal meeting. Most people will not have any interests to declare and sometimes, following a discussion with your line manager, you may agree that the interest which you thought needed to be declared does not in fact create a conflict. However, the fact that a potential conflict of interest is declared and discussed will enable you and your line manager to ensure that action is taken where it is needed to make sure that the conflict does not actually arise.

2. What are interests and what must you declare?

Section 117 of the Local Government Act requires employees:

- To disclose in writing any direct or indirect pecuniary interests in contracts which the Council has entered or may enter into. If an employee is aware that his or her spouse has a pecuniary interest, that interest will be regarded as an indirect interest of the employee and must, therefore, also be declared.

- Not, in their capacity as employees, to accept any fee or reward whatsoever other than his or her proper remuneration.

H&F's **Code of Conduct for Employees** states that:

- You must avoid any conduct inside or outside work which may discredit you and/or the Council and avoid corruption and the suspicion of it.
- Our work is publicly funded. If we are to be above suspicion, any payments or other benefits we personally receive must be properly due to us. In addition, any expenditure we incur on behalf of the Council must be lawful and justifiable.
- You must maintain political neutrality at work and be seen to be impartial.
- When working with Councillors you must ensure that you disclose to your Strategic Director/Assistant Director any family, business or personal relationships with councillors where this may appear to put you in a position to exercise improper influence over the workings of the Council.
- If you have a relationship of a business or private nature with external consultants, external contractors or potential contractors you must notify your manager of the nature of that relationship.
- If you are responsible for appointing or supervising contractors or have any other official working relationship with contractors and you have previously had, or you currently have a relationship of any kind with contractors, you must declare the relationship to your manager.
- Report to your manager if people you meet through work leave you items in their wills.
- Declare any financial interest which could conflict with the Council's interests.
- Inform your Head of Service if you have links with a firm or organisation, which may get money, grant awards, contracts or work from the Council.
- Inform your Head of Service if you have a relationship with someone which might appear to improperly influence a decision which one might take about the other in connection with the work of the Council. This includes things like being someone's landlord, being in debt to someone, or having a close personal relationship with a Council Member, client, customer or employee.
- If you are on salary scale SO1 or above you must devote your whole time to the work of the Council and you may not engage in any other business, or take up any additional employment/appointment private work without the express consent of your Assistant Director or Strategic Director.
- If you are on salary scale 1 – 6 and you wish to engage in private work or take up an outside appointment (paid or unpaid), you must advise your manager of your intentions in advance in order to avoid any conflict of interest or detrimental effect on the Council.

You must declare in writing to your Strategic Director or Assistant Director any non-financial interests that could bring about conflict with the authority's interests (i.e. acting as a school governor within schools maintained by the authority, involvement with an organisation receiving grant aid from the authority, membership of a National Health Service Trust Board, involvement with an organisation or pressure group which may seek to influence the Council's policies).

You must also declare membership of any organisation not open to the public without formal membership or commitment of allegiance, or which has secrecy or privacy about rules or membership or conduct (e.g. Freemasons) Examples of interests which must be declared are financial contracts, purchasing contracts, building contracts, grant of planning permission, leasing or renting of property, and the development of sites. You must also declare your involvement with other businesses or companies. You should keep in mind that the interests of your spouse, partner or a close relative will be considered indirect interests of yours.

If you are unsure of whether you have any interests which might conflict with those of the Council, then you should discuss them with your manager who may also seek additional advice from People & Talent.

Because declarations of interest are fundamental to the effective operation and reputation of the Council, failing to declare an interest will always be dealt with by the Council as a disciplinary matter and is likely to be deemed gross misconduct which may result in your dismissal. Failing to comply with the Local Government Act is a criminal offence.

3. How do you declare personal interests?

You will be asked to declare any interests, secondary employment or additional appointments when you join the Council.

If you indicate that there is a potential conflict of interest, then your manager will discuss this with you and decide whether it gives rise to any risks. If it does, your manager will agree with you and record the actions needed to mitigate the risks. A record of this discussion will be made and held in a Corporate Declarations of Interest Register.

Each year in April or May, at the time of your appraisal, your line manager will ask you whether there are any conflicts of interest which you should declare and, if you are employed at SO1 or above, whether you have any secondary employment or additional appointments. Your answers to these questions will be recorded and retained on your personnel record.

If you answer “no” to both questions, there will be no need for any further action.

If you declare a conflict of interest, secondary employment or additional appointment, your manager will arrange a meeting to discuss these with you. The purpose of the meeting will be to identify any risks and agree what action should be taken to mitigate the risks. A record of this discussion will be made and held in the Corporate Declarations of Interest Register.

Copies of the forms used to record declarations of interest and action to mitigate the risks to which they give rise are at Annex 2 of this guidance. **Once completed copies of this form must be returned to your HR Business Partner, People & Talent.**

If at any time during the year your circumstances change in such a way as to create the potential for a conflict of interest, then you must raise this with your line manager. You must do this immediately and not wait for your annual appraisal.

If you attend meetings you may also be required to make a declaration of interests at those meetings.

4. How is this information held?

The Corporate Declaration of Interest Register will be kept and held centrally. Councillors and those Council officers who have responsibilities to act for the Council as your employer or who can demonstrate a legitimate reason for doing so will be able to inspect the register.

The Register will not be available for public inspection. However, subject to any exemptions which may apply, information contained within the register will be disclosed in accordance with the Freedom of Information Act 2001.

5. Roles and Responsibilities

Managers

Managers must:

- Ensure that those whom they manage are asked whether they have any interests to declare, any secondary employment or additional appointments when they join the organisation and annually at each appraisal;

- Where an employee declares an interest, secondary employment or additional appointments discuss these with the employee, identify any risks to which they give rise and agree how the risks will be mitigated;

- Agree and monitor the implementation of action plans to mitigate any risks identified; and

- Ensure that a copy of the completed declaration of interest form is uploaded to the employee's personal file on an annual basis or where a change has been identified.

All managers must ensure that all the Council's relationships with its stakeholders, outside bodies and partners, are conducted to the highest standards of probity, and any contracts or agreements should include provisions to further this.

Employees

Employees must:

- Declare any interests which have the potential to conflict with the job that they are employed to do or their ability to carry out that job effectively on joining the Council and at each annual appraisal;

- Declare any secondary employment or alternative appointments whether paid or unpaid on joining the Council and at each annual appraisal;

- Ensure that, where a conflict of interest exists, they put into practice any actions which are agreed to mitigate the risks to which the conflict gives rise;

- Inform their line manager of any change in their circumstances which might give rise to a conflict of interest as soon as they become aware of it;

- Always Maintain the highest standards of honesty and integrity in the services which they deliver to customers and in their relationships with colleagues and external partners; and

- At all times comply with the Council's Code of Conduct for Employees.

H&F Strategic Leadership Team

- Ensure that every employee is given the opportunity to make a declaration of interests and that managers record that this has happened.

- Ensure that where a conflict of interest is declared appropriate follow up action is agreed and implemented.

- Ensure compliance of their department.

It is the responsibility of Strategic Directors to ensure the compliance of their department.

7. Conclusion

This guidance is intended to help everyone who works for the Council understand why declarations of interest are important and how the process for making and managing a declaration of interest works.

Our customers and our partners have a right to expect that they will be dealt with objectively, fairly and with integrity. That means that each of us must think about whether our personal interests are likely to get in the way of meeting these expectations and doing our jobs properly and effectively. If following a discussion with our line manager, we decide that there is a conflict of interests, then we must agree how to manage it in such a way that the conflict will not arise. That may mean organising the way that work is done differently, limiting our involvement in activities that might give rise to a conflict or giving up that outside interest.

The purpose of declarations of interest is to protect both you and the Council from being accused of abusing your position.

If you need any further assistance in understanding what might amount to a conflict of interest, then in the first instance you should raise the matter with your line manager.

Annex 2: Declaration of Interests Record – Part 1

This form is intended to detail any personal interests which may conflict with the interests of the Council. You have been asked to complete it because you have already indicated that there may be such a conflict.

Do you have any financial interest in any matter involving the Council?

Yes
No

Do you carry out or are you involved in any other business?

Yes
No

Are you involved with any company registered at Companies House?

Yes
No

Are you a governor of a school maintained by LBHF?

Yes
No

Are you involved with any voluntary organisation supported by the Council?

Yes
No

Are you involved with any group which has as its aim influencing public opinion or policy?

Yes
No

Are you a member of any organisation which is not open to the public without formal membership or commitment or allegiance, or which has secrecy or privacy about its rules of membership or conduct?

Yes
No

Is there anything else which you think might give rise to a conflict of interest?

Yes
No

Do you work for any other organisation in a paid or unpaid capacity?

Yes
No

I understand that in submitting this declaration I am confirming that the answers which I have given are true and complete to the best of my knowledge and that failing to disclose information may lead to disciplinary action being taken against me that could result in my dismissal.	
Signed:	Name:
Date:	

Declarations of Interest Record – Part 2

This part of the form must be completed by the manager of an employee who has declared any personal interests, secondary employment or additional appointments.

Give details of the interests that have been declared, include secondary employment and additional appointments and any remuneration received. In the case of employees at SO1 or above use this form to record your consent to additional employment/appointment/private work.	
Do any of these interests give rise to any risks? Please give details of the risks identified	
What action has been taken to mitigate the risks?	
I confirm that I have discussed the interests declared with this employee and have sent a copy of this form to People & Talent for inclusion in the Corporate Risk Register and the individual's personal file.	
Line Manager:	Signed
Date:	

Anti-money laundering policy

Document Date	Date of last issue	Next Review Date
November 2022	December 2021	November 2024

1. Introduction

1.1 The Council will take measures to prevent the organisation, its Members and officers being exposed to money laundering, to identify areas where money laundering may occur and to comply with legal and regulatory requirements.

1.2 The Proceeds of Crime Act 2002, the Terrorism Act 2000 and Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 place obligations on the Council and its employees to establish internal procedures to prevent the use of their services for money laundering and the prevention of terrorist financing. The Council must also appoint a Money Laundering Reporting Officer (MLRO) to receive disclosures from employees of money laundering activity.

1.3 It is the responsibility of staff and Members to be vigilant and act promptly where money laundering is suspected. Failure to comply with this Policy, and accompanying procedures, may lead to disciplinary action being taken against them. Failure by a Member to comply with the procedures may be referred to the Monitoring Officer.

2. What is Money Laundering?

2.1 Money laundering is a process of converting cash or property derived from criminal activities to give it a legitimate appearance. It is a process of channeling 'bad' money into 'good' money in order to hide the fact that the money originated form criminal activity, and often involves three steps:

1. **Placement** - cash is introduced into the financial system by some means. For example, depositing the cash into bank accounts, exchanging currency or simply changing small notes for large notes (or vice versa).

2. **Layering** - a financial transaction to camouflage the illegal source; transfers between accounts including offshore, offering loans, investments and complex financial transactions.

3. **Integration -** acquisition of financial wealth from the transaction of the illicit funds. For example, buying residential and commercial property, businesses and luxury goods.

3. What is Terrorism Financing?

3.1 Terrorism financing is the act of providing financial support, funded from either legitimate or illegitimate source, to terrorists or terrorist organisations to enable them to carry out terrorist acts or will benefit any terrorist or terrorist organisation.

3.2 While most of the funds originate from criminal activities, they may also be derived from legitimate sources, for example, through salaries, revenues generated from legitimate business or the use of non-profit organisations to raise funds through donations.

4. What are the main offences?

4.1 There are three main offences:

- **Concealing:** knowing or suspecting a case of money laundering, but concealing or disguising its existence.

- **Arranging:** becoming involved in an arrangement to launder money, or assisting in money laundering.

- **Acquisition, use or possession:** benefiting from money laundering by acquiring, using or possessing the property concerned.

4.2 None of these offences are committed if:

- the persons involved did not know or suspect that they were dealing with the proceeds of crime; or,

- a report of the suspicious activity is made promptly to the Money Laundering Reporting Officer (MLRO).

5. What are the obligations on the Council?

5.1 While the Council are not directly covered by the requirements of the Money Laundering Regulations, it complies with the underlying spirit of the legislation and regulations and has put in place appropriate and proportionate anti-money laundering safeguards and reporting arrangements which include:

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

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

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

6. Nominated Officers

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

6.2 The MLRO and their appointed Deputy MLRO are responsible for receiving internal suspicious transaction reports (also known as disclosures), deciding whether these should be reported to the National Crime Agency (NCA), and making the report when required.

6.3 The Nominated Officers within the Council are:

- **MLRO: Section 151 officer:** Director of Finance

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

7. High value cash transactions

7.1 Those receiving or arranging to receive cash on behalf of the Council must ensure they are familiar with the Council's Anti-Money Laundering Policy.

7.2 The first stage of money laundering, placement, is where vigilance can often detect and prevent it happening, because large amounts of cash are pretty conspicuous.

7.3 In line with the National Crime Agency recommended thresholds for reporting, no single payment to the Council should be accepted in cash if it exceeds **£10,000**.

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

8.1 Staff who know or suspect that they may have encountered criminal activity and that they may be at risk of contravening the money laundering legislation, they must report this as soon as practicable to the Money Laundering Responsible Officer (MLRO) or Deputy MLRO to advise of their concerns.

8.2 The disclosure should be at the earliest opportunity of the information coming to your attention, not weeks or months later.

- Refer to the Council's Anti-Money Laundering Procedures.
- Do not tell the customer about your suspicions.
- Report your suspicions immediately to the Council's MLRO or Deputy MLRO (details above).
- Keep all records relating to the transaction(s). If you are unsure about what records or information to keep, please ask the MLRO.

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

9. Tipping off

9.1 It is a criminal offence for a person in the regulated sector to "tip off" (i.e. inform) a person suspected of money laundering that a referral has been made to the National Crime Agency, or that there is a money laundering investigation taking place, where the tipping off is likely either to prejudice the investigation.

9.2 A similar offence applies to those who are not in the regulated sector, including Council staff, where a person makes an unlawful disclosure "tipping off" which is likely to prejudice a money laundering investigation.

9.3 This offence carries a maximum penalty of five years' imprisonment and/or an unlimited fine.

10. Suspicious Activity Report (SAR)

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

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

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

11. Policy

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

ANNEX 1: Making a report to the MLRO

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

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

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

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

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

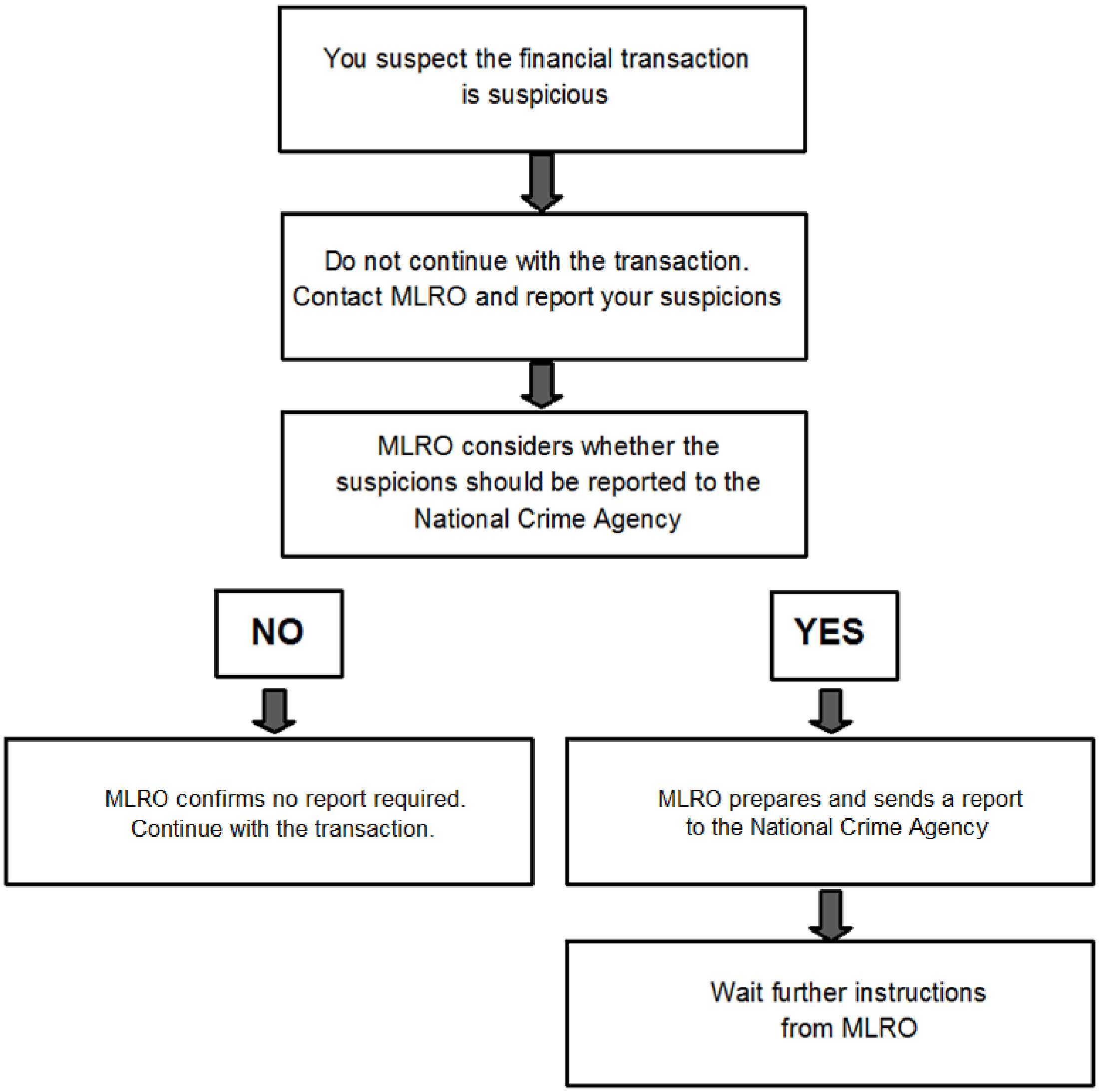
In cases where legal professional privilege may apply, the MLRO must decide (taking legal advice if required) whether there is a reasonable excuse for not reporting the matter.

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

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

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

ANNEX 2: The procedure for reporting (flow chart)



Fraud response plan

Document Date	Date of last issue	Next Review Date
November 2022	December 2021	November 2024

1. Introduction

1.1 The Council is committed to sound corporate governance and to protecting the public funds with which it has been entrusted. Minimising any losses to fraud and corruption is an essential part of ensuring that all of the Council's resources are used for the purposes for which they are intended and ensuring we remain ruthlessly financially efficient.

1.2 The Fraud Response Plan provides guidance on the action to be taken when a fraud is suspected or discovered and enables the Council to:

- Minimise and recover losses;
- Establish and secure evidence necessary for criminal and disciplinary action;
- Take disciplinary action against those involved; and,
- Review the reasons for the incident and ensure that actions are implemented to strengthen procedures, controls and prevent recurrence.

1.3 Any suspicion of fraud will be treated seriously and will be investigated in accordance with the Council's procedures and the relevant legislation.

2. Responsibilities

ALL EMPLOYEES

2.1 Individual members of staff, including agency staff, are responsible for:

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

MANAGERS

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

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

3. Reporting a suspected fraud

ACTION BY EMPLOYEES

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

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

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

- Director of Audit, Fraud, Risk and Insurance;
- Head of Fraud; and,
- Director of Finance.

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

3.5 To raise a concern independently you can either do so by calling our confidential external whistleblowing hotline, Safecall, on **0800 915 1571** or by completing and submitting an online form via the Safecall website: https://report.safecall.co.uk/en-US/file-a-report/.

3.6 Safecall provide a 24 hour a day, 7 days a week service via a freephone number. When contacting Safecall you will be put in touch with an operator who is trained to receive a report about concerns in the workplace.

3.7 The council is also committed to tackling modern slavery and exploitation and we encourage you to report any concerns you identify. You can alternatively contact the Modern Slavery & Exploitation helpline on 08000 121 700.

ACTION BY MANAGERS

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

- Listen to the concerns of staff and treat every report seriously and sensitively.
- Obtain as much information as possible from the member of staff including any notes or evidence to support the allegation. Do not interfere with this evidence and ensure it is kept secure.
- **Do not** attempt to investigate the matter yourself or covertly obtain any further evidence as this may adversely affect any criminal enquiry.
- **Report** the matter immediately to any of the following:
  - The Head of People Operations, dave.rogers@lbhf.gov.uk
  - The Assistant Director, People & Talent, mary.lamont@lbhf.gov.uk
  - The Council's Monitoring Officer, david.tatlow@lbhf.gov.uk
  - The Shared Service Director of Audit, Fraud, Risk and Insurance, david.hughes@rbkc.gov.uk
  - The Head of Fraud, andy.hyatt@lbhf.gov.uk

Reviewing allegations

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

Malicious allegations

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

4 Investigation Process

4.1 The Corporate Anti-Fraud Service is responsible for initiating and overseeing all fraud investigations and have a dedicated team of trained investigators who will lead the enquiries.

4.2 In accordance with Section 67(9) of Police and Criminal Evidence Act, officers of the Corporate Anti-Fraud Service are referred to as, "charged with the duty of investigating offences or charging offenders".

4.3 Investigations will be undertaken with consideration for the relevant legislation, regulations and codes. In certain circumstances, investigation work may be carried out by Departmental Management following agreement and liaison with Corporate Anti-Fraud Service and Human Resources.

4.4 Investigation results will not be reported or discussed with anyone other than those who have a legitimate need to know. Where appropriate the person raising the concern will be kept informed of the investigation and its outcome.

4.5 Interim reports detailing progress and findings may be produced throughout the investigation to assist decision making.

4.6 On completion of the investigation, the investigating officer, will prepare a full written report setting out the background, findings of the investigation, and any conclusions reached from the findings. Recommendations risk control will also be made to reduce further exposure if fraud is proven.

4.7 A brief and anonymised summary of the circumstances may be published in the half-yearly Corporate Anti-Fraud Report to the Audit Committee.

5 Disciplinary/Legal action

5.1 Where evidence of fraud is discovered, and those responsible can be identified:

- Appropriate disciplinary action will be taken in line with the disciplinary procedure; and,
- Where legal action is considered appropriate, full co-operation will be given to investigating and prosecuting authorities, including the police if appropriate.

6 Recovery of loss

6.4 Where the Council has suffered loss, restitution will be sought of any benefit or advantage obtained, and the recovery of costs will be sought from an individual(s) or organisations responsible for fraud.

6.5 The Corporate Anti-Fraud Service will utilise all relevant powers to recover fraud loses including the use of Financial Investigators working within the realms of the Proceeds of Crime Act.

6.6 Where an employee is a member of Council's Pension scheme and is convicted of fraud, the Council may be able to recover the loss from the capital value of the individual's accrued benefits in the Scheme, which are then reduced as advised by the actuary.

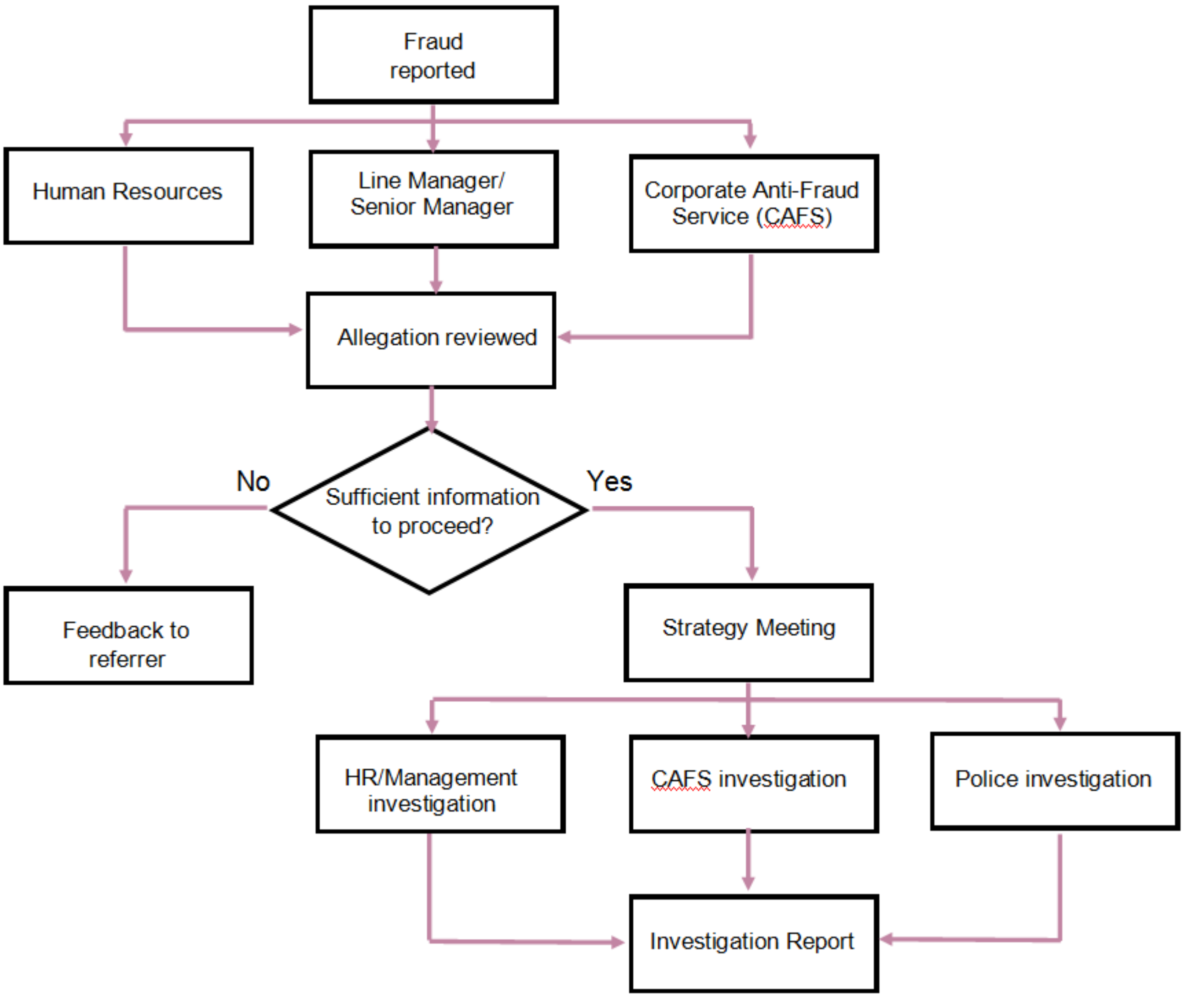
6.7 The Council may also consider taking civil action to recover the loss.

7 Further advice

7.1 Advice or guidance about how to pursue matters of concern regarding potential fraud or corruption may be obtained from any of the following contacts:

- The Assistant Director, People & Talent, mary.lamont@lbhf.gov.uk
- The Shared Service Director of Audit, Fraud, Risk and Insurance, david.hughes@rbkc.gov.uk
- The Head of Fraud, andy.hyatt@lbhf.gov.uk

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



London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 23/11/2022

Subject: Internal Audit Charter and Strategy

Report of: David Hughes, Director of Audit, Fraud, Risk and Insurance

Responsible Director: Director of Audit, Fraud, Risk and Insurance

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Summary

In accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS), the Council has an Internal Audit Charter which is maintained by the Director of Audit, Fraud, Risk and Insurance. The Charter is reviewed annually to ensure that it reflects the Standards. The Strategy sets out the approach to the delivery of the Internal Audit service.

Recommendation

1. For the Committee to review and approve the Internal Audit Charter and Strategy. .
2. To note the commencement of a review of the effectiveness of the Committee in line with the recent guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) on Audit Committees and that a report will be provided on the outcome of the review at a future meeting.

Wards Affected: None

H&F Values

Please state how the subject of the report relates to our values – delete those values which are not appropriate

Our Values	Summary of how this report aligns to the H&F Priorities
• Being ruthlessly financially efficient	The work undertaken by Internal Audit helps 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

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Background Papers Used in Preparing This Report
None.

DETAILED ANALYSIS

1. The Internal Audit Charter is subject to annual review and, in accordance with the PSIAS, it should be periodically approved by the Audit Committee. The Internal Audit Strategy is included as an Annex to the Charter and sets out how the Council's Internal Audit service will be developed and delivered in accordance with the Charter.

2. The Audit Committee consider the Council's compliance with its own and other published standards as part of their responsibilities.

3. The PSIAS came into effect from 1 April 2013. The Standards are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). The Local Government Application Note has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA), primarily as sector-specific guidance to local government organisations that previously fell within the remit of the CIPFA Code of Practice for Internal Audit in Local Government in the UK, and it provides further explanation to the PSIAS and practical guidance on how to apply the Standards.

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

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

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

7. Included with the Standard is a requirement for regular review and assessment of Internal Audit's conformance with the Standard. This is done as part of the Annual Report of the Director of Audit, Fraud, Risk and Insurance which is reported to the Audit Committee. The Annual Report to the Audit Committee for 2021/22 (reported in June 2022) included the following statement:

    "The internal audit service has been provided in accordance with the UK Public Sector Internal Audit Standards (PSIAS). During 2021/22, the Internal Audit Service undertook a self-assessment to verify PSIAS compliance which has identified general compliance with the Standards. Some improvements in reporting and planning have been identified which are being implemented in 2021/22."

8. The London Audit Group (LAG) has organised a system of independent externally validated self-assessments across the London Boroughs. It has been agreed that self-assessments against the Standards, and where appropriate, the CIPFA Local

Government Application Note (LGAN) will be completed and that these will be externally validated by suitably qualified individuals or teams from other members of LAG. An externally validated assessment of the Internal audit Service was due to be undertaken earlier this year but had to be postponed due to the availability of the assessor and it is now planned to be undertaken in the final quarter of this financial year. The outcome of this assessment will be reported to the Committee in due course.

9. The Charter and Strategy have been reviewed with no amendments made other than some minor typos and the date.

10. Attention is drawn to paragraph 7.4 of the Charter which explains the role of the Shared Services Director for Internal Audit, Fraud, Risk & Insurance to contribute to the effectiveness of the Audit Committee. As the Chartered Institute of Public Finance and Accountancy (CIPFA) has recently updated their guidance for Audit Committees for local authorities, it is proposed that a review of effectiveness is undertaken by the Shared Services Director for Internal Audit, Fraud, Risk and Insurance which will include discussions with the Chair of the Committee, the Committee Members as well as some officers including the S151 and Monitoring Officers. The outcome of this review will be reported to the Audit Committee and can then be reported to Full Council as part of the Chair’s Annual Report.

Consultation

11. The report has been subject to consultation with the Strategic Leadership Team.

Legal Implications

12. 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.

13. 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.

14. There are no particular legal implications arising from this report.

Implications verified by Grant Deg, Assistant Director, Legal Services on 31/10/2022.

Financial Implications

15. The Internal Audit Service is provided within the agreed revenue budget for the service. There are no additional financial implications arising from this paper.

Implications verified by Sukvinder Kalsi, Director of Finance, on 31/10/2022.

Risk Management

16. The Internal Audit Service is developed and delivered to cover the key risks faced by the Council and in line with professional standards.

Implications verified by Moira Mackie, Head of Internal Audit, on 28 October 2022.

List of Appendices:

Appendix 1 - Internal Audit Charter and Strategy

APPENDIX 1

London Borough of Hammersmith and Fulham

Internal Audit Charter 2022

1. Introduction

1.1 This Charter establishes the purpose, scope, authority and responsibilities for the internal audit service for the London Borough of Hammersmith and Fulham, in accordance with the mandatory UK Public Sector Internal Audit Standards and the CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations.

1.2 The Internal Audit Strategy (Annex A of this Charter) sets out how the Council's internal audit service will be developed and delivered in accordance with the Internal Audit Charter.

1.3 The Charter and Strategy will be reviewed annually and presented to the Council's Strategic Leadership Team and to the Audit Committee to approve.

2. Definitions

2.1 Internal Audit is defined by the Public Sector Internal Audit Standards (PSIAS) as:

"*an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."*

2.2 For the purposes of the PSIAS and this Audit Charter:

- The Shared Services Director for Audit, Fraud, Risk and Insurance is designated as the "Chief Audit Executive";
- The Audit Committee are designated as the "Board"; and
- The Strategic Leadership Team is designated as "Senior Management".

3. Purpose of Internal Audit

3.1 Internal audit provides independent and objective assurance to the London Borough of Hammersmith and Fulham through its Members, the Strategic Leadership Team and, in particular, the Director of Finance, to help discharge responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

3.2 In addition, the Accounts and Audit Regulations (2015) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council's governance, risk management and internal control systems.

3.3 The Internal Audit Service is led by the Shared Services Director for Audit, Fraud, Risk and Insurance and delivers audit reviews across three Councils: the London Borough of Hammersmith and Fulham, the Royal Borough of Kensington and Chelsea (the host borough), and Westminster City Council.

4. Role of the Shared Services Director for Audit, Fraud, Risk and Insurance

4.1 The Shared Services Director for Audit, Fraud, Risk and Insurance is a senior and independent role within the Council and is responsible for:

- ensuring that internal audit work is risk-based and aligned to the Council's strategic objectives and will support the internal audit opinion;
- Identifying where internal audit assurance will add the most value or do most to facilitate improvement;
- Producing an evidence-based annual internal audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control;

- Demonstrating the benefits of good governance and working with the Council to promote and support this and helping the Council to understand the risks to effective governance;
- Giving advice to Senior Management and others on the control arrangements and risks in relation to proposed policies, programmes and projects;
- Promoting the highest standards of ethics and standards across the organisation based on the principles of integrity, objectivity, competence and confidentiality;
- Offering advisory services where appropriate and providing advice on risk and internal control arrangements for new and developing systems, including major projects, programmes and policy initiatives whilst maintaining safeguards over independence (see section 9).

5. Role of the Council's Senior Management

5.1 To enable internal audit to fulfil their role, the Council's Senior Management (SLT):

- Engage constructively with the internal audit service, facilitating their role throughout the organisation and recognising the role that audit can play in providing advice and assurance;
- Commit to the principles of good governance, recognising its importance for achieving the Council's strategic objectives; and
- Take account of advice provided by the Shared Services Director for Audit, Fraud, Risk and Insurance in respect of new and developing systems.

5.2 The Director of Finance (S151 Officer), supports the role of the Shared Services Director of Internal Audit, Fraud, Risk and Insurance by:

- Establishing an internal accountability and assurance framework including how internal audit works with other providers of assurance and ensuring internal audit is independent of external audit;
- Setting out how the framework of assurance supports the annual governance statement (AGS) and identifying internal audit's role within this (the Shared Services Director for Audit, Fraud, Risk and Insurance contributes to, but is not responsible for, the AGS);
- Ensuring the Audit Committee's terms of reference includes oversight of internal audit including the monitoring of adherence to professional standards and the performance of the service;
- Ensuring the Shared Services Director for Internal Audit, Fraud, Risk and Insurance has clear lines of reporting to Senior Management;
- Ensuring the annual internal audit opinion and report is issued by the Shared Services Director for Audit, Fraud, Risk and Insurance in their own right;
- Ensuring that the Internal Audit Charter and Audit Plan are approved by the Audit Committee in accordance with the PSIAS; and
- Ensuring that an external review of internal audit quality is carried out at least once every five years and the Audit Committee provides support for and participates in the quality assurance and improvement programme as set out in the PSIAS.

6. Authority & Access to Records

6.1 Internal audit's remit extends to the entire control environment of the organisation.

6.2 In undertaking their duties and responsibilities, Internal Audit (which includes in house staff and contractors) and the Corporate Anti-Fraud Service shall be entitled to have full access to all of the Council's data, records, cash, stores, property, assets, personnel and information whether manual or computerised, it considers necessary to fulfil its responsibilities. Audit and Investigation staff may enter Council property and have unrestricted access to all locations and officers where necessary, on demand, and without prior notice. Council staff are expected to provide every possible assistance to facilitate the progress of audits and investigations.

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

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

7. The Audit Committee

7.1 The Shared Services Director for Internal Audit, Fraud, Risk & Insurance is required to provide the Council, SLT Assurance and the Director of Finance with an annual opinion, reported through the Audit Committee, on the adequacy and the effectiveness of the internal control system for the whole Council. To achieve this, the internal audit function has the following objectives:

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

7.2 There are inherent limitations in any system of internal control and thus error or irregularities may occur and may not be detected by internal audit's work. When undertaking audit reviews, internal audit will provide management with comments and report on failures or weaknesses in internal control systems together with recommendations for remedial action. It remains a management responsibility to maintain an effective system of internal control and to have adequate systems in place to prevent and detect fraud.

7.3 Where appropriate, Internal Audit may undertake consulting work for the benefit of the Council. Internal Audit may also provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of any associated contract.

7.4 The Shared Services Director for Internal Audit, Fraud, Risk & Insurance contributes to the review of the effectiveness of the Audit Committee, advising the Chair and relevant managers of any suggested improvements.

8. Reporting

8.1 The UK Public Sector Internal Audit Standards require the Shared Services Director for Internal Audit, Fraud, Risk and Insurance to report directly to the top of the organisation and those charged with governance. This is achieved through the following framework:

- The Internal Audit Strategy and Charter and any amendments to them will be reported to the Audit Committee;
- The Internal Audit Plan is compiled by the Shared Services Director for Audit, Fraud, Risk and Insurance, taking account of the Council's risk framework and following discussions with stakeholders, including senior managers. The Audit Plan is subject to review by the Council's Strategic Leadership Team and will be reported to the Audit Committee for noting and comment;
- The Internal Audit budget is reported to the Full Council for approval, as part of the overall Council budget;

- The adequacy, or otherwise, of the level of internal audit resources as determined by the Shared Services Director for Audit, Fraud, Risk and Insurance and the independence of service will be reported to the Audit Committee (see also the Internal Audit Strategy);
- Internal audit outcomes and progress with the Internal Audit Plan will be reported regularly to the Council's Section 151 Officer and to the Council's Senior Managers;
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work will be reported regularly to the Audit Committee;
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit Committee;
- Any instances of non-conformance with the Public Sector Internal Audit Standards will be reported to the Audit Committee and will be included in the annual report of the Shared Services Director for Audit, Fraud, Risk and Insurance. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

9. Independence

9.1 The Council's governance arrangements give the Shared Services Director for Audit, Fraud, Risk and Insurance free and unfettered access to the following:

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

9.2 The independence of the Shared Services Director for Audit, Fraud, Risk and Insurance is further safeguarded by ensuring that any appraisal of personal performance is not unduly influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of the Audit Committee have an opportunity to contribute to, and/or review the appraisal of the Shared Services Director for Audit, Fraud, Risk and Insurance. The Shared Services Director has responsibility for Fraud and Insurance at the Council. Independence is maintained by ensuring that internal audit reviews of these functions are carried out and supervised independently of the Shared Services Director, including the scoping of the review and provision of the draft and final reports.

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

9.4 Undertaking internal audits is the primary purpose of the internal audit service to provide an objective assessment of the framework of governance, risk management and control to inform the annual internal audit opinion. Consulting engagements (also known as advisory engagements) are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control. This may include providing advice and guidance on current best practice in governance, risk management, systems design and development, internal controls and management.

9.5 Non-audit consulting services may impair, or appear to impair, the independence of the internal audit activity or the individual objectivity of the internal auditor and therefore safeguards will be implemented to avoid this.

9.6 Any significant consulting activity (over 5% of planned annual audit days) which might affect the level of assurance work undertaken, will be reported to the Audit Committee. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

9.7 Internal Audit must remain independent of the activities that it audits to enable auditors to make impartial and effective professional judgments and recommendations. Internal auditors have no operational responsibilities towards the systems and functions audited. If additional responsibilities are taken on by the Shared Services Director for Audit, Fraud, Risk and Insurance, appropriate safeguards will be put in place to ensure that these responsibilities do not compromise the independence and objectivity of the service.

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

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

9.10 The Shared Services Director for Internal Audit, Fraud, Risk and Insurance is responsible for escalating any concerns about maintaining independence through the Chief Executive, the Audit Committee and the Strategic Leadership Team or the external auditor as appropriate.

10. Counter Fraud, Corruption & Irregularity

10.1 Managing the risk of fraud and corruption is the responsibility of management. Internal audit procedures alone cannot guarantee that fraud or corruption will be prevented or detected. Auditors will, however, be alert in their work to risks and exposures that could allow fraud, corruption or other irregularity.

10.2 The Council has a shared Corporate Anti-Fraud Service as part of the Shared Internal Audit, Fraud, Risk and Insurance Service and the Service has a protocol for close working relations with Internal Audit. The policies and procedures of the Corporate Anti-Fraud Service are detailed in the Council's Anti-Fraud and Corruption Strategy.

11. Due Professional Care

11.1 The Internal Audit Function is bound by the following:

- Institute of Internal Auditors' (IIA) International Code of Ethics
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards;
- The CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations (2019);
- All Council Policies and Procedures;
- All relevant legislation.

11.2 All staff and contractors are required to sign an annual statement confirming their compliance with the IIA code of Ethics.

11.3 Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

11.4 A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. This is managed through the performance management and appraisal process. Both the Shared Services Director for Audit, Fraud, Risk and Insurance and the Head of Internal Audit are required to hold a professional qualification (CCAB or CMIAA) and be suitably experienced.

Internal Audit Charter and Strategy Reviewed and Agreed:

Date	Reviewed by	Comments	Approved by
Oct 2022	Moira Mackie Head of Internal Audit	Reviewed, only changes minor typos and changed date of document.	David Hughes Shared Service Director for Audit, Fraud, Risk & Insurance
Oct 2021	James Graham, Audit Manager and Moira Mackie Head of Internal Audit	Reviewed and updated to reflect the requirements of the PSIAS	David Hughes Shared Service Director for Audit, Fraud, Risk & Insurance
Sep 2020	Moira Mackie Head of Internal Audit	Reviewed no material change	David Hughes Shared Service Director for Audit, Fraud, Risk & Insurance
Sep 2019	Moira Mackie Senior Audit Manager	Reviewed no material change	David Hughes Shared Service Director for Audit, Fraud, Risk & Insurance
Sep 2018	Moira Mackie Senior Audit Manager	Revised Charter	David Hughes Shared Service Director for Audit, Fraud, Risk & Insurance

ANNEX A

INTERNAL AUDIT STRATEGY

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

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

Internal Audit Objectives

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

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

Internal Audit Remit

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

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

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

Service Delivery

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

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

Internal Audit Planning

Strategic Audit Plan

A strategic audit plan is maintained to document significant, persistent risks that the Council faces and outlines, in broad terms, business areas or themes to be covered over a five-year period. This plan is intended to support the annual planning process and ensure that, in being agile and responsive to a changing risk and assurance environment, internal audit continues to provide assurance over the breadth of the Council's operations and does not become a purely reactive function.

Annual Audit Planning

Historically the full annual audit plan was prepared for submission to Committee prior to the start of the financial year. The traditional annual audit planning approach has become unsuitable as the original plan fails to keep pace with the organisation's changing assurance needs.

From 2021/22 onwards, the approach to audit planning changed, moving to a '3 plus 9' annual audit plan. We plan out the next three months in detail whilst keeping the remaining nine months more flexible. The plan will then be revisited each quarter to firm up the following quarter's work. Areas for consideration in the plan include:

- Risks to achieving strategic objectives;
- Issues currently affecting the department including emerging risk areas;
- Core operations / Business as usual/ Business Continuity;
- Governance;
- Transformation (Programmes, projects and new initiatives);
- Procurement and Contract Management;
- Information Management, IT and Continuity;
- Compliance;
- Areas where Internal Audit input may be helpful (including outside of that department); and
- Previous Internal Audit Coverage (or lack of) and alternative sources of assurance.

The audit plan will be presented to the Audit Committee each quarter.

Follow Up

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

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

Reporting

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work. Summary reports are also provided to SLT Assurance and the Audit Committee on a regular basis. This includes the annual report of the Shared Services Director for Audit, Fraud, Risk and Insurance which contributes to the assurances underpinning the annual governance statement of the Council.