London Borough of Hammersmith & Fulham

Audit Committee

Agenda

Tuesday 15 March 2022 at 7.00 pm

Main Hall (1st Floor) - 3 Shortlands, Hammersmith, W6 8DA

MEMBERSHIP

Administration	Opposition
Councillor Iain Cassidy (Chair) Councillor Jonathan Caleb-Landy Councillor Rowan Ree Councillor Alexandra Sanderson	Councillor Alex Karmel Councillor Matt Thorley

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Watch the meeting live: youtube.com/hammersmithandfulham

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

Date Issued: 07 March 2022

London Borough of Hammersmith & Fulham

Audit Committee
Agenda

Item		**Pages**
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 OF THE PREVIOUS MEETING** To approve the minutes of the previous meeting and to note any outstanding actions.	4 - 8
4.	**STATEMENT OF ACCOUNTS 2020/21, INCLUDING PENSION FUND ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT** This report presents the London Borough of Hammersmith & Fulham's 2020/21 Statement of Accounts, including the Pension Fund Accounts and Annual Governance Statement for approval.	9 - 361

5. INTERNAL AUDIT PROGRESS REPORT (DECEMBER 2021 TO JANUARY 2022) 362 - 440

This report summarises the status of work included in the 2021/22 Internal Audit Plan as at the end of January 2022. Fourteen audits have been finalised, one of which received a Substantial assurance opinion, ten receiving Satisfactory assurance and three Limited assurance.

Limited assurance reports

- Appendix 4 – Internal Audit Report – Vanessa Nursery School
- Appendix 5 – Internal Audit Report – Housing Decants
- Appendix 6 – Internal Audit Report – Security Resources Management

6. INTERNAL AUDIT PLAN 2022/23 441 - 453

This item presents the Council's Strategic Audit Plan for review.

7. RISK MANAGEMENT HIGHLIGHT REPORT 454 - 467

This report provides an update on risk management across the Council.

8. DATE OF NEXT MEETING

The next meeting is scheduled for 21 June 2022.

Agenda Item 3

London Borough of Hammersmith & Fulham

Audit Committee

Minutes

Tuesday 14 December 2021

NOTE: This was held as an informal remote meeting

PRESENT

Committee members: Councillors Iain Cassidy (Chair), Jonathan Caleb-Landy, Alex Karmel, Matt Thorley, Rowan Ree and Alexandra Sanderson

Officers:
Kim Smith, Chief Executive
Emily Hill, Director of Finance
Rhian Davies, Director of Resources
Lisa Redfern, Strategic Director of Social Care
Jacqui McShannon, Director of Children's Services
David Hughes, Director of Audit, Fraud, Risk and Insurance
Moira Mackie, Head of Internal Audit
Andrew Hyatt, Head of Fraud
Mathew Dawson, Strategic Finance Manager
Paul Barton, Head of Corporate Safety
David Abbott, Head of Governance

1. APOLOGIES FOR ABSENCE

There were no apologies for absence.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES

The minutes of the previous meeting were noted.

4. TREASURY MANAGEMENT STRATEGY: MID-YEAR REVIEW 2021/22

Mathew Dawson, Strategic Finance Manager, presented the report which provided an update on the implementation of the 2021/22 Treasury Management Strategy, approved by Council on 25 February 2021 and presented the Treasury Management Strategy 2021/22 mid-year review.

Councillor Alex Karmel said it would be useful for members if future reports provided the rate of inflation and forecasts for inflation over the next 6 months.

ACTION: Mathew Dawson

Councillor Alexandra Sanderson asked about the impact of the Omicron variant on inflation. Mathew Dawson said it was looking like the rate would hold, though the impact of interest rate rises would take some time to filter through. Councillor Sanderson asked if the position would improve by Spring. Mathew Dawson said the next outturn report would be at the end of the financial year, but officers reported periodically to senior officers. He noted that when the new prudential code was implemented reporting would be quarterly.

Councillor Rowan Ree, in reference to the 'limit of £30m to be invested with any UK Local Authority' in paragraph 11, asked if it related to buying debt or something else. Mathew Dawson said there was an internal market where if, for example, council A needed money for a month and council B had a surplus they could make an arrangement through a broker. He added that the Council was not using this very much now though and if it did, it would require a full due diligence report to go to the Director of Finance and would be closely monitored.

RESOLVED
The Committee noted the report.

5. CORPORATE ANTI-FRAUD SERVICE HALF-YEAR ACTIVITY REPORT – 1 APRIL 2021 TO 30 SEPTEMBER 2021

Andrew Hyatt, Head of Fraud, presented the report that gave an overview of the fraud-related activity undertaken by the Corporate Anti-Fraud Service from 1 April 2021 to 30 September 2021.

Councillor Jonathan Caleb-Landy asked for more information on the cases of fraud related to internal staff referenced in the table on page 22 of the agenda. Andrew Hyatt said the table showed three cases in 2019/20, 8 cases in 2020/21, but none this year. The service had received some referrals but there were no proven fraud cases of fraud in 2021/22 so far.

Councillor Caleb-Landy asked what the learning had been from the 32 cases of Covid grant fraud. Andrew Hyatt said the Covid grants to businesses were relatively easy for the local authority to check due to the robust information the Council had on registered businesses in the borough. There was still some fraud in the first year, some related to businesses that had moved out prior to the eligibility date. Officers were working to claw back that money.

The smaller Covid grants for Restart, pub payments etc. were more complicated because the Council did not have as much data on those individuals and businesses. Officers relied on a series of checks, including company house data and custom data tools provided by the Government. When compared to the millions of pounds the Council paid out, only a very small percentage were fraudulent.

Councillor Alex Karmel noted that during the pandemic the Council was limited by anti-eviction rulings. He asked if officers had any indication what that cost the Council and if there was any mechanism to recoup lost funds?

Andrew Hyatt said officers could look at it, but not many cases had been lodged with legal services. The fraud team had looked at their own processes and improved their desk-based investigation skills. He thought it was unlikely the Council would be able to claim any money back. Emily Hill, Director of Finance, added that the Council had been provided funds to cover lost income from the General Fund, but that didn't apply to the Housing Revenue Account. There was no ability to reclaim those costs.

RESOLVED
The Committee noted the report.

6. MID-YEAR REPORT ON HEALTH AND SAFETY AT WORK 2021-22

Paul Barton, Head of Corporate Safety, presented the report which provided the mid-year update on the Council's health and safety at work management.

Councillor Jonathan Caleb-Landy suggested adding a risk rating to better understand the context and level of risk. Paul Barton agreed and noted that there was a detailed register that could be shared with councillors.

ACTION: Paul Barton

Councillor Alexandra Sanderson asked if there were any changes in light of the Omicron variant. She also noted that it would be helpful to show trend data for recorded accidents and incidents. Paul Barton said he would add trend data to the end of year report.

ACTION: Paul Barton

Paul Barton said, regarding the Omicron variant, that the Council had already been taking a very cautious approach to infection risk management. Services scheduled to come back into the office in restricted numbers were instructed to stay at home and frontline services carried out more stringent monitoring of PPE when interacting with the public. In response to Omicron all services had reviewed their risk assessments in a week, at the direction of the Director for Covid-19.

Councillor Alex Karmel noted that, according to the Evening Standard, Hammersmith & Fulham has the third highest infection rate of any borough in London. He asked what impact this had on council services, and what measures were in place to counter it. Paul Barton said due to the cautious approach taken, the infection rate amongst staff was low. Lisa Redfern added that the borough's ranking had been lower for a while and had only recently risen due to Omicron.

RESOLVED
The Committee noted the health and safety at work performance of the Council at the halfway stage of this financial year 2021/2022.

7. RISK MANAGEMENT HIGHLIGHT REPORT

David Hughes, Director of Audit, Fraud, Risk and Insurance, presented the report which provided an update on risk management across the Council.

Councillor Alex Karmel asked for clarity on risks 3 and 25 which were marked as red across the board. He also noted the report was very clear and well laid out. David Hughes said risk 3 related to cyber-security and was a national (and global) issue. The Council had good systems in place to protect services, but it was an area that required constant vigilance. The risk rating reflected the likelihood and impact of the issue.

Councillor Karmel asked for assurance that the Council had robust defences in place. David Hughes said an update on cyber-security would be coming to the next meeting. It was an area that the Council took very seriously, and he was satisfied that robust systems and processes were in place.

David Hughes said risk 25 related to the Coronavirus pandemic and it was marked high risk because it remained an ongoing significant risk. The Council was taking action to protect residents and staff. The situation was being regularly reviewed.

RESOLVED
The Committee noted the report.

8. EXTERNAL AUDIT APPOINTMENT 2023-28

Emily Hill, Director of Finance, presented the report which detailed the background to the appointment process for a new external auditor and set out the options for making such an appointment.

The report recommended opting into the Public Sector Audit Appointments (PSAA) arrangements for the years 2023-28. This option had the benefits of the economies of scale that came with a sector wide procurement and avoided the need for an independent audit panel. The decision would ultimately be made by Full Council.

Councillor Jonathan Caleb-Landy asked how the Council could guarantee value for money as a smaller authority in the pooled arrangement. Emily Hill said the Council was relatively small but was around the average for fees due to the range of services provided as compared with other smaller district councils. PSAA was most likely to get market interest – there was a greater incentive for audit firms to compete in that market.

Councillor Rowan Ree supported the recommendation in the paper – saying it was the best approach when the audit market comprised a small number of large firms. The other members of the Committee agreed.

RESOLVED
The Committee noted the report.

9. INTERNAL AUDIT PROGRESS REPORT

Moira Mackie, Head of Internal Audit, presented the report which summarised the status of work included in the 2021/22 Internal Audit Plan as at the end of November 2021. Eight audits were finalised, two of which received a substantial assurance opinion with six receiving satisfactory assurance.

Councillor Rowan Ree asked if the new, more dynamic process had been beneficial and if there were any drawbacks. Moira Mackie said officers had found it to be very beneficial. When planning a whole year in advance, by the final quarter it would always diverge. The new approach required more meetings with departments, but the plan was far more dynamic and reflected services' real priorities.

RESOLVED
The Committee noted the report.

10. INTERNAL AUDIT CHARTER AND STRATEGY

Moira Mackie, Head of Internal Audit, presented the report which set out the Internal Audit Charter and Strategy, setting out the approach to the delivery of the Internal Audit service.

RESOLVED
The Committee noted the report.

11. DATE OF NEXT MEETING

The next meeting was scheduled for 15 March 2022.

Meeting started: 6.30 pm
Meeting ended: 7.55 pm

Chair ....

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London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 15/03/2022

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

Report of: Emily Hill, Director of Finance

Responsible Director: Emily Hill, Director of Finance

SUMMARY

This report presents the London Borough of Hammersmith & Fulham's 2020/21 Statement of Accounts, including the Pension Fund Accounts and Annual Governance Statement for approval.

RECOMMENDATIONS

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

2. To approve the 2020/21 Annual Governance Statement which is included in the Statement of Accounts (Appendix 1).

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

4. To approve the Statement of Accounts for 2020/21, including the Pension Fund Accounts (Appendix 1).

5. To approve the Pension Fund Annual Report 2020/21 (Appendix 5).

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

7. To delegate authority to the Chair of the Audit Committee, in consultation with the Director of Finance to approve any further adjustments to Appendices 1,3, 4 and 5 which may be required as part of the completion of the audit work.

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.

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.

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Background Papers Used in Preparing This Report

None

Statement of Accounts 2020/21

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

2. The Narrative Statement at the beginning of the Statement of Accounts gives an outline of the Council's financial activity during 2020/21.

3. The Council's external auditor for the year is Grant Thornton UK LLP (GT).

4. It should be noted that the accounts remain 'unaudited' until the audit opinion is formally signed and dated by GT and the audit remains open until final certification. The accounts are therefore subject to change until that point. The Committee will be updated on the progress of the audit at its meeting on March. 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)

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

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

7. The auditor also asks the Committee and management for written representations about the financial statements and governance arrangements. To that end, Members are asked to consider and approve the draft letters of representation (Appendices 3 and 4).

Pension Fund

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

9. The Pension Fund Annual Report is attached at Appendix 5. This report includes reports on the various aspects of the operation of the Pension Fund – investments, administration and funding, as well as the Pension Fund financial statements. The Committee is required to approve the Annual Report, so that it can be published once the audit is complete.

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

Reason for decision

11. 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

Appendix 5 – Pension Fund Annual Report 2020/21

STATEMENT OF ACCOUNTS
2020/21

Draft subject to final audit opinion and certification

Hammersmith & Fulham Council

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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.

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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	2,030	1,904
Current Assets	373	291
Current Liabilities	(234)	(185)
Net Pension Liabilities	(658)	(505)
Other Long-Term Liabilities	(303)	(282)
Net Assets	**1,208**	**1,223**
Represented by:		
Usable Reserves	(289)	(170)
Unusable reserves	(919)	(1,053)
Total Reserves	**(1,208)**	**(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

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)	(68)	124,731	(108,895)	15,836
Cost of Services		**613,270**	**(496,116)**	**117,154**	**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				**(86,773)**			**83,306**
(Surplus) or deficit on revaluation of non-current assets				(31,530)			(35,124)
Remeasurements of the net defined benefit liability	27			136,716			(157,509)
Other Comprehensive Income and Expenditure				**105,186**			**(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	-
Long Term Investments	21	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	66,838	72,430
Inventories		67	78
Cash and Cash Equivalents	17	142,567	55,769
Current Assets		**373,489**	**290,822**
Short Term Borrowing	21	(2,575)	(13,843)
Short Term Creditors	18	(199,411)	(135,558)
Provisions	20	(25,794)	(33,266)
Grants and Contributions Receipts in Advance	30	(6,525)	(2,513)
Current Liabilities		**(234,305)**	**(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		82,024	(83,306)
Adjustments to net surplus or deficit on the provision of services for non-cash movements	22a	(62,852)	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		**15,228**	**(88,662)**
Investing Activities			
Purchase of Property, plant and equipment, investment property and intangible assets		(75,802)	(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		**(22,046)**	**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 £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	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	(6,521)	(3,223)	3,155	(68)
	144,848	**11,235**	**156,083**	**(38,929)**	**117,154**
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)**	**(87,165)**	**(87,466)**	**693**	**(86,773)**
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			(87,466)		
Closing Balance of General Fund/ HRA Balances			(231,144)		

* 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 managment 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	420,073	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	**656,817**	**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	**(86,773)**	**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)**

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	36,952	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	**66,838**	**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	(104,274)	(64,309)
Short Term PFI Lease Liability	(400)	(351)
Short Term Finance Lease Lease Liability	-	(20)
Total	**(199,411)**	**(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)	(3,992)	(2,345)	**(10,790)**
Amounts used	-	-	1,903	**18,261**
Unused amounts reversed	-	12,011	-	**-**
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 : Measured at amortised				
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	Financial Assets: Measured at Fair Value through Profit and Loss £000	Total £000	Financial Liabilities at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for Sale Assets £000	Total £000
Interest expense	11,675	-	-	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**

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	10,085	10,085	195	195
Available for Sale less than one year	-	-	-	-
Available for Sale greater than one year	-	-	-	-
Total	**174,102**	**174,102**	**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 (£298.925m at 31 March 2020.)

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	(41,183)	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*	6,175	(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*	(2,014)	(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	**(62,852)**	**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

	Opening Balance	Cash (Inflow)/ Outflow	Transfers between ST and LT	Other Non-Cash changes	Closing Balance
2020/21	**£000**	**£000**	**£000**	**£000**	**£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.

		Notes	FY	Salary, Fees and Allowances	Bonuses	Expenses Allowances	Compensation for Loss of Office	Pension Contribution	Total
Role	**In Post**			**£**	**£**	**£**	**£**	**£**	**£**
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
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 Director of Environment Services is being occupied on an interim basis.

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:

	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.

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

27. Defined Benefit Schemes (cont'd)

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	195	191
Fees payable to External Audit for the certification of grant claims and returns for the year	38	32
Non-Audit Services	13	13
Audit Refunds	-	-
Total	**245**	**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 (£2.7m) 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 in the 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)	0	(2)
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)**	**7,193**	**(2)**

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	0	(1)
Hammersmith and Fulham Community Law Centre	0	127	0	0	(5)
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**	**0**	**(6)**

*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.

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. 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.

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.

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

The council does not have any material contingent assets.

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 £1.87 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; 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.

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

Housing Revenue Account (HRA)

Pension Fund Accounts

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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

Net Assets Statement

Notes to the Pension Fund

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				Employees'	
	Normal		Deficit Recovery		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 determine the potential impact this may have it has been determined that

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

Annual Governance Statement

Glossary of Terms

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.

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.
This draft has been created from the template dated DD MMM YYYY

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

Year ended 31 March 2021

March 2022

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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.

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

- resolution of audit queries with regard to creditors and debtors balances selected for sample testing;
- satisfactory resolution of all queries arising from senior manager and partner review of the audit file;
- receipt of management representation letters – see appendix F; and
- receipt and review of the final set of 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 in progress. Our detailed commentary will be set out in the separate Auditor's Annual Report. This will be communicated in advance of the National Audit Office's revised deadline which has been set at three months after the date of the audit opinion on the financial statements.

We are satisfied from the procedures undertaken to date that no matters have been identified which would impact our proposed opinion on the financial statements.

To date, we have not identified any significant weaknesses in arrangements.

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

Aside from these issue, to date we have not encountered any significant difficulties or identified any significant matters arising during our audit.

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 queries including those described 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

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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. 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. 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. 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.

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. 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.

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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: (see table below) • 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.	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	●

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

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

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

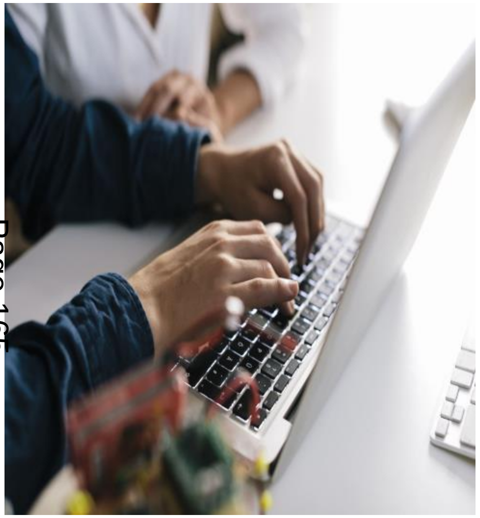
- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider 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



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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 Aside from this issue, to date we have not encountered any significant difficulties or identified any significant matters arising during our audit.

2. Financial Statements - other communication requirements

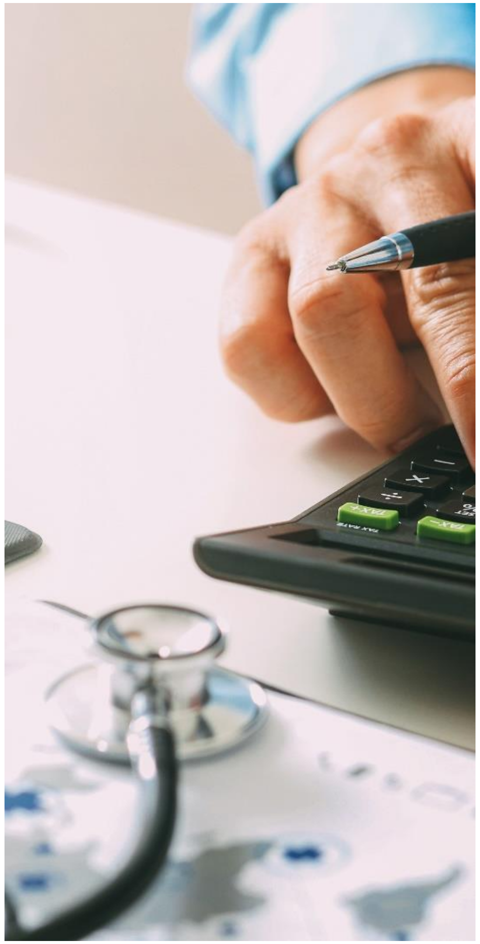
Our responsibility

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.



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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. As the Council's gross cost of services exceeds the expected group reporting threshold of £500m, we will examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements and carry out the procedures required by the NAO. This work is not yet completed as the group audit instructions are yet to be issued by the NAO. Once these instructions are provided, we will agree with management an appropriate timeframe to carry out this work.
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: • we have not yet completed our value for money procedures for 2020/21 under the revised Code of Audit Practice. We intend to complete this work and issue our Auditor's Annual Report in advance of the deadline which is three months after the date of the audit opinion. • the group instructions for the assurance statement on the Whole of Government Accounts return are yet to be issued and the associated audit procedures have therefore not been undertaken. Once these instructions are provided, we will agree with management an appropriate timeframe to carry out this work. • 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.

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 VFM work is in progress. Our detailed commentary will be set out in our separate Auditor's Annual Report. We are satisfied from the work we have undertaken to date that no matters have been identified that would impact on our proposed audit opinion on the financial statements.

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)	25,000	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 £25,000 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.

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. 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.

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

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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

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

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.

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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.

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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. At the time of writing, our audit procedures relating to membership data and benefits payable, which rely on data held within the Altair pensions administration system, remain underway. This is due to delays experienced in the audit team being granted access to the Surrey County Council system. As such we are unable to conclude on whether this issue recurred during 2020/21 at this stage. This position will be updated in the final version of this report, which will be discussed with those charged with governance in advance of issuing our audit opinion on the financial statements.

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

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
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 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.	✓
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.	✓

C. Audit Adjustments – Council

Misclassification and disclosure changes (continued)

Disclosure amendment	Adjustment agreed?
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 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.	✓
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.	✓

C. Audit Adjustments – Council

Misclassification and disclosure changes (continued)

Disclosure amendment	Adjustment agreed?
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)	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.

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. 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.

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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)	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)	

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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:

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]

F. Management Letter of Representation – Council

SEPARATELY PROVIDED

F. Management Letter of Representation – Pension Fund

SEPARATELY PROVIDED

TO FOLLOW

G. Audit letter in respect of delayed VFM work

SEPARATELY PROVIDED

TO FOLLOW

grantthornton.co.uk

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 15 March 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

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

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. 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 15 March 2022.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Fund

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 [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)	

Annual Report

Hammersmith & Fulham Pension Fund 2020/21

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hammersmith & fulham

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1.
Preface

Report from Chair of the Pensions Sub-Committee

WELCOME TO THE ANNUAL REPORT OF HAMMERMSITH AND FULHAM PENSION FUND

The Pension Fund Committee is responsible for overseeing the governance and management of the London Borough of Hammersmith and Fulham Pension Fund, including investment management and pension administration responsibilities. As the current Chair of this Committee, I am pleased to introduce the Pension Fund's Annual Report for the year 2020/21.

Since the Covid-19 pandemic struck in early 2020, people across the world are still suffering and our thoughts are with those affected. The Pension Fund has experienced a considerable recovery since the March 2020 lows that occurred during the early stages of the pandemic, with asset values bouncing back 21% in value. The Committee continues to monitor the Fund closely at each quarterly committee meeting and challenges the investment advisors and officers as necessary to ensure the Fund's investments are being managed effectively.

The Fund completed a triennial actuarial valuation as at 31 March 2019, with the funding level improving significantly from 88% in 2016, to 97%. This is primarily as a result of strong investment returns over the period. The planning process for the March 2022 valuation is already underway. Recent funding updates shows that the funding level should remain broadly in line with 2019.

The Pension Fund remains conscious of its role in ensuring good environmental, social and governance behaviours from the companies in which it invests. The Fund made a £30m commitment to the construction of new affordable homes during the year. In line with good governance practice, the Fund continues to closely monitor the underlying carbon emissions of its investments, with the latest data showing the Fund has reduced its carbon to value invested of its equity portfolios by approximately 80% since December 2018 (June 2020 data).

The Pension Fund has shown leadership in managing the environmental social and governance (ESG) impacts of its investments. The London CIV showcased the Pension Fund's ESG dashboard as an exemplar, when it was first introduced in 2019, of reporting ESG concerns to members. The Pension Fund has also been recognised by Friends of the Earth in its "Divest Dashboard" as having the second lowest exposure to fossil fuels across all UK LGPS funds and the lowest in London.

I would like to thank all those involved in the governance and management of the Pension Fund during the year, especially those who served on the Pension Fund Committee during this time.

Councillor Iain Cassidy
Chairman of the Audit Committee & Pensions Sub-Committee

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Introduction

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

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies, and from investment returns on the Fund's investment assets. Contributions rates for employees set in accordance with the Local Government Pension Scheme Regulations 2013. Employer contributions are set based on the triennial actuarial funding valuation. The latest valuation for the fund was carried out as at 31 March 2019, and the new contributions came into effect from 1 April 2020.

The benefits payable from the Fund in respect of service from 1 April 2014 are set out in the Local Government Pension Scheme Regulations 2013, as amended, and in summary consist of:

- Career average revalued earnings (CARE), revalued in line with the Consumer Prices Index.
- Pensionable pay to include non-contractual overtime and additional hours.
- Flexibility for member to pay 50% contributions for 50% of the pension benefit
- Normal pension age to equal the individual member's State Pension Age.
- Option to trade £1 of pension for a £12 tax-free lump sum at retirement.
- Death in service lump sum of three times pensionable pay and survivor benefits
- Early payment of pensions in the event of ill health.

The benefits payable in respect of service prior to 1 April 2014 are based on an employee's final salary and the number of years eligible service. Benefits accrued in the Scheme before 1st April 2014 are protected up to that dated based on the scheme member's final year's pay.

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

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

The content and format of this annual report is prescribed by the LGPS Regulations 2013.

Publication of this report gives the Council the opportunity to demonstrate the high standard of governance and financial management applied to the Fund. It brings together several separate reporting strands into one comprehensive document that enables both the public and employees to see how the Fund is managed and how well it is performing.

It is in the interest of both employees and the public that the Fund is well managed and continues to provide high returns and excellent value for money.

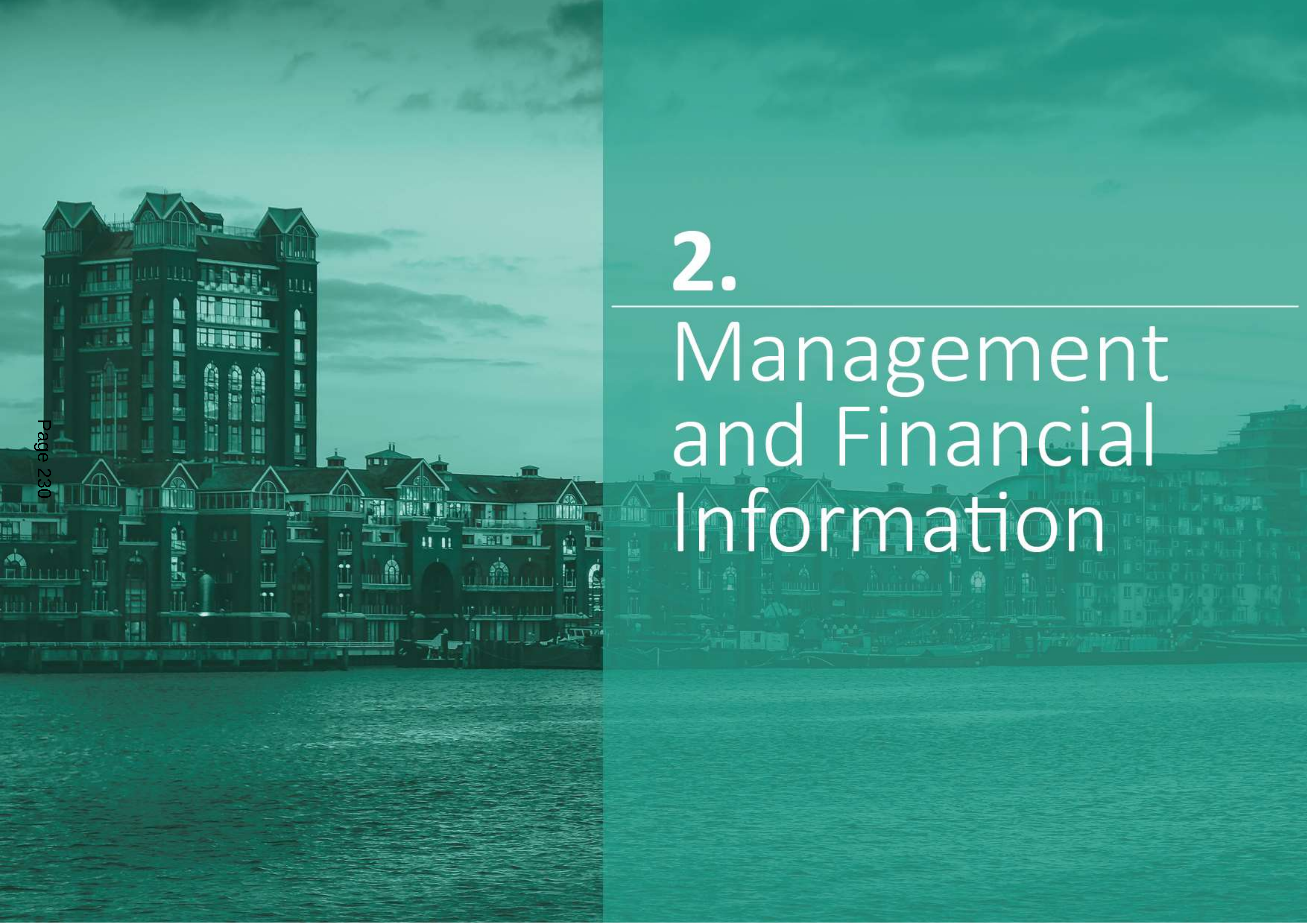
Introduction (continued)

THIS ANNUAL REPORT COMPRISES THE FOLLOWING SECTIONS:

- **Management and Financial Performance** which explains the governance and management arrangements for the Fund, as well as summarising the financial position and the approach to risk management.
- **Investment Policy and Performance** which details the Fund's investment strategy, arrangements and performance.
- **Scheme Administration** which sets out how the Scheme's benefits and membership are administered.
- **Actuarial Information** which includes the funding position of the Fund with a statement from the Fund's actuary.
- **The Fund's Annual Accounts** for the year ended 31 March 2020.
- **List of contacts** and a glossary of some of the more technical terms
- **Appendices** setting out the various regulatory policy statements of the Fund:
    - Governance Compliance Statement
    - Statement of Investment Principles
    - Communication Policy
    - Funding Strategy Statement
    - Pension Administration Strategy
    - Report of the Pension Board

Further information about the Local Government Pension Scheme can be found at: *www.lbhfpensionfund.org*

This annual report and the statement of accounts within have been prepared taking careful account of relevant Statutory Guidance.



2.

Management and Financial Information

Governance Arrangements

PENSION FUND COMMITTEE

The London Borough of Hammersmith & Fulham Council has delegated responsibility for pension matters to the Audit, Pensions and Standards Committee.

The Committee is comprised of six elected representatives of the council – four from the administration and two opposition party representatives. Members of the admitted bodies and representatives of the Trade Unions may attend the committee meetings but have no voting rights. In order to manage the workload of the committee, it has delegated decisions in relation to all pension matters to the Pensions Sub-Committee.

The Sub-Committee obtains and considers advice from the Tri-Borough Director of Treasury and Pensions, the Section 151 Officer and, as necessary, from the Fund's appointed actuary, advisors and investment managers.

Terms of reference for the Sub-Committee are:

- To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the investment consultant.
- To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable.
- To determine the Fund's management arrangements, including the appointment and termination of fund managers, actuary, custodians and fund advisors.
- To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.
- To approve the final Statement of Accounts of the Pension Fund and to approve the Annual Report.
- To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund.
- To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of the Council for the payment of pensions, and allowances to beneficiaries.
- To make and review an admission policy relating to admission agreements generally with any admission body.
- To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
- To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
- To receive and consider the Auditor's report on the governance of the Pension Fund.
- To determine any other investment or Pension Fund policies that may be required from time to time to comply with Government regulations and to make any decisions in accordance with those policies

The current membership of the Pensions Sub-Committee is set out below. Jonathan Caleb-Landy and Rowan Ree replaced Rebecca Harvey and PJ Murphy at the beginning of 2021, with the remaining elected members serving for the full year in 2020/21.

Councillor	Committee Attendance 2020/21
Iain Cassidy (Chair)	7/7
Matt Thorley (Vice Chair)	7/7
Rebecca Harvey	5/7
PJ Murphy	5/7
Jonathan Caleb-Landy	2/2
Rowan Ree	2/2

Councillors may be contacted at Hammersmith Town Hall, King Street, London, W6 9JU

LOCAL PENSION BOARD

The Council has also established a Pensions Board (the Board) to assist the Pensions Sub-Committee as required by the Public Services Pensions 2013. The purpose of the Pensions Board is to provide oversight of the Pensions Sub-Committee.

The Board does not have a decision-making power in relation to management of the Fund but is able to make recommendations to the Pensions Sub-Committee. It meets at least twice a year.

Terms of reference for the Local Pension Board are:

- To secure compliance with the LGPS Governance regulations and any other legislation relating to the governance and administration of the Fund.
- To secure compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme
- To ensure effective and efficient governance and administration of the Scheme

The membership of the Board is as follows:

- Two employer representatives comprising one from an admitted or scheduled body and two nominated by the Council;
- Three scheme member representatives from the Council or an admitted or scheduled body.

The current membership of the Pensions Board is set out below.

Board Member	Employer/Employee	Attendance 2019/20
Cllr Rory Vaughn (Chair)	Employer	2/2
Cllr Bora Kwon	Employer	2/2
William OConnell	Employee	2/2
Khadija Sekhon	Employee	0/2
Neil Newton	Employee	1/2

MEMBER AND OFFICER TRAINING

The LGPS Governance regulations and other related legislation requires Local Pension Board members to have knowledge and understanding of relevant pension laws, and to have a working knowledge

During 2020/21 knowledge was gained at various meetings with investment managers in addition to individual attendance at conferences and seminars.

Further relevant training is planned for 2021/22 based on self-assessments completed by Sub-Committee and board members in accordance with the policy.

CONFLICTS OF INTEREST

The Pension Fund is governed by elected members acting as trustees and the Code of Conduct for elected members' sets out how any conflicts of interests should be addressed. The Members Code of Conduct is in Part 5 of the Council Constitution which can be found online at *www.lbhf.gov.uk*

The Code includes general provisions on ethics and standards of behaviour which require elected members to treat others with respect and not to bully, intimidate or do anything to compromise the impartiality of those who work for or on behalf of the Council.

The Code also contains rules about "disclosable pecuniary interests" and sets out the action an elected member must take when they have such an interest in Council business, for instance withdrawing from the room or chamber when the matter is discussed and decided in committee, unless dispensation has been obtained from the Council's Monitoring Officer.

GOVERNANCE COMPLIANCE STATEMENT

The LGPS Regulations 2013 require Pension Funds to prepare, publish and maintain a governance compliance statement; and to measure the governance arrangements in place against a set of best practice principles. This measurement should result in a statement of full, partial or non-compliance with a further explanation provided for any non- or partial-compliance.

The key issues covered by the best practice principles are:

- Formal committee structure;
- Committee membership and representation;
- Selection and role of lay members;
- Voting rights;
- Training, facility time and expenses.

The Fund's Governance Compliance statement was updated in June 2015 can be found at Appendix 1.

Scheme Management and Advisors

EXTERNAL PARTIES

Investment Advisor	Deloitte	
Investment Managers	**Global Equities (Passive)**	**Absolute Return**
	Legal & General Investment Management	London LGPS CIV – Ruffer
	Morgan Stanley Investment Management	**Fixed Income**
	Private Multi-Asset Credit	Oakhill Advisors
	Partners Group	**Long Lease Property**
	Aberdeen Standard	Aberdeen Standard
	Infrastructure	**Private Equity**
	Aviva Investors	Invesco
	Partners Group	Unigestion
Custodian	Northern Trust	
Banker	NatWest Bank	
Actuary	Barnett Waddingham	
Auditor	Grant Thornton LLP	
Legal adviser	Eversheds Sutherland	
Scheme Administrators	Surrey County Council	
AVC Providers	Zurich Assurance	Equitable Life Assurance Society

OFFICERS

Strategic Director of Finance and Governance (S151 Officer)	Emily Hill	
Tri-Borough Pensions Team	Phil Triggs	Julia Stevens
	Matt Hopson	Billie Emery
	Mat Dawson	Alastair Paton
	Patrick Rowe	Gibraan Karim
Pensions Manager	Eleanor Dennis	

Contact details are provided in Section 7 of this report

Risk Management

The Fund's primary long-term risk is that its assets fall short of its liabilities such that there are insufficient assets to pay promised benefits to members. The investment objectives have been set with the aim of maximising investment returns over the long term within specified risk tolerances. This aims to optimise the likelihood that the promises made regarding members' pensions and other benefits will be fulfilled.

The responsibility for the Fund's risk management strategy rests with the Pensions Sub-Committee. In order to manage the risks a Pension Fund Risk Register is maintained, focusing on investment risks and on administration risk. This document is reviewed quarterly. For the key risks which have been identified, appropriate planned actions have been introduced to minimise their impact. The risk register is managed by the Tri-Borough Director of Treasury and Pensions and risks have been assigned to the appropriate "risk owners".

The key risks identified within the Pension Fund risk register are:

Objective Area at Risk	Risk	Risk Rating	Responsible Officer	Mitigating Actions
Investment	The global outbreak of COVID-19 poses economic uncertainty across the global investment markets. Valuations of illiquid assets such as property and infrastructure are increasingly difficult to determine.	High	Tri-Borough Director of Pensions and Treasury	The Fund's officers will continue to monitor the impact lockdown measures have on the fund's underlying investments and the wider economic environment The Fund will continue to review its asset allocation and make any changes when necessary
Administration	Changing the fund's pensions administration provider at the same time as bringing back the retained pensions team in house poses significate operational risk to the fund	High	Director of Finance	A task force of key stakeholders has been assembled. Officers to feed into the internal processes necessary for the setup of an effective retained pensions team
Investment	Significant volatility and negative sentiment in global investment markets caused by global political uncertainty	High	Tri-Borough Director of Pensions and Treasury	The Fund's officers are in regular dialogue with investment managers with regards to their management of political risk. The Fund holds a well-diversified portfolio and the investment strategy is reviewed regularly.
Administration	Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.		Director of Finance	The Fund's officers continue to monitor the staffing changes, contract and KPIs of third-party provider.

Risk Management (continued)

Risks arising from financial instruments are outlined in the notes to the Pension Fund Accounts (Note 16).

The Funding Strategy Statement (Appendix 3) sets out the key risks, including demographic, regulatory, governance, to not achieving full funding in line with the strategy. The actuary reports on these risks at each triennial valuation or more frequently as and when required.

Objective Area at Risk	Risk	Risk Rating	Responsible Officer	Mitigating Actions
Funding	There is insufficient cash available to the Fund to meet pension payments due to reduced income generated from underlying investments, leading to investment assets being sold at sub-optimal prices to meet pension obligations.	Medium	Director of Finance	The Fund's officers maintain a regularly monitored cashflow forecast. The Fund's cash position is reported to sub-committee quarterly. The Fund continually reviews the income it receives from underlying investments
Governance	The asset pool disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious.	Medium	Tri-Borough Director of Pensions and Treasury	The Fund's officers frequently engage with the pool and partner funds Ongoing fund and pool proposals are monitored regularly
Funding	Scheme members live longer than expected leading to higher than expected liabilities.	Medium	Tri-Borough Director of Pensions and Treasury	The scheme's pension liabilities are reviewed on a quarterly basis and revalued every three years.
Investment	Volatility caused by uncertainty regarding the withdrawal of the UK from the European Union, including ongoing supply chain issues.	Medium	Tri-Borough Director of Pensions and Treasury	Officers regularly consult and engage with advisors and independent managers.

THIRD PARTY RISKS

The Council has outsourced the following functions of the Fund:

- Investment management;
- Custodianship of assets;
- Pensions administration.

As these functions are outsourced, the Council is exposed to third party risk. A range of investment managers are used to diversify manager risk.

To mitigate the risks regarding investment management and custodianship of assets, the Council obtains independent internal controls assurance reports from the reporting accountants to the relevant service providers. These independent reports are prepared in accordance with international standards. Any weaknesses in internal controls highlighted by the controls assurance reports are reviewed and reported as necessary to the Pension Committee.

The Council's internal audit service undertakes planned programmes of audits of all the Councils' financial systems on a phased basis, all payments and income/contributions are covered by this process as and when the audits take place.

The results of these reviews are summarised below and cover 99.5% of investment holdings at 31 March 2021.

Fund Manager	Type of Assurance	Control Framework	Compliance with Controls	Reporting Accountant
Aberdeen Standard	ISAE 3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Aviva Investors	ISAE 3402	Reasonable assurance	Reasonable assurance	PWC LLP
Invesco	ISAE 3402	Reasonable assurance	Reasonable assurance	PWC LLP
Legal & General	ISAE 3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Morgan Stanley	ISAE 3402	Reasonable assurance	Reasonable assurance	Deloitte
Oak Hill Advisors	SOC10	Reasonable assurance	Reasonable assurance	RSM US LLP
Partners Group	ISAE 3402	Reasonable assurance	Reasonable assurance	PWC LLP
Ruffer LLP	ISAE 3402	Reasonable assurance	Reasonable assurance	Ernst Young LLP
Unigestion	ISAE 3402	Reasonable assurance	Reasonable assurance	KPMG LLP
PIMCO	ISAE 3402	Reasonable assurance	Reasonable assurance	PWC LLP
Custodian				
Northern Trust	SOC10	Reasonable assurance	Reasonable assurance	KPMG LLP

Financial Performance

The Fund asset value increased by £208m during 2020/21, to £1,219m as at 31 March 2021, after recovering well from a drop in value due to the uncertainty in the global economic outlook as a result of the COVID-19 disease.

A triennial revaluation was completed in 2016/17 showing an improvement in the overall funding level to 88% compared to 83% in 2013. However, funding levels for different employers vary significantly. To improve funding levels, the Council's medium-term financial plan already assumes an increase in employer contributions, which in combination with other employers, will improve the overall funding level over the medium term.

The latest triennial revaluation took place in 2019 and set employer contribution rates from 2020/21 onwards and shows a further funding level of 97%.

ANALYTICAL REVIEW – FUND ACCOUNT

	2016/17	2017/18	2018/19	2019/20	2020/21
Fund account	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Dealings with members					
Contributions	(32,274)	(33,454)	(36,386)	(37,869)	(41,534)
Pensions	40,770	42,827	48,846	52,660	52,088
Net (additions)/withdrawals from dealings with members	**8,496**	**9,373**	**12,460**	**14,791**	**10,554**
Management expenses	6,530	4,503	6,199	5,866	8,903
Investment Income	(12,799)	(10,283)	(11,967)	(14,642)	(12,327)
Change in market value	(148,740)	(10,384)	(49,142)	36,172	(215,444)
Net (increase)/decrease in the Fund	**(146,513)**	**(6,791)**	**(42,450)**	**41,187**	**(208,337)**

Over the five-year period, pensions paid have exceeded contributions received by £56m in total. This reflects the maturity of the Fund membership in that there are fewer contributors than beneficiaries.

Both officers and the Pensions Sub-Committee monitor investment performance closely and refer to independent investment advisers as necessary to ensure the Fund's investments are being managed effectively.

The fund transitioned assets between managers in year which resulted in increased transaction costs. This related to the Fund's divestment from the Majedie UK Equity Fund into the MSIM Global Core Fund.

Additionally, due to new requirements related to the cost transparency initiative, the Fund was able to ascertain its transaction costs more accurately.

Financial Performance (continued)

ANALYTICAL REVIEW – NET ASSET STATEMENT

	2016/17	2017/18	2018/19	2019/20	2020/21
Net Asset Statement	£'000	£'000	£'000	£'000	£'000
Bonds	-	-	-	-	
Equities	112,475	150	150	150	150
Pooled investment vehicles	834,828	998,141	1,034,851	946,792	1,214,810
Commodities	-	-	-	-	-
Derivatives	-	-	-	-	-
Cash deposits	7,856	6,168	12,843	59,524	8
Other	486	35	34	26	13
Total Investment Assets	1,002,682	1,004,494	1,047,878	1,006,492	1,214,981
Current assets	4,373	6,420	5,396	5,572	3,664
Current Liabilities	(4,223)	(1,291)	(1,201)	(1,178)	(1,100)
Net (increase)/decrease in the Fund	1,002,832	**1,009,623**	**1,052,073**	**1,010,886**	**1,219,223**

The points to note are:

- 95% of pooled investment vehicles comprise equity shareholdings both domestic and overseas, while the remaining 5% is in property pooled funds.
- The overall value of pooled investment vehicles increased by £268m (28%) during the year.

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

Financial Performance (continued)

ANALYSIS OF DEALINGS WITH SCHEME MEMBERS

	2016/17	2017/18	2018/19	2019/20	2020/21
Contributions receivable	£'000	£'000	£'000	£'000	£'000
- Members	(6,937)	(6,781)	(7,157)	(7,408)	(8,004)
- Employers	(22,494)	(24,268)	(25,074)	(26,135)	(24,180)
- Transfers in	(2,090)	(3,012)	(2,934)	(4,326)	(9,350)
- Other	(753)	607	(1,221)	-	-
Total Income	**(32,274)**	**(33,454)**	**(36,386)**	**(37,869)**	**(41,534)**

	2016/17	2017/18	2018/19	2019/20	2020/21
Benefits Payable	£'000	£'000	£'000	£'000	£'000
- Pensions	30,002	31,465	32,912	34,916	36,363
- Lump sum retirements and death benefits	5,685	7,256	8,167	9,400	8,672
- Transfers out	5,046	4,086	7,726	7,225	7,013
- Refunds	37	20	41	119	40
Total Expenditure	40,770	42,827	48,846	51,660	51,580
Net Dealings with Members	**8,496**	**9,373**	**12,460**	**13,791**	**10,554**

The key variances were due to the following:

- Lump sums fell due to fewer members retiring than in the prior year.
- Transfers in were higher, reflecting more new starters joining the scheme and choosing to transfer in benefits on commencement of employment, than last year.

Financial Performance (continued)

ANALYSIS OF OPERATIONAL EXPENSES

The costs of running the pension fund are shown below.

	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000
Administration					
Employees	138	235	214	223	279
Supplies and services	381	165	132	139	254
Other Costs	1	3	2	3	3
Total Administration Costs	**520**	**403**	**348**	**365**	**536**
Governance and Oversight					
Employees	103	341	337	447	550
Investment advisory services	66	65	93	81	109
Governance and compliance	43	0	56	134	125
External audit	24	21	16	25	-4
Actuarial fees	31	25	50	79	54
Total Governance and Oversight Costs	**267**	**452**	**552**	**766**	**834**
Investment Management					
Management fees	4,310	3,223	4,763	4,250	5,446
Performance fees	997	343	244	36	257
Transaction costs	382	44	185	421	1,764
Custodian fees	54	38	107	28	66
Total Investment Management Fees	**5,743**	**3,648**	**5,299**	**4,735**	**7,553**
Total Operational Expenses	**6,530**	**4,503**	**6,199**	**5,866**	**8,903**

In 2020/21, the Fund carried out extensive work related to the moving its administrative function back in-house (to be completed in 2021/22). In order to ensure effective administration for fund members this process was carried out whilst maintaining Surrey as the Funds admin team through 2020/21. This was a key cost driver for the increase in administrative costs for the pension fund. Costs increased by 47%.

The Fund's investment management expenses increased by 60% during the year. The main driver of this increase in cost was the result of the Fund's managers achieving strong returns in year, with fees being based on the value on assets under management and performance fees in some instances.

Administration Management Performance

The administration of the Fund is managed by Hammersmith and Fulham Council but undertaken by Surrey County Council under a not-for-profit contractual arrangement operational from 1 September 2014.

PERFORMANCE INDICATORS

The contract with Surrey County Council includes several performance indicators included to ensure that service to members of the pension fund is effective. The targets are set out below, along with actual performance.

Performance Indicators	Target	2017/18 Performance	2018/19 Performance	2019/20 Performance	2020/21 Performance
Letter detailing transfer out quote	20 days	34%	82%	89%	74%
Process refund and issue payment voucher	10 days	98%	92%	93%	90%
Letter notifying estimate of retirement benefit	10 days	100%	87%	93%	79%
Letter notifying actual retirement benefit	7 days	100%	98%	95%	73%
Letter acknowledging death of member	5 days	100%	100%	94%	77%
Letter notifying amount of dependant's benefits	10 days	100%	94%	96%	75%
Calculate and notify deferred benefits	20 days	44%	90%	79%	86.5%

Performance had generally shown improvement across the board due to improvements in staffing and the implementation process of the new online pension systems, however this performance has decreased over the last year following the withdrawal from the arrangement and commitment to a new provider.

ORBIS

The ORBIS on-line pension system is a secure portal which enables members to:

- Update personal details
- Check membership records and calculate pension projections
- View payslips and P60s
- Nominate beneficiaries

Scheme employers can use the system to:

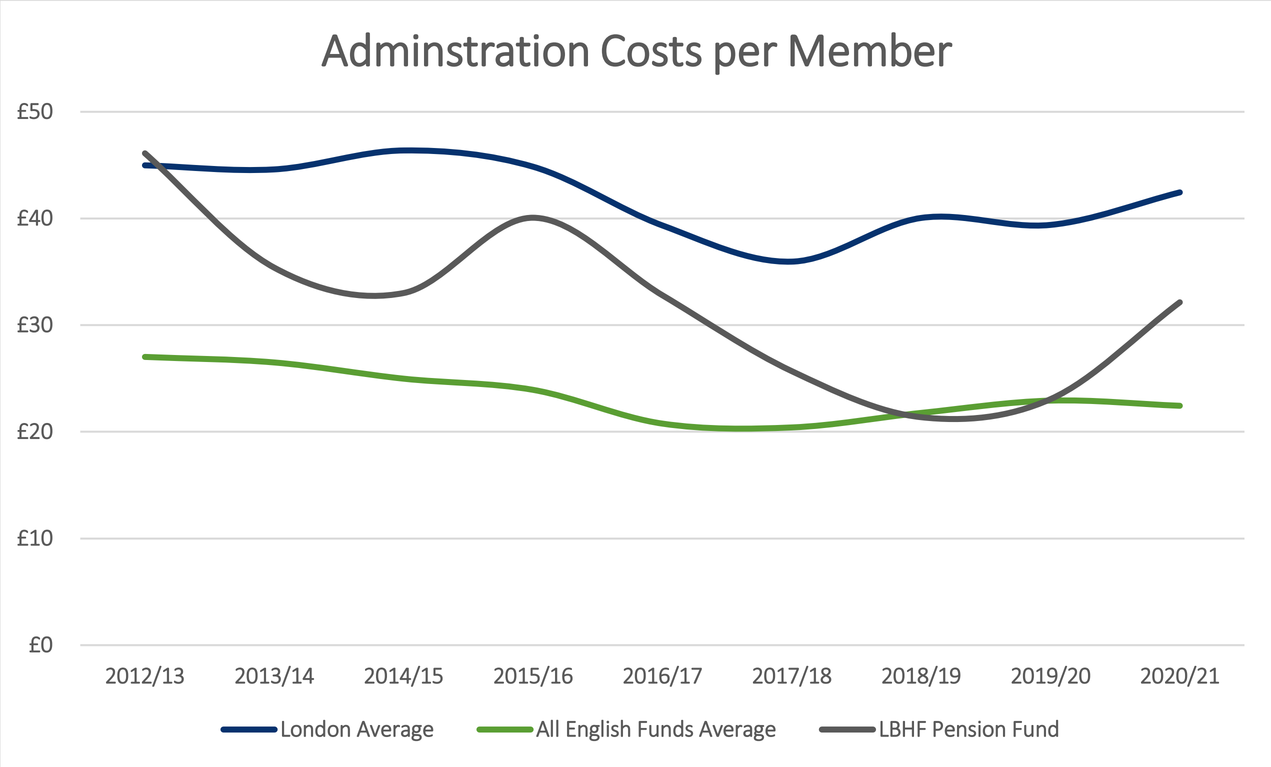
- Submit starter and leaver details and other changes online
- View and update employee details
- Run benefit calculations e.g. early retirements

COMPLAINTS RECEIVED

The pension administrators occasionally deal with members of the fund who dispute an aspect of their pension benefits. These cases are dealt with by the Internal Dispute Resolution Procedure (see section 4).

One new complaint was lodged with the Ombudsman in 2020/21.

Administration Management Performance (continued)



STAFFING INDICATORS

The Pension Fund's cost of administration per member remains below the average for the London borough pension funds as shown in the chart. Administration costs are subject to regular review.

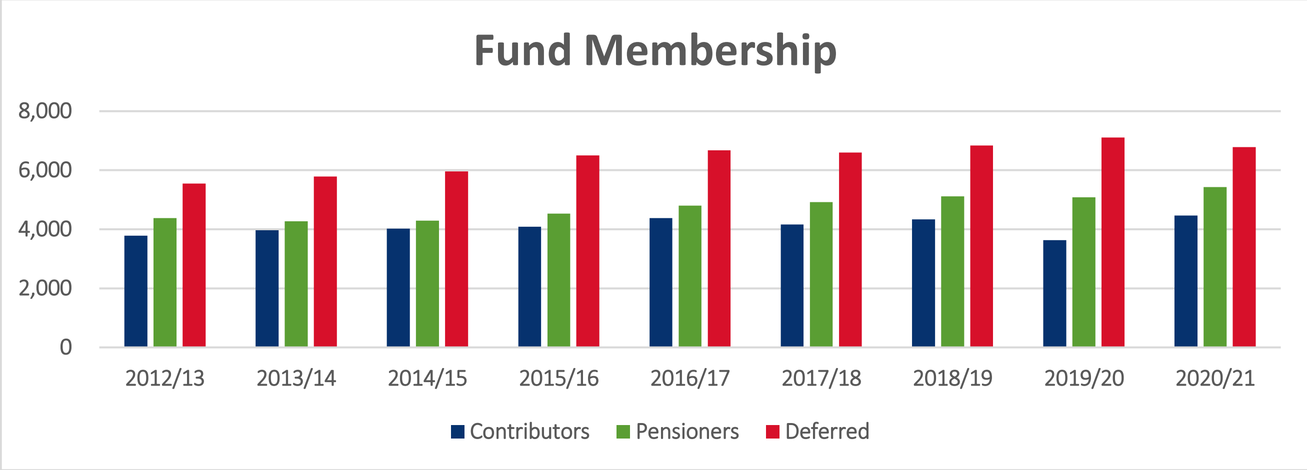
The administration of the Fund comprises of:

- 3 full-time equivalent (FTE) staff engaged by Surrey CC working directly on pension administration for Hammersmith and Fulham
- 2.8 FTE Hammersmith and Fulham HR staff to deal with internal administration.
- 1.93 FTE Westminster Finance staff assigned to the oversight and governance of the Pension Fund.

MEMBERSHIP NUMBERS AND TRENDS

Overall membership has increased by about 10% over the past 5 years from 15,124 to 16,676.

The introduction of auto-enrolment in 2013 and the increase in admitted employers has led to an increase in members contributing towards the Scheme. Nonetheless, the number of pensioners has been stable over the last several years in common with other local government pension funds, reflecting the maturity of the Fund.



ENHANCED BENEFITS

The total number of pensioners in receipt of enhanced benefits due to ill health or early retirement on the grounds of redundancy or efficiency of the service is given in the table across as at each year on 31 March.

Reason for leaving	2016/17	2017/18	2018/19	2019/20	2020/21
Ill health retirement	10	6	4	3	6
Early retirement	29	18	20	21	29
	39	**24**	**24**	**24**	**35**

Administration Management Performance (continued)

CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

The list below contains a list of the current active contributing employers and the contributions received in 2020/21. The employer's contributions figures include early retirement and deficit funding contributions.

Administering Authority Employer	Employees Contributions £000	Employers Contributions[1] £000	Total Contributions £000
London Borough of Hammersmith & Fulham	5,663	15,874	21,537
Addison Primary School	33	120	152
All Saints Primary School	13	45	58
Avonmore Primary School	25	91	115
Bayonne Nursery School	15	55	70
Brackenbury Primary School	27	99	126
Cambridge School (Special)	35	121	156
Flora Gardens Primary School	21	72	92
Holy Cross RC Primary School	36	129	165
Jack Tizard School (Special)	53	192	245
James Lee Nursery School	10	34	44
John Betts Primary School	17	59	76
Kenmont Primary School	16	59	75
Larmenier & Sacred Heart Primary	32	117	149
Melcombe Primary School	32	114	146
Miles Coverdale Primary School	27	97	123
Normand Croft Community School	30	106	136
Old Oak Primary School	28	103	131
Queensmill School	140	505	646
Randolph Beresford Early Years	42	139	181

[1] Includes early retirement and deficit contributions

Administering Authority Employer	Employees Contributions £000	Employers Contributions[1] £000	Total Contributions £000
Sir John Lillie Primary School	26	92	118
St Augustine's Primary School	15	56	71
St John XXIII Catholic Primary	26	99	125
St Johns CE Primary School	20	71	92
St Mary's Primary School	28	104	132
St Paul's Primary School	24	89	112
St Peter's Church of England Primary School	17	63	80
St Stephens CoE Primary School	39	141	180
St. Thomas of Canterbury Primary	13	45	58
The Good Shepherd Primary School	18	68	86
Vanessa Nursery School	14	52	66
Wendall Park Primary School	22	83	105
William Morris Sixth Form School	58	197	255
Wood Lane High School	27	92	118
Wormholt Park Primary School	34	116	150
Total Contributions from Administering Authority	**6,671**	**19,500**	**26,170**

Administration Management Performance (continued)

SCHEDULED BODIES

The Fund provides pensions not only for employees of Hammersmith and Fulham Council, but also for the employees of several scheduled and admitted bodies.

Scheduled bodies are organisations which have a statutory right to be a member of the Local Government Pension Scheme under the regulations e.g. academy schools.

Scheduled Body	Employees Contributions £000	Employers Contributions[2] £000	Total Contributions £000
Mortlake Crematorium Board	23	58	81
London Oratory School	61	148	210
Ark Burlington Danes Academy	67	154	221
Hammersmith Academy	61	223	284
Sacred Heart Academy	61	207	268
Ark Conway Primary Academy	19	88	108
West London Free School	100	334	434
Ark Bentworth Primary Academy	13	54	67
Lady Margaret Academy	47	164	211
ARK Swift Primary Academy	21	85	106
Fulham College Academy Trust (Girl's School)	51	173	224
Hurlingham and Chelsea Academy	37	128	165
Fulham Boys Free School	41	142	183
Fulham College Academy Trust (Boy's School)	45	167	212
Greenside Academy	16	60	76
Thomas' Academy	17	69	87
Langford Academy	11	39	50
Futures (Phoenix) Academy	25	97	122
Brightwells Academy	0	0	0
The Bridge AP Academy	58	214	272
Earl's Court Free School	7	34	41
Brightwells Academy Fulham Primary School	30	123	153
Brightwells Academy Queens Manor Primary	24	94	117
Brightwells Academy Sulivan Primary School	19	80	99
Total Contributions from Scheduled Bodies	**856**	**2,933**	**3,789**

[2] Includes early retirement and deficit contributions

Administration Management Performance (continued)

ADMITTED BODIES

Admitted bodies participate in the pension scheme via an admission agreement made between the Council and the employing organisation. Examples of admitted bodies are not-for-profit organisations linked to the Council and contractors who have taken on delivery of services with Council staff also transferred to third parties.

Admitted Body	Employees Contributions £000	Employers Contributions[3] £000	Total Contributions £000
3BM	12	36	48
Disabilities Trust	1	4	5
Interserve (Eden Foods Ltd)	26	111	137
FM Conway (2009)	9	28	37
Fulham Palace Trust	3	0	3
Medequip Assistive Technology	2	8	9
Pinnacle PSG Ltd	61	213	273
Pinnacle PSG Ltd	18	61	79
Quadron Services Ltd	46	154	200
Serco	161	446	606
Urban Partnership Group	15	87	102
Caterlink (2016 Schools)	4	15	19
HCT (Jack Tizard School)	2	9	10
BT	6	19	26
Abelian UK (Wormholt Primary)	0	1	2
Birkin Clean	1	8	9
HCT (CT Plus H&F main contract)	8	40	48
FM Conway (2012)	6	91	97
Quadron Services Ltd (2018)	6	18	24
London Hire Community Services	1	8	9
Family Support Service FSS	45	232	277
Peabody Trust	0	1	1
Peabody Trust South East	10	39	50
Mears Group	3	9	12
Sure Serve Group (K&T Heating Serv Ltd)	5	16	22
Chigwell Group	1	3	4
Wates Group	1	7	8
Caterlink (Langford Academy)	1	2	3
Morgan Sindall Group Contract 1	7	27	34
DW Contractors Ltd	3	13	16
Mears Group Contract 2	2	7	9
Morgan Sindall Group Contract 2	8	23	31
Bee Services - Randolph Beresford	0	2	3
Bee Services - Vanessa Nursery	0	1	1
Caterlink (Hurlingham & Chelsea	0	3	3
Churchill Group - Brackenbury Primary	1	6	8
Total Contributions from Admitted Bodies	**477**	**1,749**	**2,225**

[3] Includes early retirement and deficit contributions

Administration Management Performance (continued)

EMPLOYER ANALYSIS

The following table summarises the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities).

	Active	Ceased	Total
Administering Authority	1	-	1
Scheduled Bodies	21	3	24
Admitted Bodies	30	22	52
Total number of bodies	**52**	**25**	**77**

3.

Investment Policy and Performance

Investment Policy

The Pensions Sub-Committee has set out a broad statement of the principles it has employed in establishing its investment and funding strategy in the Investment Strategy Statement (ISS).

The ISS sets out responsibilities relating to the overall investment policy of the Fund including:

- asset allocations
- restrictions on investment types
- methods of investment management
- performance monitoring

The ISS also sets out the Fund's approach to responsible investment and corporate governance issues, and how the Fund demonstrates compliance with the "Myners Principles".

These Principles are a set of recommendations relating to the investment of pension funds originally prepared by Lord Myners in 2001 and subsequently endorsed by Government. The current version of the Myners Principles covers the following areas:

- effective decision making
- clear objectives
- risk & liabilities
- performance measurement
- responsible ownership
- transparency and reporting

The Fund's ISS has been included in this report as Appendix 4.

For 2020/21, the LGPS (Management and Investment of Funds) Regulations 2016, requires the Fund to publish an ISS.

The ISS addresses each of the objectives included in the 2016 Regulations, namely:

- The administering requirement to invest fund money in a wide range of instruments.
- The administering authority's assessment of the suitability of particular investments and types of investment.
- The administering authority's approach to risk, including the ways in which risks are to be measured and managed.
- The administering authority's approach to pooling investments, including the use of collective investment vehicles.
- The administering authority's policy on how environmental, social and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

Any queries relating to the Fund's investment policy should be addressed to:

Tri-Borough Pensions Team
16th Floor
64 Victoria Street
London
SW1E 6QP

Email: *pensionfund@lbhf.gov.uk*

Asset Allocation

The strategic asset allocation is agreed by the Pensions Sub-Committee and the Fund's advisers. The allocation during the year ended 31 March 2021 was as follows:

Asset Class	Actual Allocation	Target Allocation
Global Equities	45.8%	45.0%
Dynamic Asset Allocation	32.0%	20.0%
Secure Income	17.2%	20.0%
Total Inflation Protection	5.0%	15.0%
Total	**100.0%**	**100.0%**

The Pensions Sub-Committee holds Fund Managers accountable for decisions on asset allocation within the Fund mandate that they operate under. To follow the Myners' Committee recommendation, Fund Managers are challenged deliberately and formally about asset allocation decisions.

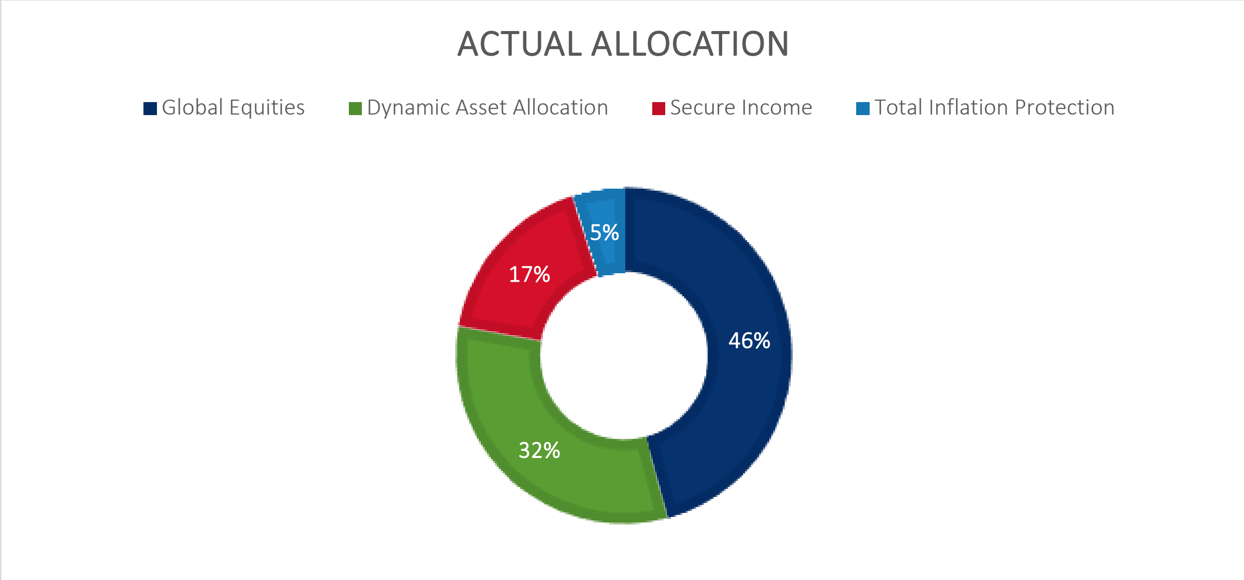
Investment portfolios are reviewed at each Committee meeting in discussion with the Investment Adviser and Officers, and Fund Managers are called to a Sub-Committee meeting if there are issues that need to be addressed. Officers meet Fund Managers regularly and advice is taken from the Investment Advisor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

Fund managers provide a rationale for asset allocation decisions based upon their research resource to ensure that they are not simply tracking the peer group or relevant benchmark index. The Fund's asset allocation strategy can be found in the ISS.

The asset allocation of the Pension Fund at the start and end of the financial year are set out below.

These figures are based on market value and reflect the relative performance of investment markets and the impact of tactical asset allocation decisions made by the Pensions Sub-Committee.

At 31 March 2021, the fund had an overweight allocation to cash due to assets in transit. This cash is intended to be allocated to total inflation protection in 2021/22.



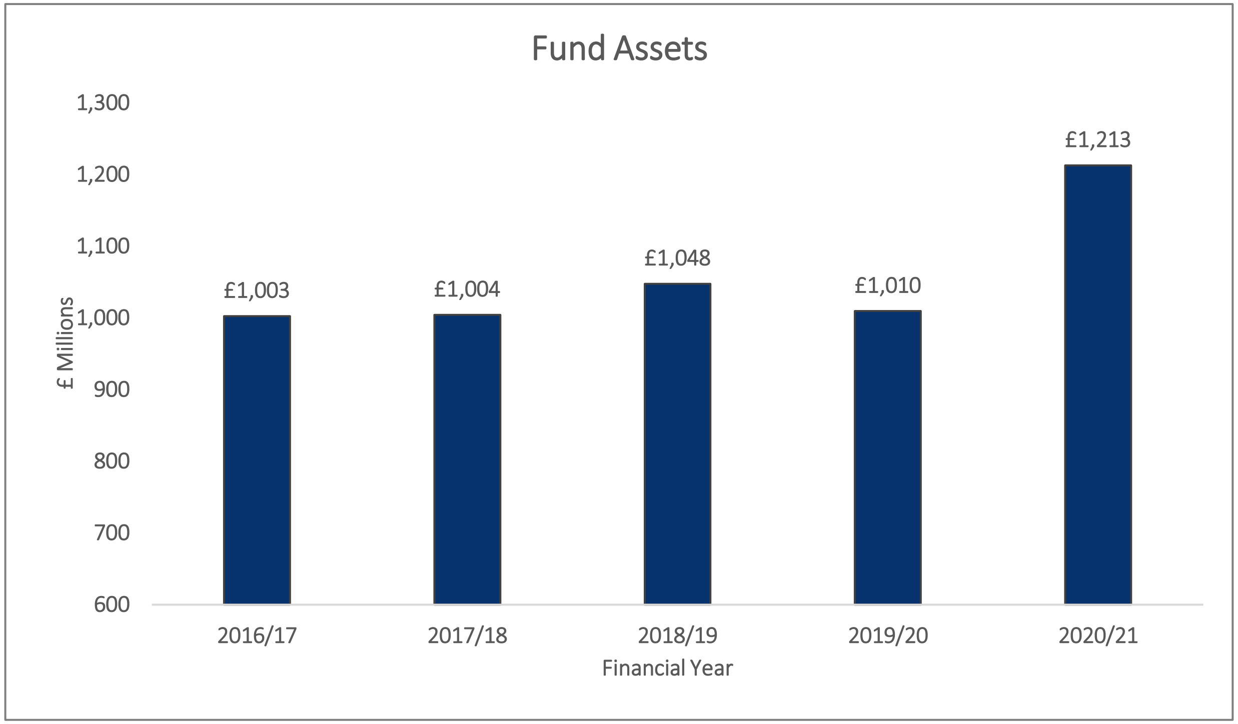
Asset Allocation (continued)

FUND VALUE

The net asset value of the Fund has more than doubled over the past ten years with 20.97% of this growth occurring over the last five years.

In 2020/21, the fund's net asset value rose by 21.86% to £1.21bn. This performance was largely due to the positive outcomes of the vaccination programme and its continued success, leading to strong positive sentiment in global markets.

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

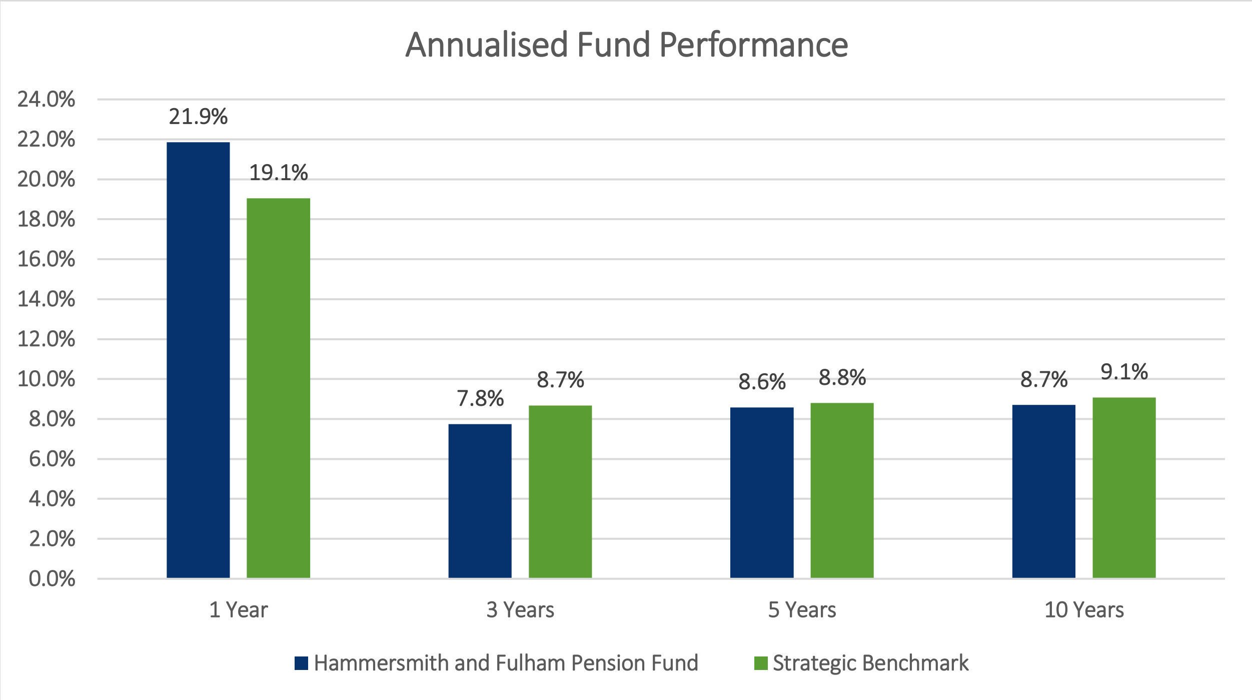


Investment Performance

In 2020/21, the Fund's investment performance was 21.86% (-2.6% in 2019/20) to £1.21bn. This was below the average LGPS return of 22.80%.

Performance of the Fund is measured against an overall strategic benchmark. Each fund manager is assigned individual performance targets which are linked to index returns for the assets they manage, e.g. FTSE All Share for UK equities. Details of these targets can be found in the Statement of Investment Principles.

The chart below shows the annualised fund performance over different time periods. Overall, the Fund has underperformed its strategic benchmark across the different periods with an overperformance of 2.82% in 2020/21.



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2019/20 was a challenging year for the global markets as the response to the global outbreak of the coronavirus disease introduced volatility across various sectors. However; in 2020/21 market's rebounded strongly due to positive sentiment around the mid-term outlook and the recovery prospects of the world's economies post the worst of the coronavirus outbreak.

The Fund's one year performance was bolstered mostly by its position in equities, though returns were positive across all funds within the overall portfolio.

Investment Performance (continued)

Active	Passive
London LGPS CIV Ltd LCIV Absolute Return Fund (Ruffer) LCIV Global Bond Fund (PIMCO) LCIV Global Core (MSIM)	**Legal & General Investment Management** MSCI Low Carbon Tracker Fund
Partners Group Private Multi Asset Credit Infrastructure	
Aviva Investors Infrastructure	
Oak Hill Advisors Multi Asset Credit	
Aberdeen Standard Long Lease Property Fund	
Aberdeen Standard Multi-sector Private Credit	

The overall performance of each manager is measured over rolling three-year or five-year periods,

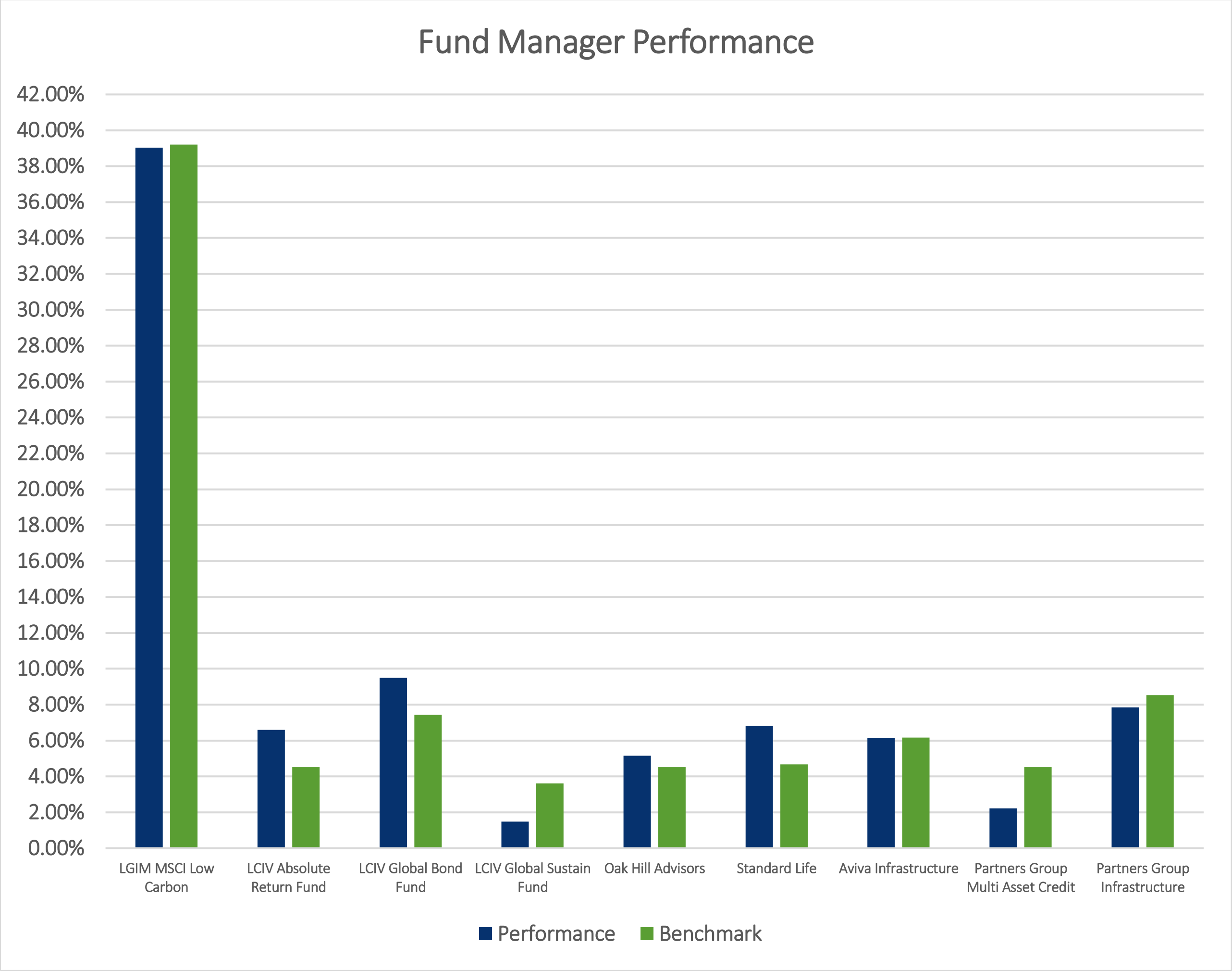
As there will inevitably there be short-term fluctuations in performance.

The Fund entered into new strategies during the year. These have been measured on their performance since inception.

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

- Targets for active fund mandates are set to outperform the benchmark by a set percentage through active stock selection and asset allocation.
- Targets for passive funds are set to achieve the benchmark through investment in a stable portfolio.

The table below shows the portfolio mixture of the fund:



Corporate Governance

RESPONSIBLE INVESTMENT POLICY

The Council has a paramount fiduciary duty to obtain the best possible financial return on Fund investments without exposing assets to unnecessary risk. It believes that following the best practice in terms of environmental, social and ethical issues has a positive effect on the long-term financial performance of a company and will improve investment returns to its shareholders.

The Fund investment managers, acting in the best financial interests of the Fund, are expected to consider, amongst other factors, the effects of environmental, social and ethical issues on the performance of a company when undertaking the acquisition, retention or realisation of investments for the Fund.

In 2019/20 the Fund drafted its Responsible Investment Statement with a final version expected to be approved later in 2020.

The Fund's investment managers have adopted socially responsible investment policies which are subject to regular review both by officers and by the Council's Pensions Sub-Committee.

PROFESSIONAL BODIES

The Council is a member of the CIPFA Pensions Network which provides a central coordination point for all LGPS funds and local authority members.

CIPFA staff and the network more generally can advise subscribers on all aspects of pensions and related legislation. Relevant training and seminars are also available to officers and members of participating funds.

While the Fund is a member of the Pensions Lifetime and Savings Association (formerly the National Association of Pension Funds), it does not subscribe to nor is it a member of the Local Authority Pension Fund Forum, UK Sustainable Investment & Finance Association or the Institutional Investors Group on Climate change or any other bodies.

VOTING

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

COLLABORATIVE VENTURES

The Fund has been working closely with other London LGPS funds in the London Collective Investment Vehicle set up to enable greater buying power, reduced fees and enhanced governance arrangements.

The Hammersmith and Fulham Pension Fund is a shareholder in London LGPS CIV Limited and had about 77% of assets invested with the pool as at 31 March 2021.

SEPARATION OF RESPONSIBILITIES

The Fund has appointed Northern Trust as its global custodian, which is independent to the investment managers and responsible for the safekeeping of all the Fund's investments. Northern Trust are also responsible for the settlement of all investment transactions and the collection of income.

The Fund's bank account is held with NatWest Bank. This is used for the operation functions of the Fund which include receiving contributions from employers and paying out benefits to members.

The actuary is responsible for assessing the long-term financial position of the pension fund and issues a Rates and Adjustments statement following their triennial valuation of the Pension Fund, which sets out the minimum contributions which each employer in the Scheme is obliged to pay over the following three years.

STEWARDSHIP CODE

The Pensions Sub-Committee believes that investor stewardship is a key component of good governance and is committed to exercising this responsibility with the support of its investment managers. In line with this approach, all the Fund's equity investment managers are signatories to the UK Stewardship Code.

The Pensions Sub-Committee believes that companies should be accountable to shareholders and should be structured with appropriate checks and balances so as to safeguard shareholders' interests and deliver long-term returns.

The Pensions Sub-Committee encourages Fund Managers to consider a range of factors before making investment decisions, such as the company's historical financial performance, governance structures, risk management approach, the degree to which strategic objectives have been met and environmental and social issues. Such considerations may also be linked to voting choices at company AGMs.

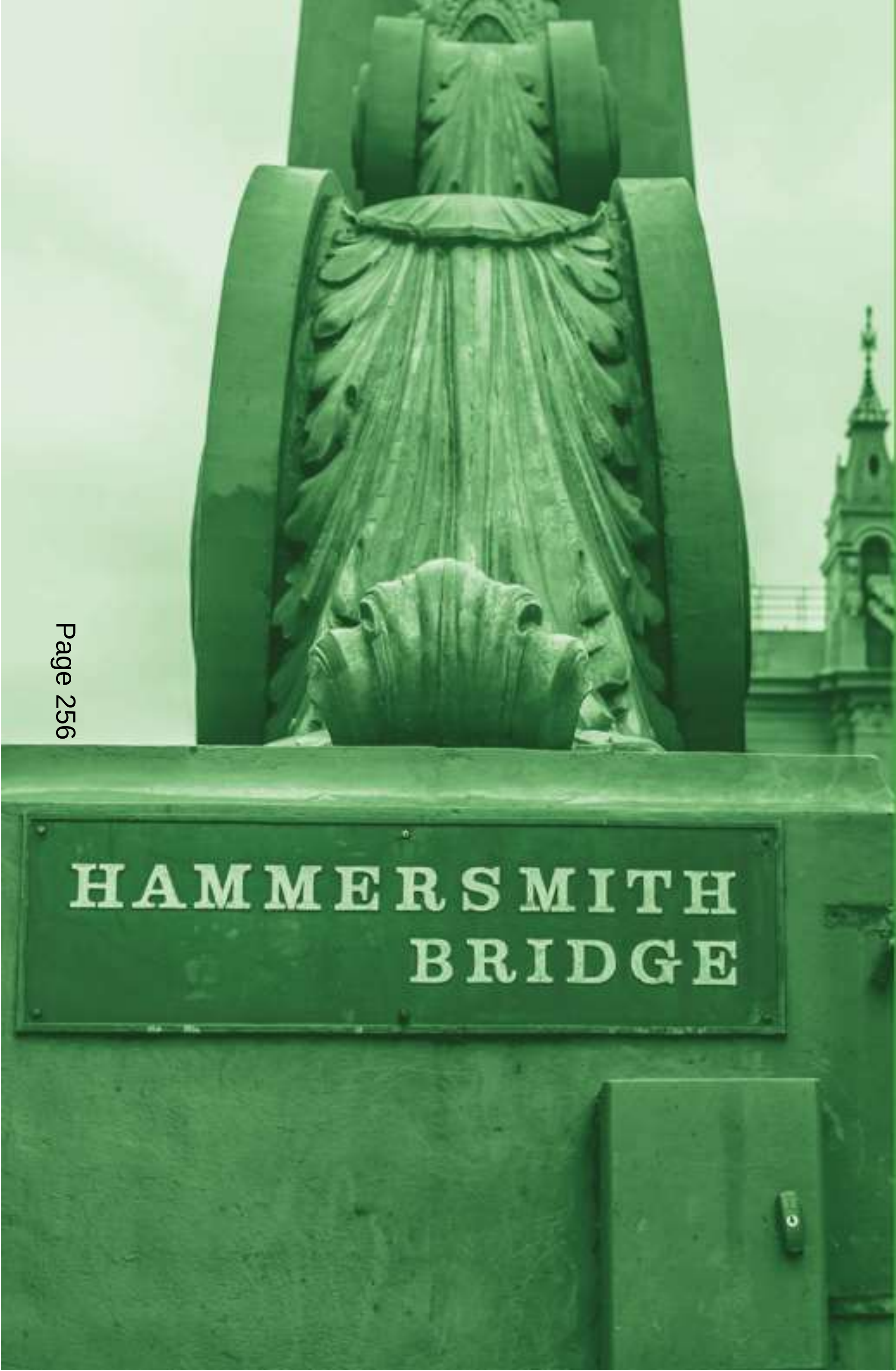
The Pensions Sub-Committee's role is not to micro-manage companies but provide perspective and share with boards and management our priorities for investment and approach to corporate governance. The aim is to work with management, shareholders and stakeholders to bring about changes that enhance long-term performance.

FUNDING STRATEGY STATEMENT

The Funding Strategy Statement (Appendix 3) sets out the aims and purpose of the pension fund and the responsibilities of the administering authority regarding funding the scheme.

Its purpose is:

- To establish a clear and transparent fund-specific strategy to identify how employers' pension liabilities are best met going forward;
- To support the regulatory requirement to maintain as nearly constant employer contribution rates as possible;
- To take a prudent longer-term view of funding those liabilities.



4. Scheme Administration

Scheme Administration

SERVICE DELIVERY

Although the LGPS is a national scheme, it is administered locally. The London Borough of Hammersmith and Fulham Council has a statutory responsibility to administer the pension benefits payable from the Pension Fund on behalf of the participating employers and the past and present members and their dependents.

The Council administers the scheme for 83 employers (a complete list of employers is provided in section 2). These employers include not only the Council, but also academy schools within the borough and a small number of organisations linked to the Council which have been "admitted" to the pension fund under agreement with the Council.

A not-for-profit contractual arrangement is in place with Surrey County Council for the provision of pension administration services. Performance of this service against targets within the contract is reported on page 19. The Council's Human Resources provide oversight of the administration service.

COMMUNICATION POLICY STATEMENT

The Local Government Pension Scheme Regulations 2013 require Pension Funds to prepare, publish and maintain a communication policy statement, which can be found on page 87. The Communication Policy details the overall strategy for involving stakeholders in the pension fund. A key part of this strategy is a dedicated pension fund website, which includes a great deal more information about the benefits of the pension fund and this can be accessed via the following link:

www.lbhfpensionfund.org

INTERNAL DISPUTE RESOLUTION PROCEDURE

Members of pension schemes have statutory rights to ensure that complaints, queries and problems concerning pension rights are properly resolved. To facilitate this process, an Internal Disputes Resolution Procedure (IDRP) has been established. While any complaint is progressing, fund members are entitled to contact The Pensions Advisory Service (TPAS), who can provide free advice.

IDRP Stage 1 involves making a formal complaint in writing. This would normally be considered by the body that made the decision in question. If the fund member is not satisfied with actions taken at Stage 1 the complaint will progress to Stage 2.

IDRP Stage 2 involves a referral to the administering authority, Hammersmith and Fulham Council to take an independent view.

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

One complaint referred to the Pensions Ombudsman in 2020/21.

Both TPAS and the Pensions Ombudsman can be contacted at:

11 Belgrave Road
Pimlico
London
SW1V 1RB

5.

Actuarial Information

Report by Actuary

INTRODUCTION

The last full triennial valuation of the Hammersmith and Fulham Pension Fund ("the Fund") was carried out as at 31 March 2019 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated February 2020.

This statement gives an update on the funding position as at 31 March 2021 and comments on the main factors that have led to a change since the full valuation.

2019 VALUATION

The results for the Fund at 31 March 2019 were as follows:

- The Fund as a whole had a funding level of 97% i.e. the assets were 97% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £35m which is lower than the deficit at the previous valuation in 2016.
- To cover the cost of new benefits a total contribution rate of 17.4% of pensionable salaries would be needed.
- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment required to pay for their share of the deficit.
- Full details of all the assumptions underlying the valuations are set out in our valuation report.

UPDATED POSITION

Using assumptions consistent with those adopted at the 2019 valuation, we estimate that the funding position at 31 March 2021 is broadly the same as that calculated at 31 March 2019.

The next formal valuation will be carried out as at 31 March 2022 with new contribution rates set from 1 April 2023.

Barry McKay FFA

Partner, Barnett Waddingham LLP

6.

Pension Fund Accounts

Statement of Responsibilities

Responsibility for the Financial Statements, which form part of this Annual Report, is set out in the following declaration.

THE COUNCIL'S RESPONSIBILITIES

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In line with statute, this is the Director of Finance;
- manage its affairs to ensure 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 Pension Fund Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing these Statements of Accounts, the Director of Finance has:

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

The 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;
- assessed the authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- Used the going concern basis of accounting on assumption that the functions of the authority will continue in operational existence for the foreseeable future;
- Maintained such internal control as they determine as necessary to enable the preparation of financial statements free from material misstatement, whether due to fraud or error.

CERTIFICATE OF THE STRATEGIC DIRECTOR OF FINANCE

I certify that the Statement of Accounts (set out below) present a true and fair view of the financial position of the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2021 and income and expenditure for the year for the financial year 2020/21.

Emily Hill
Director of Finance
Section 151 Officer

Date:

Independent Auditors Report

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

RESPECTIVE RESPONSIBILITIES OF THE STRATEGIC DIRECTOR OF FINANCE AND THE AUDITOR

Independent Auditors Report (continued)

SCOPE OF THE AUDIT OF THE PENSION FUND FINANCIAL STATEMENTS

OPINION ON THE PENSION FUND FINANCIAL STATEMENTS

OPINION ON OTHER MATTERS

[NAME]

for and on behalf of Grant Thornton, Appointed Auditor

Grant Thornton

[ADDRESS]

[DATE]

Pension Fund Accounts and Explanatory Notes

FUND ACCOUNT

2019/20		Notes	2020/21
£'000			£'000
	Dealings with members, employers and other directly involved in the fund		
	Contributions		
(26,135)	From Employers	7	(24,180)
(7,408)	From Members	7	(8,004)
(4,326)	Individual Transfers in from Other Pension Funds		(9,350)
-	Other income		-
(37,869)	Total Contributions		**(41,534)**
	Benefits		
34,916	Pensions	8	36,363
8,502	Commutation, Lump Sum Retirement and Death Benefits	8	8,164
898	Payment in respect of tax		508
	Payments to and on account of leavers		
7,225	Individual Transfers Out to Other Pension Funds		7,013
119	Refunds to Members Leaving Service		40
51,660	Total Benefits		**52,088**
13,791	Net (Additions) Withdrawals from dealings with members		**10,554**

Pension Fund Accounts and Explanatory Notes (continued)

FUND ACCOUNT

2019/20		Notes	2020/21
5,866	Management expenses	9	8,903
	Returns on Investment		
(13,911)	Investment Income	10	(12,327)
(731)	Other Income	10	(23)
36,172	(Profit) and losses disposal of investments and changes in value of investments	12	(215,444)
21,530	Net Return on Investments		**(227,794)**
41,178	Net (Increase)/Decrease in the net assets available for benefits during the year		(208,337)
(1,052,073)	Opening Net Assets of the Scheme		**(1,010,886)**
(1,010,886)	Closing Net Assets of the Scheme		**(1,219,223)**

Pension Fund Accounts and Explanatory Notes (continued)[4]

NET ASSETS STATEMENT

2019/20		Notes	2020/21
£'000			£'000
	Investment Assets		
150	Equities	11	150
58,881	Pooled Property Vehicles	11	61,161
817,356	Pooled Investment Vehicles	11	1,081,786
70,555	Private Equity/Infrastructure	11	71,863
59,524	Cash Deposits	11	8
	Other Investment Balances		
26	Investment income due	11	13
1,006,492	Net Investment Assets		**1,214,981**
3,897	Current Assets	19	3,664
(1,178)	Current Liabilities	20	(1,100)
1,675	Cash Balances (held directly by Fund)		1,678
1,010,886	**Net assets of the Fund available to fund benefits at the period end**		**1,219,223**

[4] The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 18a.

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.

Note 1 Description of Hammersmith and Fulham Pension Fund (continued)

D. INVESTMENT PRINCIPLES

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Sub-Committee approved an Investment Strategy 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 2020		31 March 2021
50	Number of active employers	58
3,635	Contributing employees	4,467
5,081	Pensioners receiving benefit	5,425
7,112	Deferred pensioners	6,784
15,828	**Total members**	**16,676**

Details of the scheduled and admitted bodies are in Section 2 of this report.

Note 2 Basis of Preparation of Financial Statements

The Statement of Accounts summarise the Fund's transactions for 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 back 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 availability to 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.

Note 3 Summary of significant accounting policies (continued)

FUND ACCOUNT – EXPENSE ITEMS

D. BENEFITS PAYABLE

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

E. TAXATION

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

F. VSP, MSP AND LIFE TIME ALLOWANCE

Members are entitled to request that the Pension Fund pays their tax liabilities due in respect of annual allowance and 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 direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.
- Oversight and governance – All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.
- Investment management expenses – The Sub-Committee has appointed external investment managers to manage the investments of the Fund. Managers are paid a fee based on the market value of the investments they manage, and/or a fee based on performance.

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

Note 3 Summary of significant accounting policies (continued)

NET ASSET STATEMENT

H. FINANCIAL ASSETS

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

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

I. DERIVATIVES

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

J. FOREIGN CURRENCY TRANSACTIONS

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

K. CASH AND CASH EQUIVALENTS

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

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

L. FINANCIAL LIABILITIES

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

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

M. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present value of retirement benefits by way of a note to the Net Assets Statement (Note 18a).

N. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed for information in Note 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:

A. 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.

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 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. 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 18a)	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 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 Date

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 tables on the right show a breakdown of the total amount of contributions by authority and by type.

BY AUTHORITY

2019/20 £000		2020/21 £000
(27,442)	Administering authority	(26,170)
(3,607)	Scheduled bodies	(3,789)
(2,494)	Admitted bodies	(2,225)
(33,543)	**Total Contributions Receivable**	**(32,184)**

BY TYPE

2019/20 £000		2020/21 £000
(7,408)	Employees' normal contributions	(8,004)
	Employer's contributions:	
(16,432)	Normal contributions	(20,050)
(9,703)	Deficit recovery contributions	(4,130)
(33,543)	**Total Contributions Receivable**	**(32,184)**

Note 8 Benefits Payable

The tables on the right below show a breakdown of the total amount of benefits payable.

BY AUTHORITY

2019/20 £000		2020/21 £000
39,593	Administering authority	40,624
672	Scheduled bodies	715
3,153	Admitted bodies	3188
43,418	**Total Benefits Payable**	**44,527**

BY TYPE

2019/20 £000		2020/21 £000
34,916	Pensions	36,363
7,407	Commutation and lump sum retirement benefits	6,919
1,095	Lump sum death benefits	1,245
43,418	**Total Benefits Payable**	**44,527**

Note 9 Management Expenses

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

MANAGEMENT EXPENSES

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

The table on the right provides a breakdown of the Investment Management Expenses.

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.

INVESTMENT MANAGEMENT EXPENSES

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

Note 10 Investment Income

The table below shows a breakdown of investment income.

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

Note 11 Investment Strategy

During 202/21, the Fund's 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.

The market value and proportion of investments managed by each fund manager at 31 March 2020 was as follows:

31 March 2020 £000	%	Fund Manager	Mandate	31 March 2021 £000	%
Investment managed by the London CIV asset pool:					
411,304	40.9%	LGIM – MSCI Low Carbon	Global Equity (Passive)	381,252	31.4%
128,526	12.8%	LCIV – Ruffer	Absolute Return (Active)	280,677	23.1%
100,960	10.0%	LCIV – PIMCO	Global Bonds (Active)	107,333	8.8%
-	0.0%	LCIV – Morgan Stanley	Global Sustain Fund	174,776	14.4%
640,790	**63.7%**	**Total assets managed by the London CIV asset pool**		944,038	**77.70%**
Investment managed outside of the London CIV asset pool:					
110,996	11.0%	M&G Investments	Inflation Opportunities	-	0.0%
65,570	6.5%	Oak Hill Advisors	Secured Income (Active)	80,034	6.6%
58,881	5.9%	Aberdeen Standard	Long Lease Property	61,162	5.0%
26,062	2.6%	Aviva Investors	Infrastructure	25,546	2.1%
23,142	2.2%	Partners Group	Infrastructure	31,956	2.6%
19,174	1.9%	Partners Group	Multi Asset Private Credit	13,896	1.1%
1,523	0.2%	Invesco	Private Equity	47	0.0%
653	0.1%	Unigestion	Private Equity	417	0.0%
59,551	5.9%	Inhouse Cash	Cash	21	0.0%
150	0.0%	London CIV Ltd	UK Equity	150	0.0%
-	0.0%	NT Ultra Short Bond Fund	UK Equity	1,999	0.2%
-	0.0%	Aberdeen MSPC	Private Credit	55,715	4.6%
365,702	36.3%	Total assets managed outside of the London CIV asset pool		270,943	22.30%
1,006,492	**100.0%**	**Total investments**		**1,214,981**	**100.0%**

Note 11 Investment Strategy (continued)

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 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 2020 £000	%	Fund Manager	Mandate	31 March 2021 £000	%
411,304	40.9%	LGIM – MSCI Low Carbon	Global Equity (Passive)	381,252	31.4%
128,526	12.8%	LCIV – Ruffer	Absolute Return (Active)	280,677	23.1%
110,996	11.0%	M&G Investments	Inflation Opportunities	-	0.0%
100,960	10.0%	LCIV – PIMCO	Global Bonds (Active)	107,333	8.8%
65,570	6.5%	Oak Hill Advisors	Secured Income (Active)	80,034	6.6%
58,881	5.9%	Aberdeen Standard	Long Lease Property	61,161	5.0%
-	-	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 derivative 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
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	-
Net investment assets	**1,006,492**	**180,146**	**(127,720)**	**215,444**	**1,214,981**

Note 12 Reconciliation of Movement in Investments (continued)

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 derivative 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
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)	-
Net investment assets	**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 the infrastructure funds are closed ended and therefore not tradable. The valuation is based on market prices where available for some underlying assets and on estimates of prices in secondary markets for others.

		31 March 2020				31 March 2021
Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs		Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs
Level 1	Level 2	Level3		Level 1	Level 2	Level3
£000	£000	£000		£000	£000	£000
			Financial Assets			
-	876,237	70,555	Designated at fair value through profit and loss	-	1,142,947	72,013
-	876,237	70,555	Net Financial Assets	-	1,142,947	72,013
		946,792				**1,214,960**

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. Due to the uncertainty cause by the global response to the COVID-19 pandemic, the Fund's pooled property, infrastructure and private credit mandates' valuations may materially differ. The potential impact on the reported valuations as at 31 March 2020 has been estimated to be accurate within the following ranges:

	Assessed Valuation Range (+/-)	Valuation at 31 March 2021	Valuation on increase	Valuation on decrease
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**

* Pooled property includes the Aberdeen Standard Long Lease property (£58.9m) and approximately 40% of the M&G Inflation Protection Fund (£43.8m).

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.

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

Note 15b Net Gains and Losses on Financial Statements

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

31 March 2020		31 March 2021
	Financial Assets	
(36,393)	Fair value through profit and loss	215,592
238	Loans and receivables	12
	Financial Liabilities	
(17)	Fair value through profit and loss	(160)
(36,172)	**Net Gains /(losses) on Financial Instruments**	**215,444**

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 for 2020/21 and 10% higher or lower in 2019/20.

Assets exposed to price risk	Value £000	+% £000	-% £000
At 31 March 2020	950,071	1,045,079	855,064
At 31 March 2021	**1,214,960**	**1,347,392**	**1,082,530**

C. INTEREST RATE RISK

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

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

Assets exposed to interest rate risk	Value £000	+1% £000	-1% £000
At 31 March 2020	247,290	235,493	259,086
At 31 March 2021	**363,074**	**348,918**	**377,231**

Note 16 Nature and Extent of Risks Arising from Financial Instruments (continued)

D. CURRENCY RISK

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

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

In order to mitigate the risk, one of the Fund's investment managers enters into forward foreign exchange contracts (accounted for as derivatives) to hedge the currency risk which arises from undertaking non-sterling transactions. In addition, several of the pooled investment vehicles partially or fully hedge the currency back into sterling. These actions reduce the overall currency risk the Fund is exposed to. 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 5.18% higher or 10.9% lower for 2020/21 and 10% higher or lower in 2019/20

Assets exposed to currency risk	Value £000	+1% £000	-1% £000
At 31 March 2020	464,646	511,111	418,182
At 31 March 2021	**869,126**	**914,155**	**824,097**

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 can all be liquidated within days.

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

Note 17 Contingent Liabilities and Contractual Commitments

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

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

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	31 March 2016 £000	31 March 2019 £000
Consumer Price Index (CPI) increases	2.40%	2.60%
Salary Increases	3.90%	3.60%
Pensions Increases	2.40%	2.40%
Discount Rate	5.40%	5.00%

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 2020 £000		31 March 2021 £000
(1,527,085)	Present value of promised retirement benefits	(1,923,604)
1,013,015	Fair value of scheme assets (bid value)	1,216,634
(514,070)	**Net Liability**	**(706,970)**

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 2020	31 March 2021
Salary increases	2.90%	3.80%
Pension increases	1.90%	2.80%
Discount rate	2.35%	2.00%

DEMOGRAPHIC ASSUMPTIONS

The post mortality tables adopted are the S3PA tables with 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:

		31 March 2020	31 March 2021
Retiring today	Males	21.8	21.6
	Females	24.4	24.3
Retiring in 20 years	Males	23.2	22.9
	Females	25.8	25.7

OTHER ASSUMPTIONS

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age;
- 5% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

Note 19 Current Assets

DEBTORS

31 March 2020 £000		31 March 2021 £000
1,073	Contributions due – employers	1,370
486	Contributions due – employees	549
941	London Borough of Hammersmith & Fulham	941
1,397	Sundry Debtors	804
3,897	**Total Current Assets**	**3,664**

ANALYSIS OF DEBTORS

31 March 2020 £000		31 March 2021 £000
941	Local authorities	941
2,956	Other entities and individuals	2,560
-	Central Government	163
3,897	**Total Current Assets**	**3,664**

Note 20 Current Liabilities

CREDITORS

31 March 2020 £000		31 March 2021 £000
(541)	Unpaid benefits	(589)
(375)	Management expenses	(426)
(262)	Sundry creditors	(85)
(1,178)	**Total Current Liabilities**	**(1,100)**

ANALYSIS OF CREDITORS

31 March 2020 £000		31 March 2021 £000
(1,178)	Other entities and individuals	(1,100)
(1,178)	**Total Current Liabilities**	**(1,100)**

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 uncertainty in obtaining accurate valuations as at 31 March 2021.

31 March 2020 £000		31 March 2021 £000
908	Zurich Assurance	908
191	Equitable Life Assurance	191
1,099	**Total Additional Voluntary contributions**	**1,099**

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

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Note 22 Related Party Transactions

LONDON BOROUGH OF HAMMERSMITH AND FULHAM

The Pension Fund is administered by the London Borough of Hammersmith and Fulham. The Council incurred costs of £0.542m 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, the Tri-borough Director of Pensions and Treasury and the Director of Corporate Services. Total remuneration payable to key management personnel in respect of the pension fund is set out below:

	31 March 2020	31 March 2021
Short-term benefits	30	30
Post-employment benefits	255	95
Total	**285**	**125**

Note 25 External Audit Costs

The external audit fee payable to Fund's external auditors, Grant Thornton LLP, was £33,000 (£25,000 in 2019/20).

7. Glossary and Contacts

Glossary of Terms

ACCOUNTING POLICIES

The rules and practices adopted by the authority that determine how the transactions and events are reflected in the accounts.

ACCRUALS

Amounts included in the accounts for income or expenditure in relation to the financial year but not received or paid as at 31 March.

ACTIVE MANAGEMENT

Active management or active fund management is where the fund manager makes specific investments with the aim of outperforming an investment benchmark.

ACTIVE MEMBER

Current employee who is contributing to a pension scheme.

ACTUARIAL GAINS AND LOSSES

These arise where actual events have not coincided with the actuarial assumptions made for the last valuations (known as experience gains and losses) or the actuarial assumptions have been changed.

ACTUARY

An independent professional who advises the Council on the financial position of the Fund. Every three years the actuary values the assets and liabilities of the Fund and determines the funding level and the employers' contribution rates.

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

An option available to active scheme members to secure additional pension benefits by making regular contributions to separately held investment funds managed by the Fund's AVC provider.

ADMITTED BODY

An organisation, whose staff can become members of the Fund by virtue of an admission agreement made between the Council and the organisation. It enables contractors who take on the Council's services with employees transferring, to offer those staff continued membership of the Fund.

ASSET ALLOCATION

The apportionment of a Fund's assets between different types of investments (or asset classes). The long-term strategic asset allocation of a Fund will reflect the Fund's investment objectives.

BENCHMARK

A measure against which the investment policy or performance of an investment manager can be compared.

BONDS

Investments, mainly in government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTING)

CIPFA is the professional institute for accountants working in the public services. CIPFA publishes the Code.

CREDITORS

Amounts owed by the Council for goods and services received but not paid for as at 31 March.

DEBTORS

Amounts owed to the Council for goods and services provided but where the associated income was not received as at 31 March.

DEFERRED MEMBERS

Scheme members, who have left employment or ceased to be active members of the scheme whilst remaining in employment but retain an entitlement to a pension from the scheme.

DEFINED BENEFIT SCHEME

A type of pension scheme, where the pension that will ultimately be paid to the employee is fixed in advance, and not impacted by investment returns. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised.

DERIVATIVE

A derivative is a financial instrument which derives its value from the change in price (e.g. foreign exchange rate, commodity price or interest rate) of an underlying investment (e.g. equities, bonds, commodities, interest rates, exchange rates and stock market indices), which no net initial investment or minimal initial investment and is settled at a future date

EMPLOYER CONTRIBUTION RATES

The percentage of the salary of employees that employers pay as a contribution towards the employees' pension.

EQUITIES

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

EXCHANGE TRADED

This describes a financial contract which is traded on a recognised exchange such as the London Stock Exchange or the London International Financial Futures Exchange.

FINANCIAL ASSETS

Financial assets are cash, equity instruments within another entity (e.g. shares) or a contractual right to receive cash or another asset from another entity (e.g. debtors) or exchange financial assets or financial liabilities under potentially favourable conditions (e.g. derivatives).

FINANCIAL INSTRUMENT

Any contract giving rise to a financial asset in one entity and a financial liability or equity in another entity.

FINANCIAL LIABILITIES

Financial assets are contractual obligations to deliver cash or another financial asset (e.g. creditors) or exchange financial assets or financial liabilities under potentially unfavourable conditions (e.g. derivatives).

FORWARD FOREIGN EXCHANGE DERIVATIVE

Forward foreign exchange derivatives are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange.

INDEX

A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

OVER THE COUNTER

This describes a financial contract which is potentially unique as they are not usually traded on a recognised exchange

PASSIVE MANAGEMENT

Passive management is where the investments mirror a market index.

POOLED INVESTMENT VEHICLES

Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

PROJECTED UNIT METHOD – PENSION FUND VALUATION

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependents, allowing where appropriate for future increases, and
- the accrued benefits for members in service on the valuation date.

RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party, to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source, to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Advice from CIPFA is that related parties to a local authority include Central Government, bodies precepting or levying demands on the Council Tax, members and chief officers of the authority and its pension fund.

RELATED PARTY TRANSACTION

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party, irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets of loans, irrespective of any direct economic benefit to the pension fund;
- the provision of services to a related party, including the provision of pension fund administration services; and
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, rents and payments of benefits.

RETURN

The total gain from holding an investment over a given period, including income and increase or decrease in market value.

SCHEDULED BODY

An organisation that has the right to become a member the Local Government Pension Scheme under the scheme regulations. Such an organisation does not need to be admitted, as its right to membership is automatic.

THE CODE

The Code incorporates guidance in line with IFRS, IPSAS and UK GAAP Accounting Standards. It sets out the proper accounting practice to be adopted for the Statement of Accounts to ensure they 'present fairly' the financial position of the Council. The Code has statutory status via the provision of the Local Government Act 2003.

UNREALISED GAINS/LOSSES

The increase or decrease in the market value of investments held by the fund since the date of their purchase.

NOTE: values throughout these accounts are presented rounded to whole numbers. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match to the core statements or other tables due to rounding differences.

Contact Information

FOR FURTHER DETAILS CONTACT:

FINANCE ENQUIRIES

Tri-Borough Pensions Team
16th Floor
64 Victoria Street
London
SW1E 6QP
pensionfund@lbhf.gov.uk

HR ENQUIRIES

Pensions Manager
Hammersmith & Fulham Council
The Town Hall
King Street
London
W6 9JU
pensions@lbhf.gov.uk

ADMINISTRATIVE ENQUIRIES

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

8.

Appendices

Appendix 1. Governance Compliance Statement

BACKGROUND

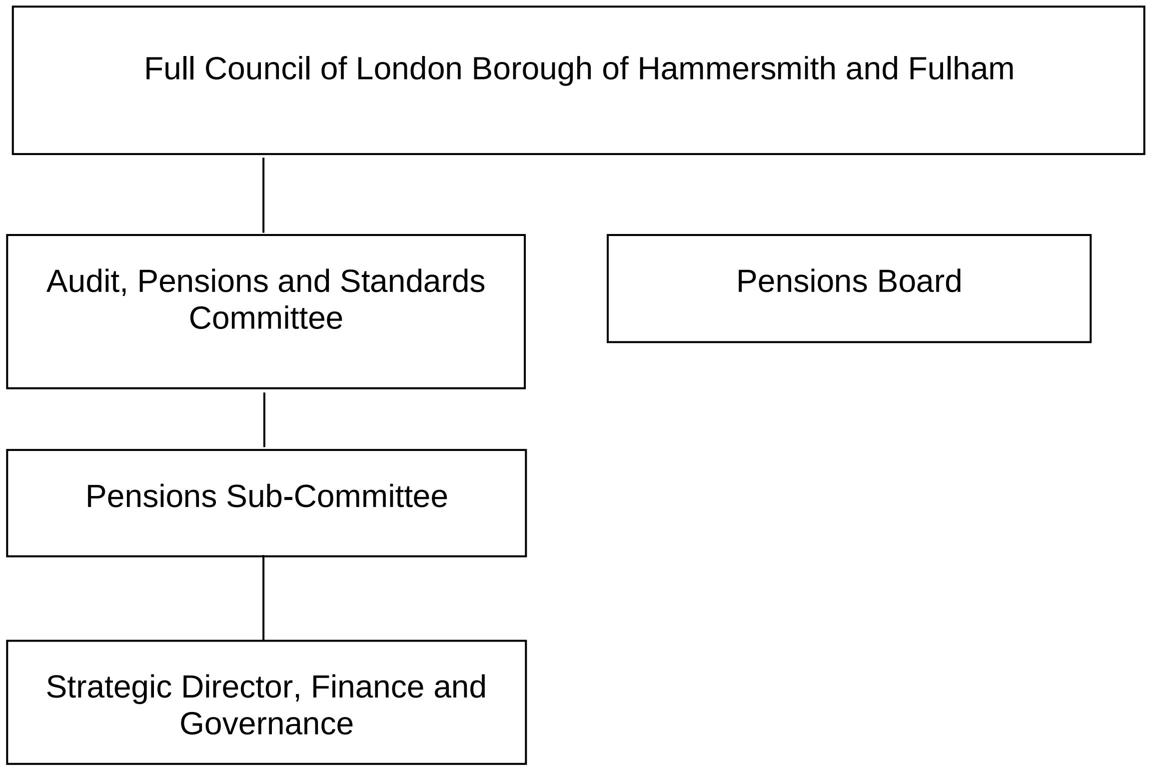
The London Borough of Hammersmith and Fulham Council is the administering authority for the London Borough of Hammersmith and Fulham ("the Fund") and it administers the Local Government Pension Scheme on behalf of the participating employers.

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires all administering authorities for local government pension schemes to publish a Governance Compliance Statement setting out the Fund's governance arrangements. Information on the extent of the Fund's compliance with guidance issued by the Secretary of State for Communities and Local Government is also a requirement of this regulation.

GOVERNANCE STRUCTURE

The diagram on the right shows the governance structure in place for the Fund.

Full Council has delegated its functions in relation to the pension fund regulations, as shown in the diagram. The sections below explain the role of each party and provide the terms of reference.



AUDIT, PENSIONS AND STANDARDS COMMITTEE

Full Council has delegated all decisions in relation to the Public Service Pensions Act 2013 to the Audit, Pensions and Standards Sub-Committee. In order to manage the workload of the committee, the committee has delegated decisions in relation to all pensions' matters to the Pensions Sub-committee.

PENSIONS SUB-COMMITTEE

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

The sub-committee is made up of four elected members of the Audit, Pensions and Standards Committee and one co-opted member. Three members of the committee are administration councillors and one member represents the opposition. The sub-committee is chaired by the Chair of the Audit, Pensions and Standards Committee. The Sub Committee may co-opt non-voting independent members, including Trade Unions and representatives from the admitted and scheduled bodies in the Pension Fund.

All Councillors on the sub-committee have voting rights. In the event of an equality of votes, the Chair of the Sub-committee shall have a second casting vote. Where the Chair is not in attendance, the Vice-Chair has the casting vote.

The Sub-committee meets four times a year and may convene additional meetings as required. Three members of the Sub-committee are required to attend for a meeting to be quorate.

The terms of reference for the sub-committee are:

1. To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the investment consultant.
2. To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable;
3. To determine the Fund management arrangements, including the appointment and termination of the appointment of the fund managers, actuary, custodians and fund advisers.
4. To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.
5. To approve the final Statement of Accounts of the Pension Fund and to approve the Annual Report.
6. To receive actuarial valuations of the Superannuation Fund regarding the level of employers' contributions necessary to balance the Superannuation Fund.
7. To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of the Council for the payment of pensions, and allowances to beneficiaries.
8. To make and review an admission policy relating to admission agreements generally with any admission body.
9. To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
10. To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
11. To receive and consider the auditor's report on the governance of the Pension Fund.
12. To determine any other investment or pension fund policies that may be required from time to time so as to comply with government regulations and to make any decisions in accordance with those policies.

Governance Compliance Statement (continued)

PENSION BOARD

With effect from 1st April 2015, all administering authorities are required by the Public Services Pensions Act 2013 to establish a Pension Board to assist them. The London Borough of Hammersmith and Fulham Pension Board was established by full Council on 25th February 2015.

The role of the Pension Board is to assist the administering authority with securing compliance with Local Government Pension Scheme regulations and other legislation relating to the governance and administration of the scheme. The Board does not have a decision making role in relation to management of the Fund, but is able to make recommendations to the Pension Fund Committee.

The membership of the Board is as follows:

- Three employer representatives comprising one from an admitted or scheduled body and two nominated by the Council;
- Three scheme member's representatives from the Council or an admitted or scheduled body.

All Board members are entitled to vote, but it is expected that as far as possible Board members will reach a consensus. Three Board members are required to attend for a meeting to be quorate. The Board will meet a minimum of twice a year but is likely to meet on a quarterly basis to reflect the same frequency as the Pension Fund Committee.

COMPLIANCE WITH STATUTORY GUIDANCE

It is a regulatory requirement that the Fund publishes the extent to which it complies with statutory guidance issued by the Secretary of State for Communities and Local Government. The guidance and compliance levels are set out in Annex 1.

REVIEW OF STATEMENT

This statement will be kept under review and updated as required. Consultation with the admitted and scheduled bodies of the Fund will take place before the statement is finalised at each change.

Annex 1: Governance Compliance Statement

Compliance Requirement	Compliance	Notes
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	As set out in terms of reference of the Pensions Sub-Committee.
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Not fully compliant	Representatives of the employers and scheme members are Pension Board members, rather than members of the Pensions Sub-Committee.
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Not applicable	All Pension Fund matters are considered by the Pensions Sub-Committee
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel	Not applicable	All Pension Fund matters are considered by the Pensions Sub-Committee
Committee membership and representation		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: - i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an *ad hoc* basis).	Not fully compliant	Representatives of the employers and scheme members are Pension Board members, rather than members of the Pensions Sub-Committee. Expert advisers attend the Sub-Committee as required
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights	Not applicable	All Pension Fund matters are considered by the Pensions Sub-Committee
Selection and role		
That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee	Compliant	As set out in terms of reference of the Pensions Sub-Committee
That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Compliant	This is a standing item on the Pensions Sub-Committee agendas
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	As set out in terms of reference of the Pensions Sub-Committee

Annex 1: Governance Compliance Statement (continued)

Compliance Requirement	Compliance	Notes
Training, facility time and expenses		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process	Compliant	As set out in the Council's allowances policy and the Pension Fund Knowledge and Skills policy
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum	Compliant	As set out in the Council's constitution
Meetings		
That an administering authority's main committee or committees meet at least quarterly.	Compliant	As set out in terms of reference of the Pensions Sub-Committee
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits	Not applicable	All Pension Fund matters are considered by the Pensions Sub-Committee.
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	Compliant	Represented on the Pensions Board
Access		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Compliant	As set out in the Council's constitution
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Compliant	as set out in terms of reference of the Pensions Sub-Committee
Publicity		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements	Compliant	All meeting minutes, reports and Pension Fund policies are published on the Council's website

Appendix 2. Communication Policy

1. BACKGROUND

Regulation 61 of the Local Government Pension Scheme Regulations 2013 requires administering authorities to prepare, publish and maintain a policy statement setting out its communication strategy for communicating with:

- Scheme Members
- Members' representatives
- Prospective members
- Employers participating in the Fund

This is the Local Government Pension Scheme (LGPS) Communications Policy Statement for the London Borough of Hammersmith & Fulham (LBHF).

LBHF in its capacity as the Administering Authority engages with other employers (under their status as Admitted and Scheduled Bodies) and has 3,635 active members, 7,112 deferred members and 5,081 pensioners as at 31st March 2019

This policy document sets out the mechanisms that LBHF uses to meet their communication responsibilities.

2. ROLES AND RESPONSIBILITIES

Retained team within HR

The Retained Team are responsible for setting the pensions administration management strategy which includes the drafting of this document and the allocation of communication responsibilities, including those to third parties.

They are also responsible for the monitoring of the quality, timeliness and accuracy of pensions communications from third parties and for the periodic review of this document.

The Retained Team will approve significant communications prior to them being issued that have been drafted on behalf of LBHF by Surrey County Council (SCC) and Hampshire County Council (HCC).

Surrey County Council

SCC are responsible for the day to day transactional pensions administration service under a section 101 agreement with LBHF.

Under this agreement SCC are responsible for the quality, timeliness and accuracy of pensions communications within their normal business activities.

They are also responsible for communications within specific projects and tasks agreed and allocated to them by the Retained Team.

3. HOW INFORMATION IS COMMUNICATED

The table below shows the LBHF communication methods, the frequency of issue and the intended audiences.

Communication Type	Paper Based	Website	Intranet	Face to face	Electronic	Frequency of issue	Communication method	Active member	Deferred member	Pensioner	Prospective members	Employers	Union Reps	Pension fund committee	Pension Board	Residents and taxpayers	Media	Other stakeholders
Joiner information with Scheme details	✓	✓				During the recruitment process and upon request	Sent to home address/via employers				✓	✓	✓					
Newsletters	✓	✓				Annually and/or when the scheme changes	Sent to home address/via employers	✓	✓	✓	✓	✓	✓					
Fund Reports and Accounts			✓			Continually available	Link publicised	✓										
Annual Benefit Statements	✓					Annually and on request	Sent to home address and/or via employers for active members. Sent to home address for deferred members	✓	✓									
Factsheets	✓	✓				On request	On request	✓	✓	✓	✓	✓	✓					
Roadshows				✓		When major scheme changes occur	Advertised in newsletters, via posters	✓										
Personal discussions				✓		When required	Displayed in the workplace	✓	✓	✓	✓							
Posters	✓					Continually available	On request	✓			✓							
Employers Guide		✓				Annually	Annually					✓						

Communication Type	Paper Based	Website	Intranet	Face to face	Electronic	Frequency of issue	Communication method	Active member	Deferred member	Pensioner	Prospective members	Employers	Union Reps	Pension fund committee	Pension Board	Residents and taxpayers	Media	Other stakeholders
Employers meetings				✓		Annually	Notifications sent					✓						
Briefing papers	✓				✓	When required	Within Committee papers dispatch							✓	✓			
Committee Reports	✓				✓	With the committee cycle	Within Committee papers dispatch							✓	✓			
Training and Development				✓	✓	Available and/or as when requested	On request	✓			✓			✓	✓			
Press releases					✓	As required	Email										✓	
Other employers joining the fund					✓	As required	Email											✓
Pension disputes IDRP					✓	As required	Email											✓
Statutory returns and questionnaires					✓	As required	Email							✓	✓			✓

4. DETAILS OF WHAT IS COMMUNICATED

Joiner information with Scheme details

A document providing an overview of the LGPS, including who can join, the contribution rates, the retirement and death benefits and how to increase the value of benefits.

Newsletters

An annual newsletter which provides updates on changes to the LGPS as well as other related news, such as national changes to pensions regulations, forthcoming roadshows and contact details.

Fund Report and Accounts

Details of the value of the Pension Fund during the financial year, income and expenditure etc.

Annual Benefit Statements

For active members these include the value of current and projected benefits. The associated death benefits are also shown along with details of any individuals nominated to receive the lump sum death grant.

In relation to deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well as the associated death benefits.

Factsheets

Information that provides a summary in relation to specific topics, such as topping up pension rights, transfer values in and out of the scheme, death benefits and, for pensioners, annual pensions increases.

Roadshows

As required a representative from SCC and/or the Retained Team will visit a particular location to provide a presentation on a particular topic of interest.

Face to face/personal discussions.

Face to face discussions with a representative from SCC and/or the Retained Team to discuss personal circumstances.

Posters

These are to engage with staff that are not in the LGPS, to help them to understand the benefits of participating in the scheme and to provide guidance on how to join.

Employers' Guide

A detailed guide that provides guidance on the employer responsibilities including the forms and other necessary communications.

Employers meeting

A seminar style event with a number of speakers covering topical LGPS issues.

Briefing papers

Formal briefings that highlight key issues or developments relating to the LGPS and the Fund, these are used by senior managers when attending committee meetings.

Committee papers

Formal documents setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

Training and Development.

Pension issues are included in appropriate training and development events – specific pension training and development events are run at significant times such as when the scheme changes.

Press releases

Bulletins providing briefing commentary on LBHF's opinion on various matters relating to the Pension Fund, for example. the actuarial valuation results.

Other employers joining the fund

A legal requirement to notify both organisations of the name and type of employer entered into the Fund (e.g. following the admission of third party service providers into the scheme).

Pension disputes IDRP

Formal notification of pension dispute resolutions to the complainant, together with any additional correspondence relating to the dispute.

Statutory returns and questionnaires

Statutory and various questionnaires that are received, requesting specific information in relation to the structure of the LBHF fund or the composition of the Fund.

Communication Policy (continued)

FURTHER INFORMATION

If you need more information about the Scheme you should contact Surrey County Council at the following address:

Surrey County Council

Pension Services (LBHF Team)
Surrey County Council
Room G59, County Hall
Penrhyn Road
Kingston upon Thames
Surrey KT1 2DN
Email: *myhelpdeskpensions@surreycc.gov.uk*

General enquiries and complaints:
Helpdesk: 0208 231 2802
General enquiries and complaints: 0208 541 9293

RETAINED HR TEAM

Pensions Manager
Hammersmith & Fulham Council
The Town Hall
King Street
London
W6 9JU
pensions@lbhf.gov.uk

Appendix 3. Funding Strategy Statement

INTRODUCTION

This is the Funding Strategy Statement for the London Borough of Hammersmith and Fulham Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes the London Borough of Hammersmith and Fulham's strategy, in its capacity as administering authority, for the funding of the London Borough of Hammersmith and Fulham Pension Fund.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (*Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition)* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

PURPOSE OF THE FUNDING STRATEGY STATEMENT

The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as required by Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities.

AIMS AND PURPOSE OF THE FUND

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive and invest contributions, transfer values and investment income.

FUNDING OBJECTIVES

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

KEY PARTIES

The key parties involved in the funding process and their responsibilities are set out below.

The administering authority

The administering authority for the Fund is the London Borough of Hammersmith and Fulham. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and;
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme employers

In addition to the administering authority, a number of other Scheme employers participate in the Fund.

The responsibilities of each employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Ministry of Housing, Communities and Local Government (MHCLG).

Fund Actuary

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and;
- Advise on other actuarial matters affecting the financial position of the Fund.

KEY PARTIES

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent valuation of the Fund was as at 31 March 2019. The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

FUNDING METHOD

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service).

These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an “open” employer – one which allows new recruits access to the Fund, or a “closed” employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year’s benefit accrual only.

For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

The approach by employer may vary to reflect an employer’s specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

VALUATION ASSUMPTIONS AND FUNDING MODEL

In completing the actuarial valuation, it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20-year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20-year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund.

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 1.0% p.a. is therefore made to the RPI assumption to derive the CPI assumption.

Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

Future investment returns/discount rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund’s long-term investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the “ongoing” discount rate.

Funding Strategy Statement (continued)

A summary of the financial assumptions adopted for the 2019 valuation is set out in the table below:

Financial assumptions as at 31 March 2019	
RPI inflation	3.6% p.a.
CPI inflation	2.6% p.a.
Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay increase	CPI inflation + 1.0% p.a.
Discount rate	5.0% p.a.

Asset valuation

For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

The Fund's assets are allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received, and benefits paid).

Demographic assumptions

The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of the assumptions adopted are included in the Fund's 2019 valuation report.

McCloud/Sargeant judgements

The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, do have implications for the LGPS.

In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

Further details of this can be found below in the Regulatory risks section.

At the time of drafting this FSS, it is still unclear how this will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary expects it is likely to be less than, the impact of reducing the discount rate assumption by 0.05%.

Guaranteed Minimum Pension (GMP) indexation and equalisation

As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found here.

On 22 January 2018, the government published the outcome to its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found here.

The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

DEFICIT RECOVERY/SURPLUS AMORTISATION PERIODS

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 17 years. The adjustment will usually be set as a fixed monetary amount.

Where the valuation for an employer discloses a surplus then the level of required employer contribution may include an adjustment to amortise a proportion of the surplus.

The deficit recovery period or amortisation period that is adopted, and the proportion of any surplus that is amortised, for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

POOLING OF INDIVIDUAL EMPLOYERS

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, academy employers are pooled for the purposes of determining contribution rates to recognise the common characteristics of these employers.

The main purpose of pooling is to produce more stable employer contribution levels, although recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

Pooling of other individual employers may be considered in exceptional circumstances if deemed appropriate by the administering authority and Fund Actuary.

Forming/disbanding a funding pool

Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. Advice should be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool (such that the results of the pool are largely driven by that dominant employer). Where this scenario arises, advice should be sought from the Fund Actuary.

Funding pools should be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate.

NEW EMPLOYERS JOINING THE FUND

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

ADMISSION BODIES

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically, these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution rate

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

NEW ACADEMIES

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at start

On conversion to academy status, the new academy will become part of the Academies funding pool and will be allocated assets based on the funding level of the pool at the conversion date.

Contribution rate

The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academies funding pool at the 2019 valuation.

CESSATION VALUATIONS

When a Scheme employer exits the Fund and becomes an existing employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Similarly, any surplus in the Fund in respect of the exiting employer may be treated differently to a payment of an exit credit, subject to the agreement between the relevant parties and any legal documentation.

In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario.

For example, if there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities are likely to be assessed on a "minimum risk" basis leading to a higher exit payment being required from (or lower exit credit being paid to) the employer, in order to extinguish their liabilities to the Fund and to reduce the risk of these liabilities needing to be met by other participating employers in future.

If it is agreed that another employer in the Fund will accept responsibility for the residual liabilities, then the assumptions adopted will be consistent with the current ongoing funding position, but additional prudence will be included in order to take potential uncertainties and risk into account e.g. due to market changes, additional liabilities arising from regulatory or legislative change and political/economic uncertainties. The additional level of prudence will be set by considering the distribution of funding levels under a large number of economic scenarios, with the aim being to gain a reasonable level of confidence that the Fund will be able to meet its benefits obligations to the relevant members in future.

REGULATORY FACTORS

At the date of drafting this FSS, the government is currently consulting on potential changes to the Regulations, some which may affect the regulations surrounding an employer's exit from the Fund. This is set out in the *Local government pension scheme: changes to the local valuation cycle and the management of employer risk* consultation document.

Further details of this can be found in the Regulatory risks section below.

BULK TRANSFERS

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

LINKS WITH THE INVESTMENT STRATEGY STATEMENT (ISS)

The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

RISKS AND COUNTER MEASURES

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

FINANCIAL RISKS

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.1% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by around 2% and decrease/increase the required employer contribution by around 0.5% of payroll p.a.

However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

DEMOGRAPHIC RISKS

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase in the long-term rate of mortality improvement of 0.25% p.a. will increase the liabilities by around 1%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. For the past two funding valuations, the Fund has commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

The London Borough of Hammersmith and Fulham Council do not pay additional amounts to cover any strain costs arising from early retirements at the retirement date but instead allow for the additional liability at the next formal valuation and pay additional contributions to meet these strains as part of their secondary rate contributions. The Fund is comfortable with this approach due the strong covenant of the Council.

The administering authority is currently implementing an ill-health self-insurance pool within the Fund whereby a portion of all employers' contributions into the Fund are allocated to a segregated ill-health section of the Fund. When an ill-health retirement occurs, a funding strain (i.e. the difference between the value of the benefits payable to the ill-health member and the value that was assumed as part of the actuarial valuation) is generated in the employer's section of the Fund. As part of the self-insurance policy, assets equal to the funding strain are transferred from the segregated ill-health assets section of the Fund to the employer's section of the Fund to cover the funding strain.

MATURITY RISK

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meets its benefit payments.

The government has published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

REGULATORY RISKS

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgements and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a predetermined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

CONSULTATION: LOCAL GOVERNMENT PENSION SCHEME: CHANGES TO THE LOCAL VALUATION CYCLE AND MANAGEMENT OF EMPLOYER RISK

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited. This FSS will be revisited once the outcome is known and reviewed where appropriate.

TIMING OF FUTURE ACTUARIAL VALUATIONS

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. These results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

MANAGING EMPLOYER EXITS FROM THE FUND

The consultation covers:

- Proposals for flexibility on exit payments. This includes:
    - Formally introducing into the Regulations the ability for the administering authority to allow an exiting employer to spread the required exit payment over a fixed period.
    - Allowing employers with no active employers to defer payment of an exit payment in return for an ongoing commitment to meeting their existing liabilities (deferred employer status).

- Proposals for further policy changes to exit credits. The proposed change would require the exiting employer's exposure to risk to be taken into account in calculating any exit credit due (for example a pass through employer who is not responsible for any pensions risk would likely not be due an exit credit if the amendments are made to the Regulations).

CHANGES TO EMPLOYERS REQUIRED TO OFFER LGPS MEMBERSHIP

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. This could impact on the level of maturity of the Fund and the cashflow profile for these employers. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

There are very few employers of this type currently participating in the Fund and so the risks are considered relatively low at present.

EMPLOYER RISKS

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required. In particular, the Fund regularly commissions an employer risk review from the Fund Actuary, to help identify the employers in the Fund that might be considered as high risk. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

GOVERNANCE RISKS

Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued, then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

MONITORING AND REVIEW

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

Funding Strategy Statement (continued)

The timing of the next funding valuation is due to be confirmed as part of the government's *Local government pension scheme: changes to the local valuation cycle and management of employer risk* consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

Appendix 4. Investment Strategy Statement

PURPOSE OF THE INVESTMENT STRATEGY STATEMENT

This is the Investment Strategy Statement (ISS) adopted by the London Borough of Hammersmith & Fulham Pension Fund ("the Fund"), which is administered by the London Borough of Hammersmith & Fulham Council ("the Administering Authority").

Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the London Borough of Hammersmith & Fulham Pension Fund is required to publish this ISS. The regulations require administering authorities to outline how they meet each of the six objectives, aimed at improving the investment and governance processes of the Fund.

This statement addresses each of the objectives included in the 2016 Regulations:

a) A requirement to invest fund money in a wide range of instruments;
b) The authority's assessment of suitability of particular investments and types of investment;
c) The authority's approach to risk, including the way in which risks are to be measured and managed;
d) The authority's approach to pooling investments, including the use of collective investment vehicles;
e) The authority's policy on how environmental, social or governance (ESG) considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The Pension Fund Sub-Committee ("the Sub-Committee") of the London Borough of Hammersmith & Fulham Pension Fund oversees the management of the Fund's assets. Although not trustees, the Members of the Sub-Committee owe a fiduciary duty similar to that of trustees to the council taxpayers, who ultimately have to meet any shortfall in the assets of the Fund, as well as to the contributors and beneficiaries of the Fund.

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

- To make all decisions under Regulations made pursuant to Sections 7, 12 or 24 of the Superannuation Act not otherwise falling to the Director of Finance to determine as set out in the officers' scheme of delegation.
- The consideration and approval of the authority statement of accounts and annual report in accordance with the relevant Accounts & Audit Regulations made from time to time.
- To receive and consider the Auditor's report on the governance of the Fund.
- To receive actuarial valuations of the Fund regarding the level of employers' contributions necessary to balance the Fund.
- To have responsibility for all aspects of the investment and other management activity of the Fund.
- To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the investment consultant.
- To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable.
- To determine the Fund management arrangements, including the appointment and termination of the investment managers, actuary, custodians and fund advisers.
- To agree the Investment Strategy Statement, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and to ensure compliance with these.
- To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of the Council for the payment of pensions, and allowances to beneficiaries.
- To make and review an admission policy relating to admission agreements generally with any admission body.

- To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
- To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
- To determine any other investment or pension fund policies that may be required from time to time, so as to comply with Government regulations and to make any decisions in accordance with those policies.

The Sub-Committee has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes to the Fund.
- Appointing the investment managers, an independent custodian, the actuary, the investment advisor(s) and any other external consultants considered necessary.
- Reviewing on a regular basis the investment managers' performance against benchmarks, portfolio risk and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls.
- Monitoring compliance with the ISS & Funding Strategy Statement (FSS) and reviewing its contents.
- Reviewing social, environmental, governance (ESG) and ethical considerations policies, and the exercise of voting rights.

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

This ISS will be reviewed at least annually, or more frequently as required, in particular, following valuations, future asset/liability studies and performance reviews, which may indicate a need to change investment policy, or significant changes to the Funding Strategy Statement (FSS).

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

OBJECTIVE 7.2 (A) – A REQUIREMENT TO INVESTMENT FUND MONEY IN A WIDE RANGE OF INSTRUMENTS

Funding and investment risks are discussed in more detail later in this document. However, at this stage, it is important to state that the Sub-Committee is aware of the risks it runs within the Fund and the consequences associated with these risks.

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

- Exposure to a diverse range of sources of return; such as the financial markets, the manager's skill and the use of alternative investments which are less liquid.
- A diverse range of investible asset classes.
- A diverse range of approaches to the management of the underlying assets.

This approach to diversification has seen the Fund dividing its assets into six broad categories as shown in the table below:

Asset Category	Asset Allocation	Review Range
Global Equities	45.0%	+/- 3.0%
Fixed Income	22.5%	+/- 2.0%
Global Bonds	10.0%	
Multi Asset Credit	7.5%	
Private Credit	5.0%	
Alternatives	12.5%	+/- 0.5%
Infrastructure	7.5%	
Illiquid Strategies	5.0%	
Inflation Protection	10.0%	+/- 1.0%
Multi-Asset	5.0%	+/- 1.0%
Property	5.0%	+/- 1.0%

It is important to note that within each category, the Fund's underlying investments are not concentrated to one particular sector, thereby providing further diversification benefits. The asset allocation is regularly reviewed and subject to change depending on the prevalent investment conditions.

The Sub-Committee is mainly concerned about ensuring the Fund's long-term ability to meet pension and other benefit obligations, as and when they fall due. To this end, the Sub-Committee places a high degree of importance on ensuring the expected return on the assets is sufficient to do so and does not have to rely on a level of risk which the Sub-Committee considers to be excessive.

The Sub-Committee regularly reviews both the performance and expected returns from the Fund's investments to measure whether it has met, and is likely to meet in the future, its return objectives. The Fund currently has a negative cash flow position. This means that the contributions paid in by active members are less than the pension obligations paid out on a monthly basis. The Sub-Committee regularly monitors the Fund's cash flow position and the impact investment income has towards mitigating this risk.

In addition to keeping its investment strategy and policy under regular review, the Sub-Committee will keep this ISS under review to ensure that it reflects the approaches being taken. At all times, the Sub-Committee takes the view that its investment decisions, including those involving diversification, are in the best long-term interest of the Fund's beneficiaries and seeks appropriate advice from investment advisors.

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

When assessing the suitability of investments, the Fund considers several factors:

- Expected return
- Risk profile
- Market concentration
- Risk management qualities provided by the asset when the whole portfolio is considered
- Geographic and currency exposures
- The extent to which the management of the asset meet the Fund's ESG criteria

Suitability is a critical test for whether or not a particular investment should be made. Each of the Fund's investments has an individual performance benchmark, against which their reported performance is measured.

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

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

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

The Sub-Committee recognises that there are several risks involved in the investment of fund assets, which include:

Geopolitical and currency risks:

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

Manager risk:

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

Investment Strategy Statement (continued)

Solvency and mismatching risks:

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

Liquidity risk:

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

Custodial risk:

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

Employer contributions are based upon financial and demographic assumption determined by the actuary. The main risks to the Fund are highlighted within the Funding Strategy Statement (FSS). The risks to the Fund are controlled in the following ways:

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

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

The Sub-Committee is aware that investment risk is only one aspect of the risks facing the Fund. The other key risk relates to the Fund's ability to meet the future liabilities, support the investment risk (i.e. the level of volatility of investment return) and underwrite actuarial risk, namely, the volatility in the actuarial funding position and the impact this has on contributions.

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

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

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

To help manage risk, the Sub-Committee uses an external investment adviser to monitor the portfolio risk level. In addition, when carrying out their investment strategy review, the Sub-Committee can appoint different investment advisors to assess the level of risk involved.

The Fund targets a return of 5.0%, in line with the latest triennial actuarial valuation provided by the fund's actuary. This investment strategy is considered to have a low degree of volatility.

When reviewing the investment strategy on a quarterly basis, the Sub-Committee considers advice from their advisers and the need to take additional steps to protect the value of the assets that may arise or capitalise on opportunities if they are deemed suitable. In addition to this, the risk registers are also reviewed and updated on a quarterly basis.

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

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

The Fund recognises the Government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures maximum cost effectiveness for the Fund, both in terms of return and management cost. The Fund's pooling arrangements meet the criteria set out in the Local Government Pension Scheme: Investment Reform Criteria and Guidance.

The Fund is a member of the London Collective Investment Vehicle (CIV) and joined the asset pool as part of the Government's pooling agenda. The London CIV was launched in December 2015 by the 32 local authorities within London and has about £19.5 billion of assets under management, of which £8.8 billion is managed directly with 14 active funds as of 30 September 2019.

As at the 31st December 2019, the Fund had transitioned assets into the London CIV with a value of £788 million, equivalent to 71% of the fund's assets. The Fund continues to monitor the ongoing development of investment strategies available on the London CIV platform and will look to transition further assets as and when there are suitable investment strategies available on the platform that are compatible with the Fund's investment strategy and objectives.

The table below details the investment assets held by the Fund, the availability of similar mandates on the London CIV platform and how much of the assets are invested with the pool as at 31 December 2019:

Asset Category	Availability on LCIV	Investment with LCIV
Global Equities		
MSCI Low Carbon (LGIM)	Contract negotiated on behalf of LCIV Clients	£546.2m
Multi Asset		
LCIV Absolute Return (Ruffer)	Yes	£132.9m
Fixed Income		
LCIV Global Bonds (PIMCO)	Yes	£108.8m
Private Multi Asset Credit (Partners Group, Aberdeen Standard)	No	-
Multi Asset Credit (Oakhill)	No	-
Infrastructure		
Renewable Infrastructure (Aviva)	No	-
Global Infrastructure (Partners Group)	Yes	-
Inflation Strategies (M&G)	Yes	
Long Lease Property (Aberdeen Standard)	No	

The Fund has committed capital to alternative investment strategies such as property, infrastructure and illiquid debt. The cost of exiting these strategies early would present a material negative financial impact for the Fund. As such, the Fund will continue to hold these investments outside of the London CIV pooling structure to maturity, at which point, the Fund will assess the viability of making such investments within the pool, subject to availability and the Fund's asset allocation.

The Sub-Committee is aware that transitioning certain investment assets to the London CIV could incur significant costs. Whilst it is the expectation of the Fund to make use of the London CIV for the management of most of the Fund's assets in the longer term, the Sub-Committee recognises that transitioning from the current structure to the London CIV will be a protracted exercise spread over several years to ensure that unnecessary costs are not incurred.

The Fund reviews its investment strategy at least once every three years, an exercise which considers the suitability of each investment within the portfolio, including an assessment of transition and investment opportunities with the London CIV.

Governance structure of the London CIV

The London CIV is an authorised company by the Financial Conduct Authority (FCA), which was established by the London Local Authorities (LLAs) to provide a collaborative vehicle for pooling LGPS pension fund assets. The current Corporate Governance and Controls Framework was approved by London CIV shareholders in 2018. This framework details the governance arrangements for approving the London CIV's annual budget, business plan and objectives, governance structures and appointments, shareholder agreement and transparency of information and reporting.

The London CIV Company Board (the Board) comprises of an independent chair, seven non-executive directors (NEDs) of which two are nominated by the LLAs, three executive directors and the London CIV Treasurer. The Board has a duty to act in the best interests of the shareholders and have collective responsibility for:

- Strategy and oversight
- Budget and forward plans
- Performance reviews
- Major contracts and significant decisions, including decisions relating to funds
- Financial reporting and controls
- Compliance, risk and internal controls
- Governance and key policies

The London CIV has four committees responsible for investment oversight, audit and risk, remuneration and nominations and day to day operations of the company. These comprise of executive and non-executive members.

The role of the Investment Oversight Committee is to:

- Determine, maintain and monitor the company's investment strategy, investment performance and investment risks of the portfolios in accordance with the company's strategy and business plan.

The responsibilities of the Compliance, Audit and Risk Committee include:

- overseeing compliance obligations;
- developing and monitoring a risk management framework; and
- ensuring the integrity of financial statements and reporting.

The responsibilities of the Remuneration & Nomination Committee include:

- developing and monitoring a remuneration policy;
- overseeing the remuneration of key staff; and
- handling nominations and succession planning of key staff and board members.

The Executive Directors acting collectively as the Executive Committee have a number of specific delegated responsibilities for the day-to-day operations of the company, supported by the wider executive leadership team. The role of the Executive Committee in summary is to:

- execute board-approved strategic objectives and business plan in line with risk appetite and financial limits;
- identify, discuss and formulate effective solutions to address issues and opportunities facing the company;
- ensure the day-to-day operations meet the relevant legal requirements and compliance obligations of the company; and
- ensure the Board and Committee members receive timely, accurate and transparent management information and reporting to fulfil their duties and responsibilities.

The London CIV's Shareholder Committee is responsible for scrutinising the actions of the Board, reporting and transparency, consultation on the strategy and business plan, matters reserved to shareholders, responsible investment and emerging issues. The Shareholder Committee meets on a quarterly basis and comprises of 12 members, including Councillors and Treasurers from the LLAs.

The London CIV hosts an AGM on a semi-annual basis, to which all 32 members are invited. This allows members the opportunity to exercise shareholder power, approve the annual budget and hold the Board to account.

External independent oversight and assurance of the pool company is provided to the FCA, depositary, external auditors and the Ministry of Housing, Communities and Local Government (MHCLG).

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

The Fund recognises environmental, social and governance (ESG) factors as central themes in measuring the sustainability and impact of its investment decisions. Failure to appropriately manage these factors is considered to be a key risk for the fund as this can have an adverse impact on the fund's overall investment performance, which ultimately affects the scheme members, employers and local council taxpayers.

The United Nations (UN) has established 17 Sustainable Development Goals (SDGs) as a blueprint to achieving a better and more sustainable future for all. These goals aim to address the challenges of tackling climate change, supporting industry, innovation and infrastructure, and investing in companies that are focused on playing a key role in building that sustainable future.

Whilst it might not be practical for any organisation to achieve all the SDGs solely by itself, the Fund has developed a Responsible Investment policy that targets several of the UN's SDGs that are aligned with the Fund's investment values.

The Fund, alongside its administering authority employer, has committed itself to achieving carbon neutrality by the year 2030. This commitment demonstrates the Fund's intention to act as a responsible investor and will increasingly play a fundamental role in fund's asset allocation and investment manager selection processes.

The Fund maintains a policy of engagement with all its stakeholders, including those operating in the investment industry. It is broadly recognised that in the foreseeable future, the global economy will transition from its reliance on fossil fuels to the widespread adoption of renewables as the main source of energy production. The impact of this transition on the sustainability of investment returns will be continually assessed.

The Sub-Committee is committed to playing an active role in the transition to a sustainable economic and societal environment. To that end, the Fund will continue to seek investments that match its pension liability profile, whilst having a positive impact on society. The Fund is of the view that greater impact can be achieved through active ownership and lobbying for firms to change and utilise their resources sustainably.

The Sub-Committee recognises that is has a fiduciary duty to act in the best interests of the scheme's members to ensure that their benefits are honoured in retirement. Such responsibility extends also to making a positive contribution to the long-term sustainability of the global environment. ESG integration into the Fund's investment decision processes aims to mitigate the associated investment risks, whilst enhancing investment returns for the Fund, thereby safeguarding members' futures.

Policy implementation – Selection process

The Sub-Committee delegates the individual investment selection decisions to it investment managers. In doing so, the Fund maintains a policy of non-interference with the day-to-day decision-making processes of the investment managers. However, as part of its investment manager appointment process, the Sub-Committee assesses the investment managers' abilities to integrate ESG factors into their investment selection process. This includes, but is not limited to:

- evidence of the existence of a responsible investment policy;
- evidence of ESG integration in the investment process;
- evidence of sign up to relevant responsible investment frameworks such as the United Nations Principles of Responsible Investment (UNPRI);
- commitment to addressing the challenges posed by climate change;
- a track record of actively engaging with stakeholders to influence best practice;
- an ability to appropriately disclose, measure and report on the overall impact of ESG decisions made

As part of its investment manager selection process, the Sub-Committee will obtain proper advice from the Fund's internal and external advisers with the requisite knowledge and skills; this will be supplemented by regular training.

Investment managers are expected to follow industry best practice and use their influence as major institutional investors and long-term stewards of capital to promote best practice in the companies/projects in which they invest. Investable companies will be expected to comply with all the applicable laws and regulations in their respective markets as a minimum.

Policy Implementation – Ongoing engagement

Whilst it is still quite difficult to quantify the impact of the less tangible non-financial factors on the economic performance of an organisation, this is an area that continues to see significant improvements. Several benchmarks and disclosure frameworks exist to measure the difference aspects of available ESG data which includes carbon emissions, diversity on company boards and social impact. It is apparent that poor scoring on these ESG factors can have an adverse impact on an organisation's financial performance. It is therefore important for the appointed investment managers to effectively assess the impact such factors may have on the underlying investments.

The Fund's officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including ESG considerations. This can be implemented in several forms which include but are not limited to:

- regular meetings with investment managers to assess investment performance and the progress made towards achieving ESG targets;
- reviewing reports issued by investment managers and challenging performance where appropriate;
- working with investment managers to establish appropriate ESG reporting and disclosures in line with pension fund's objectives;
- contribution to various working groups that seek to positively influence the reporting of industry standards on ESG metrics;
- actively contributing to the efforts of engagement groups such as the Local Authority Pension Fund Forum (LAPFF), of which the fund is a member.

The Fund's officers will work closely with the London CIV (through which the Fund will increasingly invest) in developing and monitoring its internal frameworks and policies on all issues which could present a material financial risk to the long-term performance of the Fund. This will include the London CIV's ESG frameworks and policies for investment analysis and decision making.

Fund officers will report on the Fund's investment performance, including an update on the ongoing ESG performance, to the Sub-Committee at least once every quarter. This will include a review into the Fund's progress towards achieving its ESG targets.

In preparing and reviewing its Investment Strategy Statement, the Fund will consult with the relevant stakeholders including, but not limited to:

- pension fund employers;
- local pension board;
- advisers/consultants to the fund;
- investment managers.

Policy Implementation - Training

The Sub-Committee and the Fund's officers will receive regular training on responsible investment. A review of training requirements and needs will be carried out at least annually. Training is intended to cover the latest updates in legislation and regulations, as well as best practice with regards to ESG integration into the Fund's investment process.

OBJECTIVE 7.2 (F) THE EXERCISE OF RIGHTS (INCLUDING VOTING RIGHTS) ATTACHED TO INVESTMENTS

The Fund recognises the importance of its role as good stewards of capital and the need to ensure the highest standards of governance, promoting corporate responsibility in the underlying companies in which it holds its investments. The Sub-Committee has delegated the Fund's voting rights to its investment managers who are required and expected, where practical, to make considered use of voting in the interests of the Fund.

Investment Strategy Statement (continued)

Through its participation as a member of the London CIV, the Fund continues to work closely with other LGPS funds in London to enhance the level of engagement with both the investment managers and the underlying companies in which it invests.

The Fund is a member of the LAPFF, a leading collaborative shareholder engagement group in the UK. The LAPFF regularly issues voting alerts to investment managers on behalf of its members. Investment managers are encouraged to vote in accordance with these alerts where possible or provide an explanation as to why they are unable to do so. The Fund's membership in the LAPFF and the Pensions and Lifetime Savings Association (PSLA) helps in magnifying the voice and influence of pension fund assets owners.

Feedback on this statement

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

Tri-Borough Pensions Team

pensionfund@lbhf.gov.uk

COMPLIANCE WITH CIPFA PENSIONS PANELS PRINCIPLES

DECISION MAKING

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

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

The Secretary of State has previously highlighted the principle contained in Roberts v. Hopwood, for pension funds whose administering bodies exercise their duties and powers under regulations governing the investment and management of funds:

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

The Myners' Principles are widely accepted to be in support of this approach. The principles, together with the Fund's position on compliance, are set out below.

PRINCIPLE 1 – EFFECTIVE DECISION MAKING

Administrating authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge advice and resources necessary to make them effectively and monitor their implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive whilst also managing any conflicts of interest.

Full compliance

The Hammersmith & Fulham Council (the Council) has delegated the management and administration of the Fund to the Pension Fund Sub-Committee (the Sub-Committee). The Sub-Committee meets at least quarterly. The responsibilities of the Sub-Committee are described in section 1 of the Investment Strategy Statement (ISS).

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

The Sub-Committee obtains and considers advices from the Fund's officers, appointed actuary, investment managers and advisors. Investment managers are appointed in accordance with the scheme's regulations and the scope of their activities are specified in detailed investment management agreements and regularly monitored. Business plans are presented to the Sub-Committee annually and progress is monitored on a quarterly basis.

Several of the Sub-Committee members have extensive experience of dealing with investment matters and training is made available to new members when they are appointed to the committee.

PRINCIPLE 2 – CLEAR OBJECTIVES

The Fund should set investment objectives that consider the following factors:

- the funds overall pension liabilities
- the potential impact of investment risks on local council tax players
- the strength of the covenant for non-local authority employers
- the attitude towards risk of both the administering authority and the scheme employers

These should be clearly communicated to advisors and investment managers.

Full compliance

The aims and objectives of the Fund are set out within the Funding Strategy Statement and the Investment Strategy Statement. The main objective of the fund is to meet the cost of pension liabilities whilst minimising the fluctuations in the employer contribution rates, thereby keeping costs to taxpayers and admitted bodies at a reasonable level.

In order to ensure that the Fund's assets are sufficient to meeting its short-term and long-term pension liabilities, the Fund's investment strategy has been set to include a combination of income yielding and growth assets. The Fund's investment performance is measured against this objective on a quarterly basis. The Fund's investment strategy is also reviewed regularly.

PRINCIPLE 3 – RISK AND LIABILITIES

The Fund should consider the form and structure of its liabilities. This includes:

- the implications for local council taxpayers;
- the strength of the covenant for non-local authority employers;
- the risk of their default; and
- longevity risk.

Full compliance

The Sub-Committee, in conjunction with its advisers, agrees an investment strategy that is appropriate to meet the Fund's liabilities. A fund actuarial valuation is carried out every three years, with the most recent triennial valuation having been conducted in 2019. The investment strategy is designed to be well diversified, achieving the optimal risk adjusted return for the Fund.

An appropriate asset allocation has been agreed, which aims maximise the potential to close the funding deficit over future years. This is included as an appendix to the ISS.

PRINCIPLE 4 – PERFORMANCE ASSESSMENT

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

Full compliance

The Sub-Committee has appointed investment managers with clear index strategic benchmarks as a means of monitoring the investment manager's skill. Investment managers are held accountable to any under performance against the appropriate agreed upon benchmark.

Manager performance is monitored on a quarterly basis and independent detailed monitoring of the Fund's investments is carried out by the Fund's investment adviser and custodian. Portfolio risk is measured on a quarterly basis and the risk/return implications of the different strategic options are fully evaluated.

The investment adviser is assessed on the appropriateness of the quality of the advice given which include the asset allocation recommendations and the performance of the funds on their rated list. The actuary is assessed on the quality and consistency of the actuarial advice received. Both the advisor and the actuary have fixed term contracts which when expired are tendered for under the Official Journal of the European Union (OJEU) procedures.

PRINCIPLE 5 – RESPONSIBLE OWNERSHIP

Administering authorities should:

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

Full compliance

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

The Fund intends on using its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance in the companies in which it invests. The Fund's approach to this is outline in the ISS.

PRINCIPLE 6 – TRANSPARENCY AND REPORTING

Administering authorities should:

- act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks including performance against stated objectives.
- provide regular communications to scheme members in the form they consider most appropriate.

Full compliance

The Fund publishes an annual report each year which communicates the Fund's strategy and performance to stakeholders. Copies of the Investment Strategy Statement, Funding Strategy Statement and other policy documents are also made publicly available online on the Council's website.

All Pension Fund Sub-Committee meetings are open to members of the public, and agendas and minutes are also published on the Council's website.

COMPLIANCE WITH THE STEWARDSHIP CODE

The Stewardship Code is a set of principles or guidelines released in 2010 and updated in 2020 by the Financial Reporting Council (FRC), directed at institutional investors who hold rights in United Kingdom companies. Its principal aim is to make shareholders who manage other people's money actively engage in corporate governance in the interests of their beneficiaries.

The Code applies to pension funds and adopts the same "comply or explain" approach used in the UK Corporate Governance Code. This means that it does not require compliance with principles but if fund managers and institutional investors do not comply with any of the principles set out, they must explain why they have not done so. The Committee has not formally adopted the latest version of the Stewardship Code, however, expects any directly appointed fund managers and the pool company (London CIV, in this Fund's case) to comply and this is monitored on an annual basis.

Investment Strategy Statement: Appendix B

INVESTMENT AND ADMINISTRATION
RISK REGISTER

Appendix 5. Pension Administration Strategy

Contents

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    - Statutory background
    - Aims & Objectives
    - Other documents which make up the overall strategy
3. Roles and Responsibilities
    - Administering Authority
    - Employers
4. Liaison, engagement and communication strategy
5. Standard of expected service between the Administrating Authority and employers
    - Employer targets
6. Pension Administration Strategy - Schedule of Charging
7. Strategy to develop web enabled services for employers
8. Further Information

1. Introduction

The delivery of a high quality, cost effective pensions administration service is not just the responsibility of the Administering Authority (London Borough of Hammersmith and Fulham), it also depends upon collaborative working with all stakeholders to ensure that Scheme members, and other interested parties, receive the appropriate level of service and ensure that statutory requirements are met.

The aim of this Pension Administration Strategy (PAS) is to ensure that the Administering Authority along with their Admitted and Scheduled body employers are aware of their responsibilities under the Local Government Pension Scheme (LGPS).

This document also shows the relationship and details the split of responsibilities between the Administering Authority and the Admitted and Scheduled body employers (Employers).

For clarity Hammersmith and Fulham acting as Administering Authority (WAA) for the pension fund will treat Hammersmith and Fulham the main fund employer (WFE) exactly the same as all the other fund employers.

It should be noted that the Administering Authority is working with Surrey County Council (SCC) to provide the main pension administration service to all fund employers under a 101 shared service arrangement.

Throughout this document contractual and best practice levels of performance are referenced with the aim of incrementally improving the provision of timely accurate data and levels of pension administrative services.

Failure to comply with the standards shown in this document could result in charges being levied by the Administering Authority to Employers in accordance with the terms set out in the schedule of charging in Section 6.

2. Pension Administration Strategy Statement

This statement sets out the aims and objectives of the PAS and references other documents which together make up the overall pensions administration management system.

<u>Statutory background</u>

Regulation 59 of the Local Government Pension Scheme Regulations 2013 (LGPS 2013) enables an Administering Authority to prepare a document detailing administrative standards, performance measurement, data flows and communication vehicles with Employers.

Regulation 70 of the LGPS 2013 allows an Administering Authority to recover costs from an Employer where costs have been incurred because of an Employer's non-compliant level of performance in carrying out its functions under the Regulations.

<u>Aims & Objectives</u>

In creating this strategy, the aim of the Administrating Authority is to have in place a pension management system that meets the needs of the stakeholders by:

- clarifying the roles and responsibilities of all the major stakeholders
- ensuring the services provided by all the major stakeholders are accessible, equitable and transparent
- assisting Employers to provide the effective provision of timely and accurate data

To support these aims this PAS document introduces:

- the standard of expected service between the Administrating Authority and Employers
- a schedule of charges that apply when standards of service fall below expectations
- a strategy in place to develop web enabled services for Employers and employees.

<u>Other documents which make up the overall strategy</u>

- Local Government Pension Scheme Communications Policy

3. Roles and responsibilities

<u>Administering Authority</u>

The responsibilities of the Administering Authority are:

1. To decide how any previous service or employment of an employee is to count for pension purposes, and whether such service is classed as a 'period of membership'.

2. To notify each member regarding the counting of membership in the scheme following notification from the member's employer of the relevant service details.

3. To set up and maintain a record for each member of the scheme which contains all the information necessary to produce an accurate benefit calculation following the employer providing useable and accurate financial data.

4. To calculate and pay the appropriate benefits at the correct time, based on membership details held the termination date and the final pay details provided by the employer when an employee ceases employment, or ceases membership of the Scheme.

5. To supply beneficiaries with details of their entitlements including the method of calculation.

6. To set up and maintain a record for each pensioner member.

7. To increase pensions periodically in accordance with the provisions of Pensions Increase Acts and Orders.

8. To pay benefits to the correct beneficiaries only and to take steps to reduce the possibility of fraud taking place.

9. To ensure that sufficient information is issued to satisfy the requirements of Regulation 61 of the LGPS 2013. This relates to fund communication more details are contained within section 4 of this document or alternatively see the communications policy which is also available on the Hammersmith and Fulham Pension fund website.

10. To maintain an appointed person for the purposes of the scheme internal dispute resolution procedure (IDRP). The appointed person will in general be the Director of People Services or where the Director had previously been involved in the case an officer of equivalent level will be asked to make a determination. The appointed person will be able to access advice from the funds appointed legal advisors where necessary.

11. To appoint all necessary advisors to enable the appointed person to perform the duties required by the IDRP.

12. To appoint an actuary for the purposes of the triennial valuation of the Pension Fund and provide periodical actuarial advice when required.

13. To arrange and manage the triennial valuation of the pension fund.

14. To ensure compliance with the Data Protection Act 1998.

15. The Administering Authority and it's agents will respond to queries from employers external or internal auditors within 5 working days or advise when a full response can be sent if not possible within that time frame.

16. The Administering Authority and it's agents will respond to relevant Freedom of Information requests within 14 working days if possible or advise when a full response can be sent if not possible within that time frame.

17. The Administering Authority will reply to any Pension Ombudsman query within 30 days of receipt or advise of reason for further delay.

<u>Employers</u>

The main duties of the Employer are:

1. To decide who is eligible to become a member of the Scheme. The employer must abide by any admission agreement entered into with the administering authority if applicable. If there is a closed admission agreement only the named employees can be entered into the LGPS

2. To decide whether that person is employed in a full time, part time, variable time or casual capacity. If the employee is part time the employer must determine the proportion which the employees' contractual hours relate to the hours of a comparable full time, employee.

3. To determine the pay of employees for the purposes of calculating the pension contributions.

4. To determine final pay for the purposes of calculating benefits due from the Scheme.

5. To issue a notification to any employees who cannot become members of the Scheme explaining the reason(s) why.

6. Where, after reasonable efforts, an employee fails to provide information relating to previous service, provide basic information to the Administrating Authority.

7. At cessation of membership of the Scheme, to determine the reason for leaving and entitlement to benefit and notify the Administrating Authority and the Scheme member of the decision.

8. To supply timely and accurate information to the Administrating Authority to ensure the correct calculation of benefits payable from the Scheme.

9. To deduct Additional Voluntary Contributions (AVCs) from a member's pay and pay over to the provider within the statutory deadlines.

10. To be responsible for exercising the discretionary powers given to Employers by the regulations. These regulations also require the Employer to publish its policy in respect of these key discretions.

11. To provide a notice, drawing the employee's attention to their right of appeal under the LGPS, with any statement issued to an employee relating to any decision made about the Scheme.

12. To use an Independent Registered Medical Practitioner qualified in Occupational Health medicine that has been approved by the Administrating Authority in determining ill health retirement.

13. To repay to the Scheme member any incorrectly deducted employee's contributions.

14. To provide the Administrating Authority with Monthly and Year-end information as at 31 March each year in an approved format.

15. To provide the Administrating Authority with an audited copy of the final statement which shall also contain the name and pensionable pay of each employee who is an active member, the amounts which represent pension deductions from pay for each of those employees and the periods covered by the deductions and any other information requested. The information should also distinguish those amounts representing deductions for voluntary contributions and the employees paying those voluntary contributions.

16. To be responsible for complying with the requirements for funding early retirement for whatever reason as required by the Administering Authority using actuary factors.

17. To cover any professional costs for legal or actuarial services that are incurred by the administering authority on behalf of any employer investigating any amendment in relation to its members of the scheme. An example of this would be where an (transferee) employer wishes to tupe eligible staff to another employer (transferor) and the transferor wishes to become an admitted body within our fund. The transferee employer would be expected to meet the actuarial and legal costs associated with the process and will be invoiced for this. Costs may occur in other circumstances where employers require an individual response on either a legal or actuarial matter.

18. Pay the Administrating Authority interest on payments due from the Employer which are overdue by more than one month.

19. Where a member leaves the Scheme and full contributions have not been deducted for whatever reason, immediately make payment of outstanding member's and Employer's contributions to the Administrating Authority.

20. To ensure compliance with Data Protection Act 1998.

21. The employer and it's agents will respond to queries from the Administering Authorities external or internal auditors within 5 working days or advise when a full response can be sent if not possible within that time frame.

22. The employer will reply to the Administering Authority on any query relating to a Pension Ombudsman issue with 14 days of request to allow the Administering Authority to respond to the Pension Ombudsman.

23. The employer must advise the Administering Authority of any change of contact details for the payroll or finance functions for communication purposes.

24. The employer is responsible for all Auto enrolment functions and must advise the Administering Authority of anyone auto enrolled as per the normal new starter process. Employers are advised to contact the pension regulator directly if they have any queries see link to website. http://www.thepensionsregulator.gov.uk/

4. Liaison, engagement and communication strategy

The Administrating Authority will issue and annually review their Local Government Pension Scheme Communications Policy

The policy will include a strategy for communicating with:

- Scheme Members
- Members' Representatives
- Prospective members
- Employers participating in the Fund

This policy document will set out the mechanisms that the Administrating Authority will use to meet their communication responsibilities it will also include details of what is communicated and the frequency.

Annually the Administrating Authority will issue an engagement plan that will include events for employers, members of the scheme and perspective members of the scheme.

The Communications policy will be updated on the Hammersmith and Fulham Pension Fund where it can be found under the Forms and Publications sub heading under the About us main tab.

See link to the pension fund website below.

http://www.wccpensionfund.co.uk/

5. Standard of expected service between the Administrating Authority and the employers

Who *	Administration Description	Performance Targets
	New Starters and Transfers In	
E	**New starter:** The Employer must advise all eligible employees of their membership of the scheme. Members should be given the details of the Pension Fund website http://www.wccpensionfund.co.uk/ Members must be advised that transfers into the scheme must be requested in the first year of joining or thereafter at their employer's discretion. Members must be advised that all necessary forms and contact details are available on the Pension Fund website.	On the first day of the members employment if not provided prior to the start.
E	**New scheme member:** Employer to send to the Administrating Authority the details of the new member. Completing the new starter form available on the website or by sending a file in an approved format by WAA to SCC.	Details to be provided to SCC by the last working day of the month following the first payroll deduction of pension.
AA	**New scheme member** Administrating Authority to create a new pensions record from the completed notification from the Employer.	By the last working day of the month following the data submission by the employer.
AA	**New scheme member:** Administrating Authority to request a transfer quote from the new member's previous scheme.	Within 30 days of receipt of authorisation from the employee. If transfer factors are currently available. If not the member is to be advised of the delay within the same timescale.
AA	**New scheme member:** Administrating Authority to credit member record with membership due from transfer of previous pension benefits.	Within 30 days of receipt of payment from previous scheme.
AA	**New Scheme member:**	
	Notification of service purchased by an incoming transfer to be provided to the scheme new member.	Within 30 days of receipt of the all the information
	Existing members and schemes	
AA	Changes to data which materially affect actual or potential benefit calculations to be processed and provided to the member concerned.	Within 30 days of occurrence or receipt of all necessary information, whichever is later.
AA	Admissions and Inter Fund Adjustment (IFA) in to be notified to the members concerned.	Within 30 days of receipt of all necessary information.
AA	Transfers and Inter Fund Adjustment IFA out to be notified to the receiving scheme.	Within 30 days of receipt of all necessary information
AA	The terms of purchasing additional pension to be notified to the member concerned.	Within 15 days of receipt of all necessary information.
AA	Refund of contributions, where due under the Regulations, to be calculated and paid.	Within 14 days of receipt of all necessary information
AA	Upon notification of a death notification of a pensioner; arrangements put in place for pension payments to cease immediately.	Within 1 working day of receipt of all necessary information
AA	Letters will be sent to next of kin or other relevant party. Setting up of any dependents pension.	Within 5 days of receipt of notification of a death or within 5 days of receipt of all relevant information. Within 14 days of receipt of all necessary information.

6. Pensions Administration Strategy – Schedule of Charging

Hammersmith and Fulham acting as Administering Authority (WAA) wishes to support it's fund employers to enable them to provide all relevant data to both members and to WAA as per the requirements of the PAS set out above. Any employer who is unclear on the requirements of the PAS or is struggling with any aspect of the requirements should inform WAA of any concern as soon as possible, WAA will provide support where it can. WAA's first priority is to ensure compliance for the benefit of members and employers, ensuring that accurate data is stored for members. That pension can be processed quickly and accurately when required and that WAA and it's employers all meet their statutory obligations.

Where additional costs have been incurred by the Administrating Authority as a direct result of an Employer's poor performance these costs will be recovered from the Employer.

The Administrating Authority will give the reasons for doing so in accordance with the regulations.

In addition to the schedule below other circumstances could generate a charge:

- Instances where the performance of the Employing Authority has resulted in fines being levied against the Administering Authority by the Pension Regulator, Pensions Ombudsman, HMRC or other regulatory body.
- Additional cost incurred in providing specialist third party advice in administering the Scheme on behalf of the employer, including but not exclusive to actuarial services, occupational medical practitioner services and legal services.
- Persistent failure to resolve issues in a timely and satisfactory fashion.

In these circumstances the Administrating Authority will set out the calculations of any loss or additional cost incurred, in writing, stating the reason for the cost(s) and the basis for the calculation.

WAA will monitor aspects of the PAS on a quarterly basis, the aspect monitored may change and not all employers data will necessarily be reviewed on each occasion. WAA will be reviewing data from SCC to ensure it's own compliance which will be reported on to the Pension fund Committee and the Pension board. WAA will also seek evidence from SCC of employer compliance with the PAS but may also request data directly from the employer who will be expected to respond with relevant evidence or assurance of compliance where relevant. If an employer does not respond to any request for information within **30 days** of request then this will also be chargeable at **£200** an occasion.

Administration Description	Performance Targets	Charge
New Starters and Transfers In		
New scheme member: Employer to send to the Administrating Authority the details of the new member.	Within 25 working days after the start date.	£50 per case
Leavers and Transfers out		
Scheme Leaver: Employer to send the Administrating Authority a completed leaver notification.	Within 25 working days from the employee's last day in the Scheme.	£50 per case
Retirements: Employer to send the Administrating Authority a completed notification.	At least 15 working days before their final paid day of work.	£50 per case
Deductions		
Monthly deductions: Employer to send funds and schedule of deductions from salary to the Administering Authority. **Payment of Other Sums Due:** Employers should make payment of any invoiced sums as set out within this PAS within 30 days of invoice date.	By the 19th day of the month following the month in which contributions were deducted.	£100 per instance of late payment.

7. Strategy to develop web enabled services for employers and employees.

In 2016/17 the Administrating Authority will implement, develop and engage employers in an on line portal. Initially, the portal will be used for data sharing with employers and information communication with employees.

Whilst forms will be restricted to being downloaded completed and resent, it is anticipated that the portal will be developed to allow members of the scheme to self-serve e-forms direct to the scheme administrators.

8. Further Information

Eleanor Dennis
Pensions Manager
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The Town Hall
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London
W6 9JU
pensions@lbhf.gov.uk

Appendix 6. Annual Report of the Pension Board

The role of the Local Pension Board is to assist the scheme manager (the administering authority) in securing compliance with:

- The LGPS scheme regulations
- Other governance and administration legislation
- The requirements of the Pensions Regulator (tPR)
- Additional matters, if specified by scheme regulations

The Local Pension Board is required to have an equal number of representatives from employers and scheme members. They may also have other types of members, such as independent experts, but such members will not have a vote.

The law requires Local Pension Board members to have knowledge and understanding of relevant pension laws, and to have a working knowledge of the LGPS, its governance and documentation. Whereas the role of the Pension Fund Committee usually involves carrying out a decision-making function, members of the Local Pension Board should focus on the processes involved in the governance of the Fund. For example, are policies and procedures up-to-date, are the requirements of the Pensions Regulator being met and is the Fund following recognised best practice?

At a national level, the LGPS Scheme Advisory Board (SAB) consists of representatives from a broad spectrum of LGPS stakeholders. Its purpose is to encourage best practice, increase transparency and coordinate technical and standards issues by being reactive and proactive. Separate SABs exist for the schemes in England and Wales, Scotland and Northern Ireland.

Elected Members

- Councillor Rory Vaughan (Chair)
- Councillor Bora Kwon

Appointees

- Mr Neil Newton
- William O'Connell
- Khadija Sekhon

During the year 2020/21 the Local Pension Board met twice:

- 19 November 2020
- 10 February 2021

During the year, the Local Pension Board had a varied and extensive work programme covering the following areas:

- The monitoring of quarterly fund investment performance, including an environmental, social and governance (ESG) issues report of the Fund's underlying investments
- Reports detailing the Fund's financial management, including cash flow and scrutiny of the fund risk register
- Pensions administration key performance indicators

The Board also reviewed the following work during the year:

- The recent organisational decision to appoint a new pensions administration provider and the associated ongoing project work needed to transition across
- The recent Pension Fund Committee review of the fund's investment consultant's performance against desired aims and objectives.

Annual Report of the Pension Board (continued)

The Board underwent the following training in the year:

The Board attended three half-day bespoke training events that took place in November 2020, December 2020 and February 2021 and covered the following topics:

- 2020 from an actuarial perspective and funding updates
- The Macro-Economic outlook
- Asset allocation and portfolio construction
- Diversity in the asset management industry
- Investing in renewable energy
- LGPS current developments
- Physical climate risk management
- Impact investing
- Responsible investment
- Behavioural finance
- How asset managers approach risk management
- Fixed income update
- Risk and compliance perspective from an asset pool
- Environmental risk

Councillor Rory Vaughan

Chair, LBHF Local Pension Board

June 2021


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Agenda Item 5

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 15/03/2022

Subject: Internal Audit Progress Report (December 2021 to January 2022)

Report of: David Hughes

Responsible Director: Director of Audit, Fraud, Risk and Insurance

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Summary

This report summarises the status of work included in the 2021/22 Internal Audit Plan as at the end of January 2022. Fourteen audits have been finalised, one of which received a Substantial assurance opinion, ten receiving Satisfactory assurance and three Limited assurance.

The status of audits confirmed for inclusion within the Plan for the final quarter of the year, is shown in Appendix 2.

Recommendations

1. For the Committee 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

Contact Officer:

Name: David Hughes
Position: Shared Services Director for Audit, Fraud, Risk and Insurance
Telephone: 020 7361 2389
Email: David.HughesAudit@lbhf.gov.uk

Background Papers Used in Preparing This Report
None.

DETAILED ANALYSIS

Internal Audit Work December 2021 to January 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 2021/22 was reviewed by the Audit Committee in March 2021. 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. Since the last report to Committee, fourteen audits have been completed:

Department	Audit	Assurance Opinion
Finance	Purchasing Cards	Satisfactory
	Treasury Management	Substantial
Resources	Agency Spend	Satisfactory
Children's Services	School Bursarial Services	Satisfactory
Schools	Vanessa Nursery	Limited
	St John's XXIII Primary	Satisfactory
	Flora Gardens Primary	Satisfactory
	St Paul's CE Primary	Satisfactory
Economy	Corporate Health & Safety	Satisfactory
	Housing Decants	Limited
	Homelessness	Satisfactory
	Security Resources Management	Limited
Environment	Parking PRP Administration	Satisfactory
	CCTV Contract Management	Satisfactory

4. A summary of the Limited Assurance reports is set out in Appendix 3. The full reports, including all the agreed actions are also published on the agenda for the Committee's consideration and to ask questions of relevant directors at the meeting (Appendices 4,5 and 6).

5. In addition, two advisory reviews have been completed in the following areas:
   - Use of Spot Contracts (Children's Services); and
   - Placements (Children's Services).

Internal Audit Opinion

6. 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.

7. Appendix 1 shows the finalised audits as at the end of January 2022 and the status of the remaining planned audits is shown in Appendix 2.

Follow ups

8. A total of 40 recommendations have been followed up in the year to date. Implementation of medium and high priority recommendations has been consistently effective with 85% of medium and high priority recommendations fully implemented with a further 15% partly implemented.

Consultation

9. The report has been subject to consultation with the Strategic Leadership Team.

Legal Implications

10. 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.

11. 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.

12. There are no particular legal implications arising from this report.

Implications verified by Grant Deg, Chief Solicitor (litigation and employment), 07798 588 766.

Financial Implications

13. The Internal Audit Plan is delivered within the revenue budget for the service. Actions required as a result of audit work, and any associated costs, are the responsibility of the service managers and directors responsible for the areas which are reviewed.

14. The proposals contained in this paper have no additional resource implications for the audit service.

Implications completed by Andre Mark, Finance Business Partner, 020 8753 6729 and verified by Emily Hill, Director of Finance, 0208 753 3145.

Risk Management

15. 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, 07800 513 192.

List of Appendices:

Appendix 1 Summary of Audit Reports finalised as at end of January 2022
Appendix 2 Audit Plan 2021-22 Status Report
Appendix 3 Summary of Limited Assurance Reports
Appendix 4 Internal Audit Report Vanessa Nursery School
Appendix 5 Internal Audit Report Housing Decants
Appendix 6 Internal Audit Report Security Resources Management

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
Finance	Housing Rents (2020/21)	Sep-2021	Satisfactory	1	4	1	Dec-2021
Finance	Treasury Management (2020/21)	Nov-2021	**Substantial**	0	0	1	Mar-2022
Finance	Purchasing Cards	Jan-2022	Satisfactory	0	9	2	Mar-2022
Resources: Transformation Talent & Inclusion	Agency Spend	Feb-2022	Satisfactory	2	0	1	Mar-2022
Resources: Digital Services	Post Implementation Review (Techtonic) (2020/21)	Aug-2021	Satisfactory	0	2	2	Sep-2021
Resources: Democratic Services	Elections Readiness (2020/21)	Aug-2021	**Substantial**	0	0	0	Sep-2021
Children's Services	Youth Endowment Fund Grant	Jul-2021	Advisory	1	1	0	Sep-2021
Children's Services	SEN Recoupment (2020/21)	Jul-2021	Satisfactory	0	2	0	Dec-2021
Children's Services	School Bursarial Services (2020/21)	Dec-2021	Satisfactory	1	1	0	Mar-2022
Children's Services	Spot Contracts (2020/21)	Jan-2022	Advisory	0	4	0	Mar-2022
Children's Services	Placements (2020/21)	Jan-2022	Advisory	2	2	0	Mar-2022
Schools	John Betts Primary	Jun-2021	Satisfactory	0	1	4	Sep-2021
Schools	Avonmore Primary (2020/21)	Jul-2021	Satisfactory	0	5	2	Sep-2021
Schools	Miles Coverdale Primary	Sep-2021	Satisfactory	0	3	1	Dec-2021

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
Schools	St Augustine's RC Primary	Sep-2021	**Substantial**	0	0	2	Dec-2021
Schools	Wendell Park Primary	Sep-2021	**Substantial**	0	0	2	Dec-2021
Schools	Sir John Lillie Primary	Oct-2021	Satisfactory	0	3	2	Dec 2021
Schools	St John's XXIII Primary (2020/21)	Dec-2021	Satisfactory	0	6	2	Mar-2022
Schools	Flora Gardens Primary (2020/21)	Dec-2021	Satisfactory	0	3	2	Mar-2022
Schools	St Paul's CE Primary	Dec-2021	Satisfactory	0	2	2	Mar-2022
Schools	Vanessa Nursery	Feb-2022	Limited	1	4	5	Mar-2022
Social Care	Supervision – Compliance (2020/21)	Aug-2021	Satisfactory	0	2	7	Sep-2021
Social Care	Mosaic Financial Controls (2020/21)	Nov-2021	Satisfactory	0	4	3	Dec-2021
Economy	Integrated Housing Management - Programme Management	Jun-2021	Satisfactory	0	3	6	Sep-2021
Economy	Service Charges (2020/21)	Oct-2021	Advisory	0	0	1	Dec-2021
Economy	Housing Decants (2020/21)	Oct-2021	Limited	3	5	4	Mar-2022
Economy	Security Resources Management (2020/21)	Dec-2021	Limited	1	9	0	Mar-2022
Economy	Corporate Health & Safety (2020/21)	Jan-2022	Satisfactory	1	4	0	Mar-2022
Economy	Homelessness (2020/21)	Jan-2022	Satisfactory	0	5	0	Mar-2022

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
Environment	NNDR (2020/21)	Jun-2021	**Substantial**	0	0	1	Sep-2021
Environment	Grounds Maintenance – Contract Monitoring (2020/21)	Aug-2021	Satisfactory	0	3	1	Sep-2021
Environment	Property Management (Techforge)System	Oct-2021	Satisfactory	0	2	4	Dec-2021
Environment	Parking PRP Admin (2020/21)	Dec-2021	Satisfactory	1	2	5	Mar-2022
Environment	CCTV Contract Management (2020/21)	Dec-2021	Satisfactory	0	3	0	Mar-2022

APPENDIX 2

Internal Audit Plan 2021/22 – Status of Audits

Following discussions with the services, a small number of audits have been removed from the plan. Some of these may be deferred to a future year depending on the priorities and risks at the time.

Plan Area	Draft Report Issued	In Progress/ Due to Start	Removed from Plan
Cross-cutting		**2020/21:** • DPO/ GDPR Support (Information Assets) **2021/22:** • RFE – Financial /HR Compliance • Debt Management • VAT • Governance & Compliance (gifts & hospitality) – ongoing as required	• Contract Management Framework - previous audits completed on contract management (Apr-21) and waivers (Oct-21) to inform audit work in 2022/23 • Business Continuity – implementation on going in 2021/22 inform work in 2022/23 • Programmes & Project Management – deferred (IHMS complete in year). Consider in future year plan
Resources	Transformation, Talent & Inclusion: • Overtime • Employment Tribunals	Transformation, Talent & Inclusion: • Equalities Impact Assessments Legal Services: • Disrepair Legal Claims Digital Services: • IT Asset Management • Ransomeware • IT Audit Needs Assessment – March 2022	Transformation, Talent & Inclusion (no longer required): • Sickness Absence • Performance Management • Annual Leave Legal Services: • Accessibility Requirements (support in year) Digital Services: • Remote Working Resilience (2022/23) • IT Service Continuity Plans (2022/23)
Children's Services	• No Recourse to Public Funds	• Supporting People Claims (on-going) • SEN (Advisory)	
Schools	• Brackenbury Primary	• Old Oak Primary • William Morris 6th Form	• Larmenier Sacred Heart Primary (deferred to 2022/23 – school request)

APPENDIX 2

Internal Audit Plan 2021/22 – Status of Audits

Plan Area	Draft Report Issued	In Progress/ Due to Start	Removed from Plan
		• Bayonne Nursery • Schools Thematic Work (VAT)	
Social Care & Public Health	• PFI Programme	• Hospital Discharge	• Integrated Care Partnership (2022/23) • Learning Disabilities (replaced by hospital discharge) • S75 Agreement – West London NHS Trust – (no longer required) • Commissioning & Procurement (2022/23)
Economy	• Maintenance of Play Equipment (2020/21) • Gas Safety	• DLO Communal & Programmed Remedial Works • Fire Safety • Workzone • Tenant Service Charges • Lift Maintenance • Housing Repairs – Operations • Housing Repairs – Contact Centre (late Q4) • Capital Projects – Post Completion Records - TBC • HRA Cost Apportionment - TBC	• Leaseholder Debt (2022/23) • Capitalisation of Works (2022/23)
Environment	• Leisure Centres	• NNDR • Council Tax • Housing Benefits	• FOI/SARs – Consider for inclusion in 2022/23

Summary of Limited Assurance Reports

Ref	Audit and Scope	Details	Assurance
1	Vanessa Nursery School Cyclical review of governance and financial management.	One high and four medium priority recommendations were made in the following areas: **Procurement (high priority):** Purchase orders were not being raised when it would be applicable to do so. Goods or services received checks could not be evidenced. Some payments had been made in excess of 30 days from the invoice date. The school confirmed that they had a new Admin Assistant in post who has now been trained on the Financial Management System and will be raising purchase orders correctly going forward. In addition, an improved process has been implemented to demonstrate that goods and services received have been checked. Covid-19 restrictions had impacted on the receipt of invoices through the post which had led to delays in payments but every effort is made to chase missing invoices to ensure that payment is made within 30 days. **Governance (medium priority)** Whilst we obtained evidence that individual members of the Governing Body had carried out a skills self-assessment, we were unable to confirm that a Governing Body skills audit had been undertaken with actions identified to address any skills gaps. The school confirmed that a skills audit is updated when a new Governor joins the Federated Governing Body, which was a small Governing Body and there have been difficulties in recruiting new members. It was noted that a skills audit was added to the agenda of the Full Governing Body meeting for their virtual meeting on 1st December 2021. **Staff Expenses (medium priority)** There is no Expenses Policy in place. We were informed that the reason for this is that staff can only claim expenses incurred for ordering goods to be used by the School. From the testing undertaken, there were no concerns that the purchases were not for the use of the school and claims were signed and authorised appropriately but where staff are reimbursed for expenses incurred there should be a clear policy which has been reviewed and agreed by the Governing Body. **Asset Register (medium priority)** The School does not have an up-to-date Asset Register in place. The copy available was last reviewed in May 2019. The School Business Manager acknowledged that the School is aware of this issue and had obtained a quote for an external consultant to come in to carry out an assessment In January 2022 and to update the Asset Register. **Voluntary Fund (medium priority)** The Nursery operates a voluntary fund which is administered by the School Business Manager. Voluntary funds with a turnover in excess of £20k per annum should be audited by a registered auditor. As of July 2021, the fund had a balance in excess of £20k and we were advised that the Voluntary fund had never been independently audited. The school has advised that an audit did take place 2017 which was undertaken by a qualified accountant, but the accountant was also a member of the Governing Body at the time (therefore not independent). Due to Covid-19 and school closures there has been very little movement in the account over the past 2 years but the school is seeking recommendations for an independent registered auditor to undertake an audit of the voluntary fund in Spring Term 2022. *The School have confirmed the following actions have been taken as a result of the audit.* *1. Skills audit for Governors- this is on the agenda for the FGB meeting on 9th March 2022.*	**Limited**

Summary of Limited Assurance Reports

		2. *Declaration of interests- although this is minuted at each and every Governors meeting and all governors complete their declaration of interested at the beginning of the school year on Governor hub we have asked all governors to tick the relevant box termly before each FGB meeting to satisfy audit purposes.* 3. *Scheme of delegation- this is presented and agreed at the beginning of each academic year in our Governors planning meeting in September, with the remote working practices of Covid none of these documents were signed for two years. The Clerk to Governors informed us that recording this in minutes was sufficient. However, we have now had all copied of statutory documentation signed and minuted at FGB meeting in Sept 2021.* 4. *Purchasing of goods - small purchase do not require purchase orders – all purchases made are agreed in writing by the SMT (head or Deputy Head) where possible prior to purchase. Invoices received are paid within the 30 day time frame- where invoices are not received a note is make when payment is agreed.* 5. *Lettings policy, charging policy, remunerations policy all updated and signed by governors in February 2022.* 6. *Payroll reports- check monthly by SBM - Head Teacher now signs these monthly – which creates additional work for the HT.* 7. *Asset register- this has been arranged for April 2022 – new company to install electronic system.* 8. *As far as I am aware the only outstanding action is – the deadline for this is September 2022. We are sourcing a third party to have the voluntary funds audited that does not cost an extortionate amount of money for the relatively small amount of movement in these funds. These funds have not been used throughout the pandemic.* A follow up review will be carried out to confirm the implementation of agreed recommendations and will be reported to the next meeting of the Committee.	

Ref	Audit and Scope	Details	Assurance
2	Housing Decants On occasion it may be necessary for a council tenant to move out of their existing home to allow major works to be carried out or because their home is due to be demolished. This review considered the processes and controls in place for decanting Council tenants.	The review identified a number of areas for improvement with three high and five medium priority recommendations made in the following areas (with management updates in italics): **Authorisation, Assessment and Costs** The tenant will be made an offer of suitable and affordable decant accommodation, based on information from the Housing Needs Assessment, via an offer letter. *There is a Key Performance Indicator (KPI) for 50% of decant referrals to stay in situ while work is carried out or staying with family and friends. This was not being achieved at the time of the audit although it was recognised that this was particularly difficult to achieve during the coronavirus restrictions, which may have particularly impacted on performance.* For our sample of ten decants, an offer letter was in place for nine cases. For the remaining one case, no documents were held for the decant, as it was not brought to the attention of Supported Moves Team (SMT) until three months after the tenant had been decanted therefore, the SMT did not have the opportunity to scrutinise the decision to move the tenant to temporary accommodation as being the best option (high priority). *The service has agreed that discussions with tenants regarding remaining in situ whilst works are in progress should be captured on the Decant Request Form and that these will be reviewed to ensure that these conversations are taking place.* Where a decant is required, surveyors inform the SMT of the request by completing a decant request form, which is signed by the surveyor and countersigned by management. Testing of a sample of ten decants from 2020/21 found that seven had a decant form in place, however, these were not always signed. In three cases there was no decant form completed (medium priority). *The service has amended the Decant Request Form so that it can be signed electronically. Decant requests will be rejected if not fully completed.* During the home visit or phone call, the Supported Moves Officer (SMO) should advise the tenant of alternative options available to them, such as staying with family and friends, claiming food vouchers and considering mutual exchange. In emergencies, where Housing Management have decided that temporary accommodation is required, the tenant will move out of their property as soon possible and be offered bed and breakfast or hostel accommodation. We found one case from the sample of 10 decants where the tenant was placed in a commercial hotel, which is the most expensive	**Limited**

Summary of Limited Assurance Reports

		option. There was also a case from the sample of 10 decants where the SMT was not made aware of the decant, to allow them to advise on alternative options (medium priority). *The Decant procedure has been updated to advise that commercial hotels should only be used in an absolute emergency and then for the minimal amount of time. The service is also monitoring the number of bed and breakfast and commercial hotel placements through their Decant register and where work extends longer than planned, officers are working to procure more economical accommodation.* **Licence Agreement:** The licence agreement is between the Council and tenant, to agree the Council will provide the tenant temporary accommodation whilst necessary works are being carried out, but that the accommodation is by the way of licence only and subject to conditions. Testing of ten decants found two cases where an agreement was not in place (medium priority). *Staff have been reminded of the need for a signed licence agreement and this will be spot checked as part of casework management.* On the day that the tenant is due to move into decant accommodation, the Supported Moves Officer will meet the tenant at their original property where the tenant will be required to sign a disclaimer form. Testing of the sample of 10 decants found six instances where a fully completed disclaimer form was not in place (high priority). *Staff have been reminded of the need to secure a signed disclaimer form and this is being recorded and monitored on the casework tracker.* **Support to Tenants:** When tenants are required to decant because of disrepair or improvements, the tenants are offered compensation. Types of compensation payments include disturbance payment, removal costs, food costs, disconnection/reconnection costs, redirection of mail, and home loss payment. The SMO must complete a payment request form on behalf of the tenant, which must be signed by the Senior SMO. Once approved, it is uploaded to the payment system for further approval from the Allocations and Voids Service Manager. The SMO should record the payment in a spreadsheet which records all payments made by the Supported Moves Team. From the sample of ten decants, in three cases payments were made, of which two payments were not recorded on the spreadsheet (medium priority). *The service are undertaking weekly reconciliations between what is recorded on the payment spreadsheet and the Council's manual payments system and officers have been advised of the importance of undertaking the appropriate level of due diligence before requesting authorisation of a payment.* **Financial and Operational Management and Reporting:** A KPI measuring decanted tenants returning to their property within the projected work timescale was in place, with a target of 100%. We were informed that the SMT do not have control over this KPI and that it is the responsibility of the Council's Repairs Team to ensure that repairs are completed on time to enable tenants to move back to their primary home. The appropriateness of this KPI for the SMT needed to be reviewed (high priority). *The service has reviewed the KPS and they have been amended and this KPI was agreed as not appropriate for the Decant Service. Regular and ongoing discussions continue regarding works progress and issues for delays which are recorded and monitored on the Decant casework tracker.* The service should engage with the development of the new Housing Management System to determine how it could improve the decant process and remove reliance on other separate systems, such as introducing a workflow system for the decant process, which automates all steps of the process and allows for a complete audit trail of applications and approvals to be automatically maintained (medium priority). *The service is engaged with the Business Transformation project which oversees the IHMS implementation and a system workflow will be introduced if possible.* As indicated, all of the recommendations made have been agreed and some have been confirmed as already implemented. A follow up review is currently being undertaken to verify the implementation of the recommendations and the outcome will be reported to the next meeting of the Committee.	

APPENDIX 3

Summary of Limited Assurance Reports

Summary of Limited Assurance Reports

Ref	Audit and Scope	Details	Assurance
3	Security Resources Management The Operational Security Management (OSM) team provides physical and strategic security to Council sites, staff and users.	One high and nine medium priority recommendations were made in the following areas (with management updates in italics): **Policies and Procedures** Procedures for deploying security staff to sites, when to use agency staff, completion of risk assessments etc., could not be located by the new Facilities Management (FM) Manager and there was no indication that any that may have previously existed, had been reviewed or updated for many years (medium priority). *This recommendation has been confirmed as implemented.* **Operational Risk Assessments:** The FM Manager stated that the OSM team has created a new set of Security Workplace Risk Assessments for each site although there was no monitoring system in place to review when the risk assessment was carried out, by whom, and when the next assessment is due (medium priority). *This recommendation has been confirmed as implemented.* **Use of Agency Staff:** We confirmed that the Council obtains temporary staff from two approved agencies. A Council-wide contract is in place with one of these agencies which includes the provision of security services but no contract was in place for the provision of more specialised services. The agency without a contract was used on an exception basis to cover short-notice absences (high priority). *The service has confirmed that the use of this agency is minimal and for emergency situations only with costs fully covered under Hard FM and no contract is required.* Pre-checking of qualifications of agency workers is undertaken by the agencies prior to the staff member being assigned to the Council, with the staff member being required to wear their compulsory security guard licence whilst working. However, no evidence of these checks is sought from the agencies regarding these checks, even on a sample basis (medium priority). *The service has confirmed that actual SIA licenses are checked with any new security officers assigned to their sites but the agency provider will not issue a copy of the licenses or SIA numbers to them.* **Skills of Security Officers and Training** Additional training is provided to staff members where there has been an update in the professional security qualification specification or if a complaint has been made in relation to the OSM team. However, evidence of this additional training is not maintained and there is no monitoring to confirm whether or not training has been completed by all relevant officers (medium priority). *This recommendation has been confirmed as implemented.* **Workforce Deployment and Performance Management** The FM team is responsible for ensuring that there are adequate numbers of permanent security staff available for each site. A weekly staff rota is in place detailing the names of permanent security staff required to be present at each site. A review of a sample of staff rotas for five operational sites identified some which were secured solely by agency staff on a number of occasions (medium priority). *The service has undertaken a review of resourcing which is referred to in the monitoring section below.* Each site manned by security staff has a log which is used to record all activities and incidents throughout the security officers' shift. The supervisor should complete the first section on commencement of duty and record the names of all security officers on duty. No evidence could be provided that this log was being completed on a daily basis at each of the sites and the OSM team do not monitor this. The log is only reviewed if a member of the public raises a complaint in respect of the security team on site For permanent staff, performance is monitored via the Council's annual performance management process but there is no other mechanism in place to	**Limited**

Summary of Limited Assurance Reports

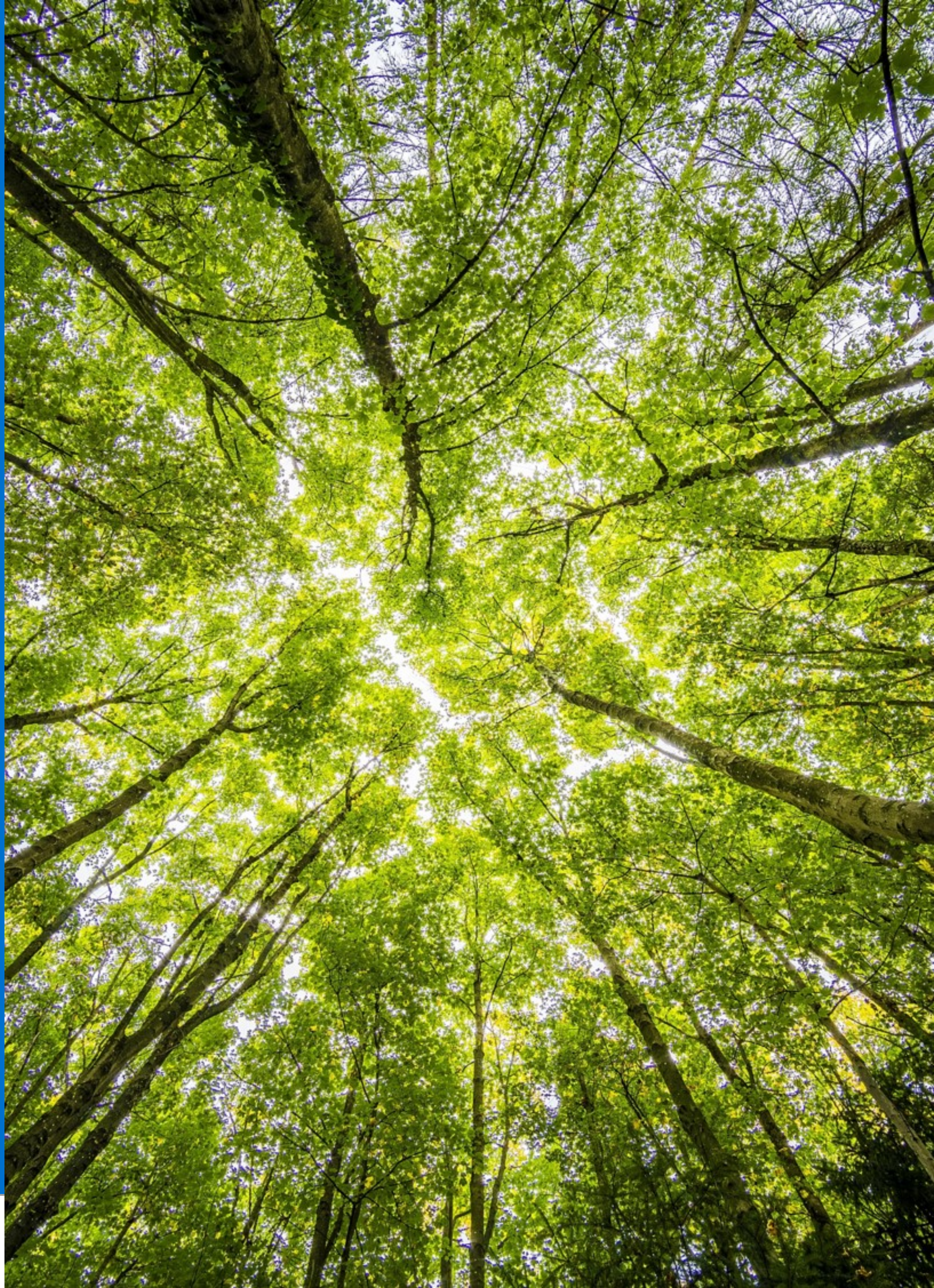
		continually monitor staff performance in to order to identify areas of concern (medium priority). We were advised that the OSM team conducts spot checks on each site during the month to confirm that security officers are present as per the staff rota and are undertaking their roles as per the Assignment Instructions, however, the outcome of these spot checks is not formally recorded (medium priority). *The service has confirmed that they are improving the site login process to improve information on the security team onsite. Management do undertake spot checks and an inspection form has been introduced which will be used to demonstrate that these spot checks have taken place.* **Monitoring** The OSM team is required to undertake a cost benefit analysis prior to the use of agency staff to determine whether the roles can be fulfilled by permanent staff. However, at the time of the audit, due to the need for rapid turnover for requests for the provision of security staff during the coronavirus pandemic, these exercises had not been completed for at least 12 months. The cost benefit analyses undertaken prior to the pandemic had not been formally recorded and retained (medium priority). *The service has approval from the Resources Management Board (RMB) to directly employ and recruitment is underway with the aim of having staff onboarded within the next 4 weeks.* Whilst the OSM team is able to obtain a list of agency staff used from their contracted provider, there was no formal monitoring system in place detailing the number of agency staff being used, the length of their use or that they all hold the relevant qualifications. Furthermore, no monitoring process is in place in respect of agency staff supplied by the specialist provider (medium priority). *This recommendation has been confirmed as implemented.* A follow up is currently being undertaken to confirm the implementation of the recommendations and the outcome will be reported to the next meeting of the Committee.	

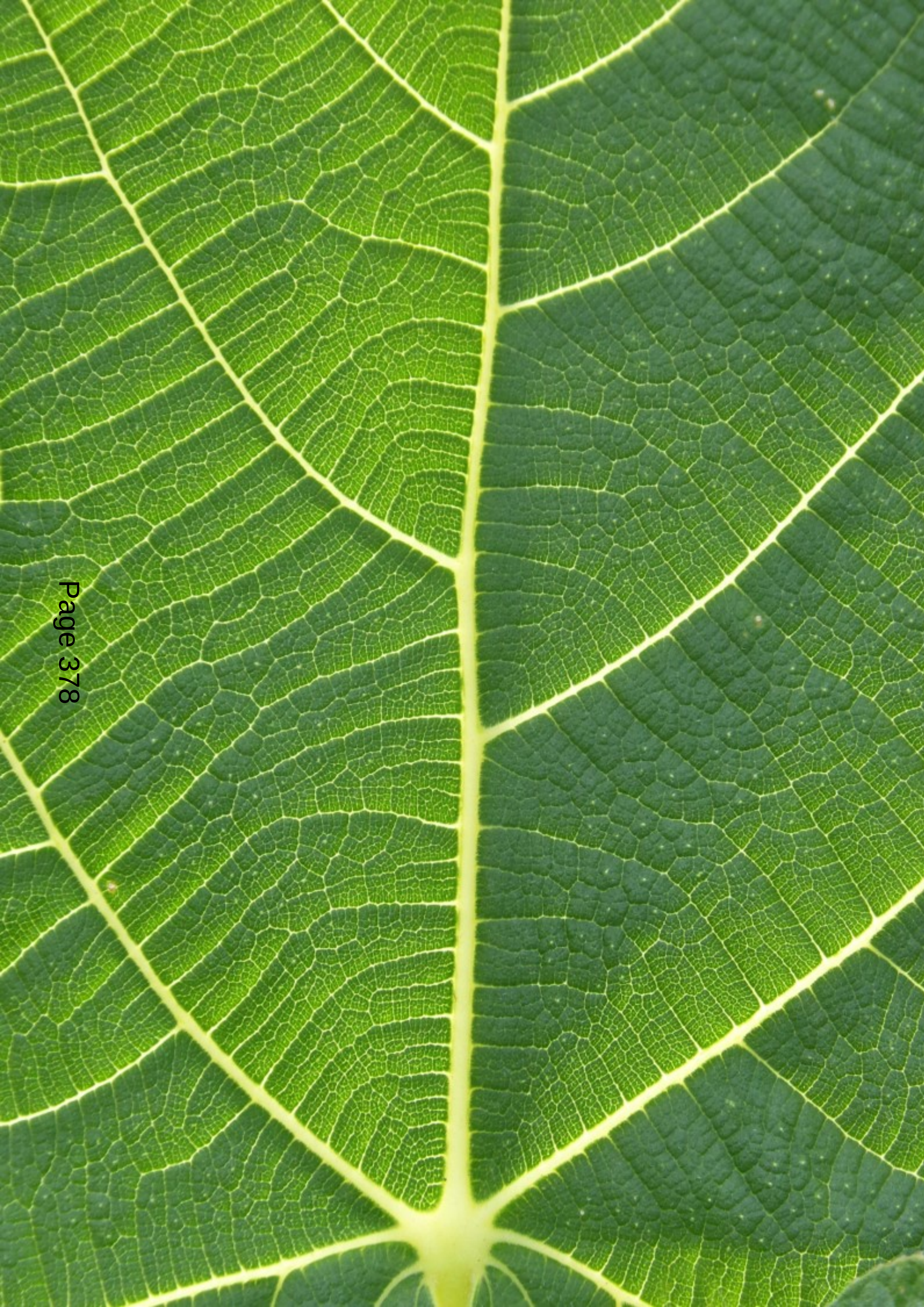
London Borough Of Hammersmith and Fulham

Final Internal Audit Report

Vanessa Nursery

February 2022





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This report is prepared solely for the use of Audit Committee and senior management of the London Borough of Hammersmith and Fulham. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose. Please see the final page of this report for our statement of responsibility or follow this link.

1. Executive Summary

Background

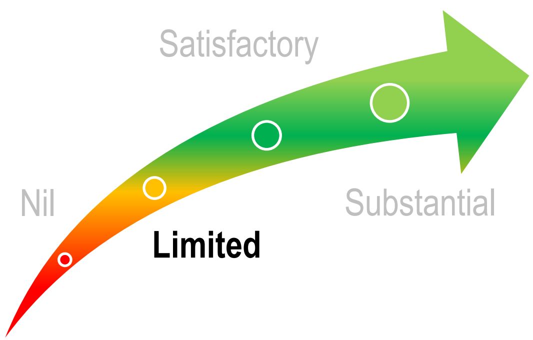
As part of the internal audit plan for 2021/22, agreed by the Audit Committee, we have undertaken an internal audit of Vanessa Nursery School.

The schools audit programme is designed to audit the main areas of governance and financial control. The programme's standards are based on legislation, the LBHF Scheme for Financing Schools and accepted best practice. The purpose of the audit is to help Schools establish and maintain robust financial systems.

The executive summary provides the overall view for the system which is supported by RAG (Red/Amber/Green) ratings for the activities covered by the audit. The remainder of the report is by exception only to highlight areas for improvement.

Overall Conclusion

In Internal Audit's opinion, **Limited Assurance** can be given to Governing Body that the controls relied upon at the time of the audit were suitably designed, consistently applied and effective in their application. Weaknesses within internal controls for procurement, assets and inventory and unofficial funds puts the Schools objective at risk. The level of non compliance identified within this audit are similar to the audit findings in 2016/17.



The table below summarises the results of the review.

Area	Rating	Number of Recommendations		
		High	Medium	Low
Governance and Leadership	Satisfactory	-	1	2
Financial Management	Substantial	-	-	-
Procurement	Limited	1	-	-
Staff Expenses & Petty Cash	Satisfactory	-	1	-
Income	Satisfactory	-	-	2
Payroll	Satisfactory	-	-	1
Head Teachers Pay	Substantial	-	-	-
Assets and Inventory	Limited	-	1	-
Unofficial Funds	Limited	-	1	-
Total		**1**	**4**	**5**

1. Executive Summary

Issues identified

This review identified one 'High' priority matter and four 'Medium' priority matters. Details of the 'Low' priority matters can be found in Section 2 of this report.

The 'High' priority matter is:

- In order to assess the School's controls in relation to procurement, we selected a sample of 15 transactions from the bank history report for the past 12 months. The following issues were identified:
  - Purchase orders had not been raised in any applicable cases;
  - Ten transactions had no evidence of goods received checks being carried out;
  - Three payments were made in excess of 30 days after the invoice date.

The 'Medium' priority matters are:

- A Governors' skills audit could not be evidenced as having been carried out;
- There is no Expense Policy in place. Our sample testing of five expense claims found that they were all goods ordered for School use, which should have followed the process specified in the Scheme of Delegation. In addition, there was also no evidence of prior approval and in one instance, the expense claim form and receipt could not be located (value £217).
- An Asset Register is not in place; and
- The School's Voluntary Fund has not been independently audited.

Examples of good practice

During our review we identified the following areas of good practice:

- Our review of the Instrument of Government (IoG), the Full Governing Body's (FGB) Terms of Reference (ToR) and FGB meeting minutes from the past 12 months confirmed that the composition of the FGB was in line with the IoG and that meetings were undertaken in line with the ToR..
- The Headteacher and School Business Manager monitor the budget on a monthly basis and report the findings to the meetings of the Finance and General Purpose Committee (which meets termly as set out in their ToR) and FGB.
- The School Business Manager completes monthly bank reconciliations which are reviewed and signed by the Deputy Headteacher as evidence of review.
- Our review of a sample of two lettings income sources noted that a clear paper and audit trail was in place from when income was received to when it was banked.
- Two contracts were selected for testing and we noted that they had been approved by the FGB, with a signed copy of the contract retained by the School.
- Our testing of the only new starter in the past 12 months confirmed that all relevant documentation was in place. Two leavers within the past 12 months were also reviewed and notification had been given to the payroll provider in a timely manner, with no payments made after they had left.

2. Observations & Recommendations

Governance and Leadership	Observation	Recommendation	Management Comments and Timeline
	1. Governors skills Whilst we obtained evidence that individual members of the Governing Body had carried out a skills self-assessment, we were unable to confirm that a Governing Body skills audit had been undertaken with actions identified to address any skills gaps. **Risks:** Where a skills audit is not appropriately conducted and assessed, there is a risk that skills gaps or a lack of balance within the Governing Body may not be identified and addressed.	A review of Governors' skills should be undertaken on a periodic basis to identify any potential skills gaps or imbalances in the composition of the Governing Body. Once identified, an action plan should be in place. This recommendation was also raised following the 2016/17 audit. **Priority Rating:** Medium	Skills Audit is updated when a new Governor joins the Federated Governing Body. This is a small Governing Body and there have been difficulties in recruiting new members. In addition there were no face to face Governor meetings between September 2019 and September 2021. **Action Owner:** Headteacher & SBM - Skills Audit was on the agenda for the virtual FGB meeting on 1st December 2021. Minutes not yet available. **Implementation Date:** 1 December 2021

Governance and Leadership	Observation	Recommendation	Management Comments and Timeline
	2. Declarations of interests We confirmed that Governors and staff who influence financial decisions are reminded to declare possible conflicts of interest at all Governing Body and Resources Committee meetings. We also confirmed that a register of declarations is held on the Governor Hub which includes all Governors and other staff who are able to influence financial decisions. However, we noted that the register is not annually reviewed by the Governing Body. In addition, we identified five instances where the declaration had not been provided in the last 12 months. **Risks:** Where not all Governors and relevant staff have confirmed declarations of interests annually, there is a risk that conflict of interests may not be detected.	The School should carry out an annual review of the declarations of business interests register in order to identify any potential conflicts of interests. Governors and staff who have not confirmed their declarations within 12 months should be reminded to do so. **Priority Rating:** Low	Declarations of interests is a standing item on each FGB meeting. Governors are reminded to update any declarations on Governors Hub on a regular basis, if changes occur. Governors Hub is a new system for the Governing Body and all members have been instructed how to update and submit their entries. This item was discussed at the FGB meeting on 1st December and Clerk to Governors confirmed that the Governor Hub is a live document and a report for the website is published each academic year and checked on an annual basis. **Action Owner:** Headteacher & SBM **Implementation Date:** FGB Mins 01.12.21

2. Observations & Recommendations

Governance and Leadership	Observation	Recommendation	Management Comments and Timeline
	3. Scheme of Delegation A Scheme of Delegation is in place which defines roles and responsibilities of the Governors, Committees, Headteacher and other relevant members of staff in relation to financial decision making and administration. However, we were unable to confirm through a review of Governing Body meeting minutes that the Scheme of Delegation had been reviewed and approved by the Governing Body in the last 12 months. **Risks:** Where Scheme of Delegation is not reviewed annually, there is a risk that it does not contain accurate information on delegated financial decision making, resulting in inappropriate authorisation on high value purchases.	The Scheme of Delegation should be reviewed by the Governing Body annually. This review and approval should be clearly documented in meeting minutes, with the date of last review included in the document. **Priority Rating** Low	The Scheme of Delegation/Terms of Reference are reviewed annually in September meetings. The Clerk to Governors has been instructed to make sure that this is minuted. The Scheme of Delegation was most recently reviewed, approved and adopted at the FGB on 01.12.21 **Action Owner:** Clerk to Governors **Implementation Date:** FGB Minutes 01.12.21

	Observation	Recommendation	Management Comments and Timeline
Procurement	**4. Purchasing Goods and Services** Through testing a sample of 15 transactions from the past 12 months, the following issues were identified: ▪ In nine instances, a purchase order was not raised when it would have been applicable to do so; ▪ In ten instances, there was no evidence of goods or services received checks being carried out when it would have been applicable to do so; ▪ In three instances, payment was made in excess of 30 days after the invoice date (45, 98, and 95 days). We were informed that the School is aware of the issue and that they are looking to put in place a process that allows official orders to be raised on the financial system. **Risks:** Where purchase orders are not raised and authorised prior to placing the order with the supplier, there is an increased risk that inappropriate expenditure may be incurred, either directly through that purchase or indirectly through further purchases for which there is insufficient budgetary provision. Where goods and services received checks are not undertaken or are not formally recorded, there is a risk that the School may not identify instances where goods and services have not been received and/or are not of the required quantity or quality standards. Where payments are not made within 30 days, there is a risk that the School damages relationships with its suppliers. Furthermore, late payment charges may be applied.	Where costs relating to transactions can be identified in advance, a purchase order should be raised by the School Business Manager and authorised by the Headteacher prior to placing the order with the supplier. Goods/services received checks should be undertaken and recorded for all transactions. All invoices should be paid in a timely manner (within 30 days) and any queries or disputes preventing the invoice being paid in this time period should be recorded on the relevant invoice. **Priority Rating** **High**	To date purchases have not been raised on FMS prior to ordering, but are authorized by the Deputy Head. There is a new Admin Assistant in place now who has recently attended FMS training and has instructions how to raise Purchase Orders going forward. This will be done where possible. Goods received are always checked by the Deputy Head and/or Admin Assistant. Going forward a "Goods Received" stamp has been ordered to comply with Audit requirements and the delivery notes will be stamped, dated and signed. During Covid both Vanessa nursery school and Cathnor Children's Centre buildings were closed for extended periods. This did cause issues with postal deliveries and delays in receiving invoices for payment. The School Business Manager is based at Randolph Beresford and often had to chase expected invoices which had not been delivered or redirected. Every effort is made to ensure that missing invoices are chased and payment is made within 30 days. **Action Owner:** School Business Manager **Implementation Date:** December 2021

2. Observations & Recommendations

	Observation	Recommendation	Management Comments and Timeline
Income	**5. Lettings Policy** The School has a Lettings Policy in place but it has not been reviewed and updated since January 2019. In addition, We could not obtain evidence for the Governing Body's approval of the Policy. **Risk:** Where the School does not have an up to date and approved Lettings Policy, there is a risk the School does not receive the level of income which accurately reflects the cost of buildings and equipment utilised.	The School's Letting Policy should be reviewed, updated and formally approved by the Governing Body on an annual basis. Approval should be recorded in the minutes of the relevant meeting. This recommendation was also raised in the 2016/17 audit. **Priority Rating** Low	Lettings Policy has been reviewed by the Head Teacher since 2019 but not presented to the FGB for formal approval. This will be added to the agenda for the next "in person" FGB on 9th March 2022. **Action Owner:** Headteacher **Implementation Date:** 09.03.22

	Observation	Recommendation	Management Comments and Timeline
Income	**6. Charging Policy** A charging policy is not in place at the School. **Risk:** Where the School does not have an up to date and approved Charging Policy, there is a risk the School does not receive the level of income which accurately reflects the cost of activities and that an inconsistent approach in taken in chasing arrears which may lead to ineffective debt management.	A Charging Policy should in place which identifies activities for which charges may be raised and the process of chasing arrears. The Charging Policy should be reviewed and formally approved by the Governing Body on an annual basis. **Priority Rating** Low	***Charging Policy, separate from Lettings Policy, to be created and presented to next FGB for approval.*** **Action Owner:** Headteacher & SBM **Implementation Date:** 09.03.21

2. Observations & Recommendations

Staff Expense & Petty Cash	Observation	Recommendation	Management Comments and Timeline
	7. Staff Expenses There is no Expenses Policy in place. We were informed that the reason for this is that staff can only claim expenses incurred for ordering goods to be used by the School. However, in such instances, the approval process for procuring goods should still apply, i.e. a purchase order must be raised and authorised by designated signatories before placing the order. Our sample testing of five expense claims found that they were all goods ordered for School use, which should have followed the process of ordering goods and services as specified in the Scheme of Delegation with the exception of one where the supporting form and supporting receipt could not be located.. Our sample testing also noted that, while all purchases appear reasonable, for one instance, the expense claim form and the receipt could not be located. Therefore, we could not confirm whether it had been certified by an authorised officer. The other four were certified by an authorised officer. **Risk:** Where the School does not have clear approved guidelines with regards expenses, there is a risk that the School's processes could be misunderstood or bypassed. In this instance, procurement process has been bypassed which may lead to an increased risk that the School does not obtain value for money. In addition, where there is a lack of documentation, there is a risk that claims have not been appropriately authorised.	The School should introduce an Reimbursement Policy which should be reviewed and approved by the Governing Body. As a minimum, the policy should set out the types of allowable reimbursements, time limits for submitting claims, approval requirements and the need to submit a signed expenses form with a valid receipt. Reimbursements should be submitted on the correct form, within the time limits set out in the policy, and should be signed and dated by claimants. Purchases made on behalf of the School should go through the appropriate approval process where possible in advance of the transaction being initiated. This recommendation was also raised following the 2016/17 audit. **Priority Rating** — **Medium**	The school follows the guidelines in the Scheme of Delegation. The majority of purchases which cannot be invoiced are claimed on a Staff Expenses Claim Form by the Deputy Head Teacher. These are signed and authorized by another designated signatory at the school. Any other staff claims are authorized by the Deputy Head, before purchase. Staff are required to complete a claim form and present it to the Deputy Head, with relevant invoices as proof of purchase, before reimbursement. The process for purchases made by staff members is referenced in the Financial Schemes of delegation policy and was approved by the FGB in September 2021. **Action Owner:** SBM **Implementation Date:** February 2022

2. Observations & Recommendations

Payroll	Observation	Recommendation	Management Comments and Timeline
	8. Review of the Payroll Reports While payroll reports are reviewed for accuracy by the School Business Manager, these are not currently reviewed by the Headteacher (or the Deputy Headteacher). **Risk:** Where the payroll reports are not reviewed by the Head Teacher, there is a risk that incorrect payments may not be identified and rectified in a timely manner. .	The Head Teacher should review payroll reports on a monthly basis and investigate any discrepancies identified. This review should be signed and dated. **Priority Rating** Low	The monthly payroll reports are reviewed by the School Business Manager prior to each payroll. Any discrepancies or inaccuracies are highlighted and corrected by the SBM, liaising directly with the Payroll Provider, before the payroll payment date. These reports are signed and dated by the SBM. As a member of the Senior Management Team, the School Business Manager is the most qualified and experienced person to identify any discrepancies and correct them. Any problems are discussed with the Head Teacher, but it is the role of the SBM to review and investigate **Action Owner:** SBM **Implementation Date:** February 2022

Asset and Inventory	Observation	Recommendation	Management Comments and Timeline
	9. Asset Register The School does not have an up to date Asset Register in place. The copy we obtained was last reviewed in May 2019. The School Business Manager acknowledged that the School is aware of this issue and had obtained a quote for an external consultant to come in to carry out an assessment and update the asset register. **Risk:** Where there is no asset register in place, there is a risk that the School is unaware of lost or misappropriated assets and an accurate record of assets may not be available in the event of an insurance claim.	The School should put in place an Asset Register. An annual check should then be carried out to verify the existence of valuable assets within the School's premises, and to ensure that the register is up to date. The result of the asset check should be presented to the Governing Body. This recommendation was also raised following the 2016/17 audit. **Priority Rating** Medium	We have obtained a quote from B2Systems to undertake a full onsite check and set up an Asset Register spreadsheet. Visit arranged 5th January 2022 **Action Owner:** Headteacher and SBM **Implementation Date:** 05/01/22

2. Observations & Recommendations

Unofficial Fund	Observation	Recommendation	Management Comments and Timeline
	10. Unofficial fund The Nursery operates a voluntary fund which is administered by the School Business Manager. As of July 2021 the fund had a balance of £58,138.48. Audit were informed that the Voluntary fund had never been independently audited. **Risk:** Where the voluntary fund is not audited on an annual basis by a registered auditor, there is an increased risk that funds may be used inappropriately and misappropriation of funds may not be recognised.	The voluntary fund should be subject to an independent audit by a registered auditor on an annual basis. This check should be presented to the Governing Body and evidenced as such in meeting minutes. A similar recommendation was also raised following the 2016/17 audit. **Priority Rating** Medium	*The previous audit did take place 2017 and was undertaken by a qualified accountant, but was not recommended by the Audit as the accountant was also a member of the Governing Body at the time.* *Due to covid and school closures there has been very little movement in the account over the past 2 years.* *We are currently seeking recommendations for an independent registered auditor to undertake an audit of the voluntary fund in Spring Term 2022.* **Action Owner:** Headteacher & SBM **Implementation Date:** September 2022

Appendices

A1. Audit Scope
A2. Stakeholders Interviewed
A3. Definition of Assurance and Recommendations

A1. Audit Scope

	Area	Coverage
1	Governance and Leadership	Assesses the effectiveness of the School's Governing Body and includes a review of the following: instrument of Government in line with the current list of School governors; regularity of Governing Body and Committee meetings and signed meeting minutes; induction and ongoing training for Governors with a periodic skills audit carried out; the scheme of delegation setting the roles and responsibilities and financial limits; documented financial procedures; declarations of interests held for Governors and relevant staff; whistleblowing procedures; and School Development Plan.
2	Financial Management	An evaluation of the School's approach to financial management and includes a review of the following: The School's three year budget and budget setting procedures; the budget monitoring process and control over expenditure; bank reconciliations; and the completion of the Schools Financial Value Standard (SFVS).
3	Procurement	Testing undertaken in order to assess the School's approach to procurement, including: purchasing and payments; high value purchases and contracts; verification of the tax status of self employed suppliers / contractors; and procurement cards.
4	Staff Expenses and Petty Cash	An evaluation of how staff expenses are managed, evidenced and approved; and petty cash usage and controls.
5	Income	A review of the School's processes for: income collection and banking; charging policy; School meals (including free School meals); and recharges for SEN.
6	Payroll	An evaluation of the School's approach to payroll including a review of: the payroll provider contract; payroll statements; starters and leavers processes; and overtime claims.
7	Head Teacher's Pay	An evaluation of the School's staffing structure and Pay Policy, in order to assess the appropriateness of the salaries provided to the Head Teacher and any Deputy / Assistant Headteachers. Additional payments and annual increases are also reviewed.
8	Assets and Inventory	An evaluation of the process for maintaining the asset register / inventory, together with reports provided to Governors. A check is carried out to confirm that the School regularly backs up data.
9	Unofficial Funds	A review of the School's approach to the management and independent audit of any voluntary funds that the School may hold

Limitations to Scope

- The work has been undertaken using a risk based approach and testing will be on a sample basis to verify compliance;
- The records maintained by third parties to the School were not reviewed and are outside of the scope of this audit; and
- The audit review does not provide absolute assurance that material error, loss or fraud does not exist.

A2. Audit Stakeholders And Timetable

Audit Team	
Kanta Patel	Client Engagement Manager
Nav Sidhu	Senior Auditor
Thu Nguyen	Senior Auditor

Stakeholders	
Michele Barret	Headteacher
Michelle Hodgkin	School Business Manager

Timetable	
End of Fieldwork	15/09/2021
Draft Report Issued	25/10/2021
Responses Received	03/02/2022
Final Report issued	03/02/2022

A3. Definition Of Assurance And Recommendations

As part of the review we use the following definitions for the level of assurance and priority of recommendations included in Section 2

Assurance Level	Description
Substantial Assurance:	There is a sound system of internal control designed to achieve your objectives. 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 your objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of your objectives at risk.
Limited Assurance:	Weaknesses in your system of internal control are such as to put your objectives at risk. The level of non-compliance puts your objectives at risk.
Nil Assurance:	Control processes are generally weak, leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes/systems open to error or abuse.

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.

Contact Information

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For more information on the Internal Audit Service visit our SharePoint site:

https://officesharedservice.sharepoint.com/sites/intranet/internalauditfraudriskmanagementandinsurance/Pages/Internal-Audit.aspx

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Any recommendations for improvements should be assessed by management for their full impact before they are implemented.

The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity.

Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

London Borough of Hammersmith and Fulham

Final Internal Audit Report

Housing Decant

Audit Job ref: 2020 - 36

October 2021

hammersmith & fulham

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1 Introduction

As part of the internal audit plan for 2020/21, agreed by the Audit and Pensions Committee, we have undertaken an internal audit of Housing Decant at the London Borough of Hammersmith & Fulham.

On occasion it may be necessary for a council tenant to move out of their existing home to allow major works to be carried out or because their home is due to be demolished.

Council tenants who have to move because major works are required to their home, will have the option of moving back to their original home (or local areas if the home is being demolished) once works have been completed.

Where council homes may be demolished and replaced with new homes owned and managed by the Council, the Council is likely to adopt a Local Lettings Plan that will set out in more detail the specific approach, tailored to key features of the regeneration scheme, e.g., phasing of decants, home loss and disturbance financial arrangements; and priority for re-housing. In these circumstances, tenants who are relinquishing a secure tenancy will be entitled to a new, secure tenancy or a housing association equivalent, currently an Assured Tenancy.

The fieldwork for this review was completed during the government measures put in place in response to the coronavirus pandemic (Covid-19). Therefore, this review was completed remotely. Our approach included testing a sample of 10 decant cases.

2 Executive Summary

2.1 Assurance Opinion

	Nil	Limited	Satisfactory	Substantial
Audit Opinion		L		

2.2 Recommendations Summary

The following table highlights the number and categories of recommendations made.

Area of Scope	Adequacy	Effectiveness	Recommendations Raised		
			High	Medium	Low
Strategy, Policy and Procedures			0	0	2
Authorisation, Assessment and Costs			1	2	2
Licence Agreement			1	1	0
Support to Tenants			0	1	0
Financial and Operational Management and Reporting			1	1	0
		Total	3	5	4

Please refer to Appendix 1 for a definition of the audit opinions and recommendation priorities.

3 Summary of Findings

In Internal Audit's opinion, **Limited Assurance** can be given to Members, the Chief Executive and other officers that the controls relied upon at the time of the audit were suitably designed, consistently applied and effective in their application.

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

Strategy, Policy and Procedures

- At the time of the audit fieldwork in March 2021, a decant procedure was in draft (**Recommendation 1**).
- An Emergency and Major Works Decant policy is in place and held on the shared drive for all relevant staff to access. It is, however, not publicised on the Council's website for tenants to be made aware of the decant process (**Recommendation 2**).
- We confirmed that advice on working during lockdown from the Head of Allocation and Lettings, including the use of Personal Protective Equipment (PPE), was communicated to all managers within the department, along with Covid-19 updates following changes to restrictions.

Authorisation, Assessment and Costs

- Where a decant is required, Surveyors inform the Supported Moves Team (SMT) of the request by completing a decant request form, which is signed by the Surveyor and countersigned by management. Testing of a sample of ten decants from 2020/21 found that seven had a decant form in place, however, these were not always signed. In three cases there was no decant form completed (**Recommendation 3**).
- Once SMT receive the request, a Supported Moves Officer (SMO) is assigned to manage the case. From the sample of ten decants, all had an SMO assigned.
- SMT should acknowledge and contact tenants within 48 hours to arrange a visit to complete a holistic housing options interview. The home visit should be conducted within five working days of referral. During the pandemic, home visits were not conducted and, instead, housing needs assessments were completed via phone calls and the service has yet to decide whether to revert to the previous process going forwards. Testing found that in three out of ten cases, the tenant was not contacted within 48 hours, including one case where the housing needs assessment phone call was not made within five working days of the referral (**Recommendation 4 and 6**).
- During the home visit or phone call, the SMO should advise the tenant of alternative options available to them, such as staying with family and friends, claiming food vouchers and considering mutual exchange. In emergencies, where Housing Management have decided that temporary accommodation is required, the tenant will move out of their property as soon possible and be offered a Bed and Breakfast or a Hostel. We found one case from the sample of 10 decants where the tenant was placed in a commercial hotel, which is the most expensive option. There was also a case from the sample of 10 decants where the SMT was not made aware of the decant, to allow them to advise on alternative options (**Recommendation 5**).
- The tenant will be made an offer of suitable and affordable decant accommodation, based on information from the Housing Needs Assessment, via an offer letter. For our sample of ten decants, an offer letter was in place for nine cases. For the remaining one case, no documents were held for the decant, as it was not brought to the attention of SMT until three months after the tenant had been decanted (**Recommendation 7**).

Licence Agreement

- On the day the tenants are due to move into decant accommodation, the SMO will meet the tenant at their original property. At this point, the tenant will be requested to sign a licence agreement and a disclaimer form.
- The licence agreement is between the Council and tenant, to agree the Council will provide the tenant temporary accommodation whilst necessary works are being carried out, but that the accommodation is by the way of licence only and subject to conditions. Testing of ten decants found two cases where an agreement was not in place (**Recommendation 8**).
- The disclaimer form confirms that the SMO has been provided keys for the relevant property so that the Council and their contractors can enter the property to commence the repairs work. Testing of the sample of 10 decants found six instances where a disclaimer form was not in place (**Recommendation 9**).

Support to Tenants

- Any concerns regarding the progress of individual decant cases are to be discussed with the relevant tenant. Weekly liaison meetings with the Housing Management and Repairs Team facilitates providing up to date communication with tenants.
- When tenants are required to decant because of disrepair or improvements, the tenants are offered compensation. Types of compensation payments include disturbance payment, removal costs, food costs, disconnection/reconnection costs, redirection of mail, and home loss payment. The SMO must complete a payment request form on behalf of the tenant, which must be signed by the Senior Supported Moves Officer. Once approved, it is uploaded to IBEX (General Payment System) for further approval from the Allocations and Voids Service Manager. The SMO should record the payment in a spreadsheet, 'GP Manual Payment', which records all payments made by the Supported Moves Team. From the sample of ten decants, in three cases payments were made, of which two payments were not recorded on the spreadsheet (**Recommendation 10**).

Financial and Operational Management and Reporting

- A system (Northgate) generated report VO1031 is distributed on a weekly basis to colleagues to highlight the void properties in the Council that are available for tenants to be decanted to. The Head of Allocations and Lettings also confirmed that the report provides a monitoring tool for void properties, to assess voids where households have been decanted to. We confirmed for an example week that a report was sent to the Systems and Data Team and Supported Moves Officer.
- Budget monitoring reports are produced on a monthly basis. The Principal Accountant and the Head of Allocations and Lettings meet to discuss finance matters every two weeks. We confirmed that a report was produced for periods eight, nine and ten in 2020/21. We also established that a reoccurring meeting has been scheduled on a monthly basis between the Principal Accountant and the Head of Allocations and Lettings to discuss the budget.
- The Allocations and Voids Service Manager confirmed that a 'Decant Associated Costs' spreadsheet is currently being produced by the Manager and Principal Accountant. The spreadsheet will be in place to record associated costs for individual decants to facilitate forecasting of costs. The Manager confirmed that there are plans to develop a process so that the 'GP Manual Payment' spreadsheet provides the source data for the 'Decant Associated Costs' spreadsheet.
- A Key Performance Indicator (KPI) measuring decanted tenants returning to their property within the project work timescale is in place with a target of 100%. In January 2021, the KPI measured to be 18.75%. We have requested more recent performance information but it has not been provided (**Recommendation 11**).

- A KPI for 50% of decant referrals staying in situ while work is carried out or staying with family and friends is in place. In January 2021, the KPI was measured to be 6.25%. Per above, we have requested more recent performance information but it has not been provided (**Recommendation 7**).
- In December 2020, the Cabinet made the decision to award the Integrated Housing Management System (IMHS) to Northgate Public Services (UK) Limited. The Cabinet report dated 1st December 2020 states that the new system provides an opportunity for innovation and transformation, and that the implementation of the system will be part of the wider transformation programme across Housing Services (**Recommendation 12**).

4 Acknowledgement

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

- Gerry Crowley – Head of Allocations and Lettings
- Mariana Stojanovic – Allocations and Voids Service Manager
- Jay Ashby – Senior Supported Moves Officer
- Michelle Comley – Head of Service (Client Repairs)

Appendix 1: Management Action Plan

1. Strategy, Policy and Procedures – Decant Procedure

Priority	Issue	Risk	Recommendation
Low	At the time of the audit fieldwork, a decant procedure was in draft. We are aware that a procedure has been in place previously, but a procedure for the current process remained in draft at the time of our review. This procedure aims to ensure that LBHF achieves the following Strategic Objectives when managing decants: • Being ruthlessly financially efficient: By following this procedure, LBHF aims to ensure that repairs are carried out quickly and efficiently, minimising repair times and the costs subsequently incurred through providing Temporary Accommodation. • Doing things with residents, not to them: LBHF recognises that moving from your home can be a stressful process. To make it as easy as possible for residents LBHF aims to take account of residents needs throughout the process, while ensuring they are kept informed at all times. • Taking pride in H&F: An efficient decants process helps the council to fulfil its repair duties and ensure its properties meet the highest standards of safety and quality.	Where staff are not aware of correct procedures and expectations for processing and managing decants, there is a risk that staff may fail to comply with legislative and management requirements, which may lead to reputational loss.	The decant procedure should be finalised and made available to all relevant staff. The procedure should be assigned an owner so there is clear responsibility for reviewing it on a regular basis, as well as when there are changes to legislation.

Management Response
Agreed. This has now been actioned and completed.

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Responsible Officer	Deadline
Head of Allocations & Lettings – Gerry Crowley	1/10/2021

2. Strategy, Policy and Procedures – Decant Policy

Priority	Issue	Risk	Recommendation
Low	An Emergency and Major Works Decant policy is in place at the Council, however, it is not published on the Council's website for tenants. The policy outlines how the Economy directorate will deliver the decant process, which includes packages of support, to ensure households deemed to have decant status are dealt with effectively and sensitively.	Where tenants are not made aware of packages of support offered by the Council tenants may be reluctant/ refuse to decant and there is a risk that the decanting process is unsuccessful and works required on the property cannot be completed without legal intervention.	The Emergency and Major Works Decant policy should be published on the Council's website.

Management Response	
Agreed. The Emergency and Major Works Decant policy has been provided to the Corporate Website Team to upload to the Council's website.	
Responsible Officer	**Deadline**
Allocations and Voids Manager – Mariana Stojanovic	1/10/2021

3. Authorisation, Assessment and Costs – Decant forms

Priority	Issue	Risk	Recommendation
Medium	Where a decant is required, Surveyors inform the Supported Moves Team (SMT) of the request by completing a decant request form, which is signed by the Surveyor and countersigned by management. Testing of a sample of ten decants from 2020/21 identified the following: • Seven decants had a decant form in place. Whilst all had the Surveyors name stated, they were not signed by the Surveyor. From the seven, one was not dated by the Surveyor and therefore we were unable to determine if it was completed in a timely manner. • None of the seven forms were countersigned by the Surveyor's manager. • In three cases, a decant request form was not in place. In one of these cases, the decant was not brought to the attention of SMT until three months after Housing Management had placed the tenant in temporary accommodation. We were advised this was likely to be due to incorrect filing. The Allocations and Voids Service Manager indicated that the pandemic made it difficult to obtain wet signatures and there was no appropriate software in place to collect signatures electronically. Although we saw emails with instructions, emails did not capture approval. The Head of Allocations and Lettings confirmed that the service has now obtained Adobe Sign, which will allow for digital signatures. At the time of the audit, training for this new software was still being established prior to its introduction.	Where a decant form is not completed, there is a risk that all relevant information is not provided to the Supported Moves Team, which may lead to inefficiencies and inappropriate actions being taken. Where decant requests are not signed off, there is no evidence that there has been appropriate scrutiny of the decant request, resulting in the risk of requests being fulfilled where other options could have been pursued and therefore the potential for financial loss to the Council.	An exercise should be completed to identify all forms/agreements that require signature from parties (Council and tenants). Those identified as requiring signatories should be configured to work with Adobe Sign so that a process is established to collect all required signatories going forward, where possible. Training should be provided to all relevant staff on the use of Adobe sign software. The service should also consider providing guidance to tenants for using the software. Staff should be reminded that a decant request form should be completed for all decants with: • the full account of works that need to be undertaken; • an explanation of why these cannot be completed with the tenant in the property; • a start date for the works; • an expected completion date; and • photographic evidence for the works needed.

Management Response
Agreed. All Decant related forms have now been created and produced on Adobe Sign. Training has been provided to the team and the Supported Moves Officer assists the tenant with the technology when required. The Decant Request Form has been amended and staff have been reminded that a decant request form will be rejected if not fully completed.

Responsible Officer	Deadline
Senior Supported Moves Officer – Jay Ashby	1/10/2021

4. Authorisation, Assessment and Costs – Timely contact with tenants

Priority	Issue	Risk	Recommendation
Low	As per the draft decant procedure, once the Supported Moves Team (SMT) receives the decant request form, the SMT should acknowledge and contact tenants within 48 hours to arrange a visit to complete a holistic housing options interview. The home visit should be conducted within five working days of the referral. During the pandemic, home visits were not conducted and, instead, housing needs assessments were completed via phone calls. Testing found that in three out of ten decant cases, the tenant was not contacted within 48 hours of referral, including one case when the housing needs assessment call was not made within five working days of referral. The exceptions are detailed below: • one case - contacted eight days after referral; • one case - contacted ten days after referral and housing needs assessment also made after ten days of referral; and • one case – contacted four months after referral. There was evidence of regular contact between the tenant and social worker regarding the decant, but not the SMT during this period. The Head of Allocations and Lettings confirmed that the Integrated Housing Management System (IHMS) will allow officers to communicate from the system directly, whether that be SMS or emails, and a copy will be saved automatically in the system.	Where tenants are not contacted and assessments are not completed in a timely manner there is an increased risk of complaints being made which may lead to reputational damage.	Staff within service should be reminded that contact with tenants and home visits/ calls are to be completed as per the defined timescales in the procedure. The service should consider the introduction of a reporting mechanism to identify untimely contact with tenants within the IMHS. Where the Supported Moves Officer is unable to meet the timescales, the reasons for this should be recorded in the case notes on SharePoint.

Management Response	
Agreed. Staff have been reminded of process and requirements. Systems in place to monitor and highlight non-compliance.	

Responsible Officer	Deadline
Senior Supported Moves Officer – Jay Ashby	1/10/2021

5. Authorisation, Assessment and Costs – All options are assessed prior to tenants being decanted

Priority	Issue	Risk	Recommendation
Medium	The draft decants procedure states that during the home visit/call, the Supported Moves Officer should advise the tenant of alternative options, such as staying with family and friends, claiming food vouchers and considering mutual exchange. In emergencies, where Housing Management have decided that temporary accommodation is required, the tenant will move out of their property as soon as possible. It is only at this point that the accommodation that can be offered could be a Bed and Breakfast or a Hostel. Testing from a sample of 10 decant cases found: • One case where the tenant was placed into a commercial hotel following an emergency. The Supported Moves Team then placed the tenant into temporary accommodation. Discussions with the Allocations and Voids Service Manager established that when this happens, the Council has accepted the duty of care for the tenant, and it can then be difficult to request the tenant to consider alternative options such as staying with family and friends; and • One case where the SMT was not provided with the opportunity to assess alternative options, as they were not made aware of the decant until three months after the tenant was moved into temporary accommodation by Housing Management.	Where all options are not assessed prior to tenants being decanted, there is a risk that tenants are decanted where other viable and economical options are available, which may lead to the Council's objective of being ruthlessly financially efficient not being met.	Staff within Housing Management should be reminded that when there is an out of hour emergency, tenants should be placed in a Bed and Breakfast or a Hostel. It should also be reiterated that in an emergency situation, tenants should be asked to stay with family and friends. The decant procedure should be reviewed to include guidance on the use of commercial hotels in emergency situations, to emphasise that this has to be the last option available, due to the high costs. Guidance should also detail the maximum amount of time tenants should be placed in hotels and for the tenant to be quickly moved to other temporary accommodation. The service should consider reporting on decants to Bed and Breakfast and Hotels to identify lengths of stays and whether the tenant can be decanted to more economical accommodation.

Management Response
Agreed. The Decant procedure has been updated to advise that commercial hotels should only be used in an absolute emergency and then for the minimal of time. We are monitoring number of B&B and commercial hotel placements through our decant register and where work extends longer than planned, officers are working to procure more economical accommodation.

Responsible Officer	Deadline
Head of Allocations & Lettings – Gerry Crowley	1/10/2021

6. Authorisation, Assessment and Costs – Housing assessments

Priority	Issue	Risk	Recommendation
Low	Prior to the pandemic, the Supported Moves Team would complete a Housing Assessment form when undertaking the housing options interview with the tenant. The Allocations and Voids Service Manager confirmed that these forms have not been completed since the start of the pandemic. Instead, notes from calls are retained within case notes in SharePoint and during our review of the sample of ten decants, we saw evidence that SharePoint notes were in place. We confirmed that the notes from calls cover the same content as the forms. The service has yet to decide whether the completion of housing assessments will be resumed going forward.	Where the assessment is not documented, there is a risk that inappropriate actions are taken during the decant process which may lead to dissatisfied tenants and increased complaints.	The service should decide whether the practice of completing the Housing Assessment with tenants will be continued going forward. Where it is decided to continue this practice, the assessment should be configured to work with Adobe Sign.

Management Response	
Agreed. The service now insists on a completed Housing Assessment which is now available on Adobe Sign.	
Responsible Officer	**Deadline**
Senior Supported Moves Officer - Jay Ashby	1/10/2021

7. Authorisation, Assessment and Costs – KPI and Supported Moves Team are made aware of all decants

Priority	Issue	Risk	Recommendation
High	There is a Key Performance Indicator (KPI) for 50% of decant referrals to stay in situ while work is carried out or staying with family and friends in place. In January 2021, the KPI was measured to be 6.25%. We noted this was particularly difficult during the coronavirus restrictions, which may have particularly impacted on performance. Testing identified one case where the Supported Moves Team was not made aware of the decant until three months after the tenant was moved to temporary accommodation. Therefore, the SMT did not have the opportunity to scrutinise the decision to move the tenant to temporary accommodation as being the best option.	Where the Supported Moves Team are not made aware of all decant requests or the Team do not take an proactive approach to monitor all decants, there is an increased risk that all options are not assessed prior to decanting which may lead to indicators and the Councils objective to be ruthlessly financially efficient not being met and tenants not being supported.	The service should consider investigating the low performance of the KPI measuring decant referrals to stay in situ while work is carried out or staying with family. The discussion with tenants regarding staying in situ while work is carried or staying with family and friends should be captured at both Surveyor and SMT stages. The SharePoint case notes should be reviewed on a regular basis to identify trends or officers who are not holding these discussions. Training should be provided to any staff member not holding these discussions to emphasise the need to promote alternative options to decant. Staff in Housing Management should be reminded that where tenants are to be decanted, the Supported Moves Team are made aware of this in advance, to allow opportunity of scrutiny of all options.

Management Response
Agreed. The discussion with tenants regarding remaining in situ whilst works are in progress are captured on the Decant Request form and the SharePoint case work area which allows for monitoring of trends.

Responsible Officer	Deadline
Senior Supported Moves Officer - Jay Ashby	1/10/2021

8. Licence Agreement – Signed licence agreement in place for all decants

Priority	Issue	Risk	Recommendation
Medium	On the day the tenant is due to move into decant accommodation, the SMO will meet the tenant at their original property. At this point, the tenant will be requested to sign a licence agreement on the decant property. The agreement is between the Council and tenant to agree the Council will provide the tenant with temporary accommodation whilst necessary works are being carried out, but that the accommodation is by way of license only and is subject to conditions. Our testing of 10 decants found: • One case where there was no evidence of a licence agreement being in place in either email, SharePoint or Northgate's Electronic Document Management System; and • One case was not brought to the attention of the team until three months after the decant and therefore there were no documents for this decant. The draft decant procedure indicates that all applications should be reported to SMT. The Allocations and Voids Service Manager confirmed that this has been reiterated within the service.	Where the Council is unable to demonstrate that the tenants have entered into an agreement, there is a risk that the Council may have no recourse in the event of agreements being breached.	Staff within the service should be reminded that a signed licence agreement should be in place for all decants. All agreements should be saved within the tenant's decant case on SharePoint until the new Housing Management system is fully implemented. The service should consider spot checking agreements on a regular basis to identify whether licence agreements are in place.

Management Response
Agreed. Staff have been reminded of the need to have a signed licence agreement which is recorded and monitored within SharePoint. Spot checks are carried out by the Senior Supported Moves Officer as part of casework management. Adobe Sign is predominantly used to sign licence agreement which ensures all parties have a record.

Responsible Officer	Deadline
Senior Supported Moves Officer – Jay Ashby	1/10/2021

9. Licence Agreement – Signed disclaimer form

Priority	Issue	Risk	Recommendation
High	On the day that the tenant is due to move into a decant accommodation, the SMO will meet the tenant at their original property where the tenant will be required to sign a disclaimer form. The disclaimer confirms that: • the Supported Moves Officer has been provided with keys for the relevant property so that Council and their contractors can enter the property to commence the repairs works. • the lock/barrel will be changed to restrict access while repairs are carried out; • the tenant will not visit the property until informed the works are complete; • all wanted items have been removed from the property; and • LBHF or its Partnering Contractors will not be liable for undue damages or loss as a result of these specified works, whilst the tenant is not at the property. Our testing of 10 decants found: • Four cases with no signed disclaimer form in place. Neither SharePoint nor EDMS held a copy. For one of the four, the SMO for the decant noted on SharePoint that, following a change in managing case officer, documents could not be found. • Two cases when the tenants refused to sign the disclaimer form.	Where the disclaimer form is not in place and signed by all parties, there is a risk that: • the Council may be unable to access a tenant's property, which may lead to tenants being decanted longer than expected; • the tenant may attempt to gain access to the property, which may risk health and safety whilst it remains a construction site; • the Council may be liable for undue damages or loss of tenant property, which may result in financial loss and reputational damage.	All staff within the service should be reminded that: • disclaimer forms should be signed by the tenants on the day that the tenant is due to move into a decant accommodation; and • all disclaimer forms should be saved within the relevant decant case on SharePoint. Staff should be provided with training about how to manage a situation and the steps to follow when a tenant refuses to sign a disclaimer form.

Management Response	
Agreed. Staff have been reminded of the need to secure a signed disclaimer form, which has been created on Adobe Sign. This is now recorded and monitored on the casework tracker on SharePoint.	
Responsible Officer	**Deadline**
Senior Supported Moves Officer – Jay Ashby	1/10/2021

10. Support to Tenants – 'GP Manual Payments' and 'Decant Associated Costs' spreadsheets

Priority	Issue	Risk	Recommendation
Medium	When tenants are required to decant because of disrepair or improvements, they are offered compensation. Compensation includes disturbance payments, removal costs, food costs, disconnection/reconnection costs, redirection of mail, and home loss payment. For payment to be made, a member of the Supported Moves Team completes a payment request form on behalf of the tenant. This form must be signed by the Senior Supported Moves Officer. Once approved, the officer should record the payment in a spreadsheet, 'GP Manual Payment', which records all payments made by the Supported Moves Team. This spreadsheet feeds into the 'Decant Associated Costs' spreadsheet, which is in place to facilitate forecasting of costs for all decants, which was being developed at the time of the audit by the Allocations and Voids Service Manager and Principal Accountant. From the sample of ten decants we tested, three had payments made to the tenant. From the three payments made, two were not recorded on the 'GP Manual Payment' spreadsheet.	Where payments are not recorded in the in the spreadsheet, there is a risk that data is inaccurate, which may lead to underestimating decant costs when reliance is placed on the data and the potential for overpayments if duplicate payment claims are received from tenants.	Supported Moves Officers should be reminded that all compensation payments for tenants subject to decant should be recorded in the 'GP Manual Payment' spreadsheet. Regular reconciliations between payments made and the amount recorded on the spreadsheet should be completed and variances should be investigated in a timely manner.

Management Response
Agreed – Weekly reconciliations currently by Senior Supported Moves officer between GP Manual Payment spreadsheet and actual payments made on IBEX system. Officers advised of importance to correctly record all payments ensuring due diligence before requesting a payment to be authorised by management.

Responsible Officer	Deadline
Senior Supported Moves Officer – Jay Ashby	1/10/2021

11. Financial and Operational Management and Reporting – 100% decanted tenants returned to their property within the projected work time scale

Priority	Issue	Risk	Recommendation
High	A Key Performance Indicator (KPI) measuring decanted tenants returning to their property within the projected work timescale is in place, with a target of 100%. In January 2021, the KPI measured 18.75%. We were informed that the SMT do not have control over this KPI and that it is the responsibility of the Council's Repairs Team to ensure that repairs are completed on time to enable tenants to move back to their primary home. We were unable to contact the relevant Head of Service to discuss the potential root cause of this performance. We raised queries with the Head of Service (Client Repairs) regarding the low performance for this KPI but did not receive a response.	Where reasons for poor performance are not investigated in a timely manner, there is a risk that objectives will not be achieved, leading to financial and reputation damage if tenants have extended periods in decant housing. Where action is not taken to rectify poor performance, there is a risk that poor service provision is continued which may lead to increased complaints.	The SMT should liaise with the Repairs Team to ascertain the reasons for poor performance. There should be a discussion to determine whether the KPI remains appropriate. If it is agreed that the KPI remains realistic and achievable, action should be taken to bring performance back in line.

Management Response
Agreed. The KPIs have been reviewed and amended as not seen as appropriate or deliverable by the Decant Service. Regular and ongoing discussions continue regarding works progress and issues for delays which are recorded and monitored on the Decant casework tracker on SharePoint.

Responsible Officer	Deadline
Senior Supported Moves Officer – Jay Ashby	1/10/2021

12. Financial and Operational Management and Reporting – Workflow system

Priority	Issue	Risk	Recommendation
Medium	In December 2020, the Cabinet awarded the Integrated Housing Management System (IMHS) to Northgate Public Services (UK) Limited. The accompanying report states that the new system provides an opportunity for innovation and transformation. It notes that the IHMS will enable: • the Council's staff to efficiently and effectively deliver housing services by standardising processes and taking advantage of workflow automation; • improvement in a resident's journey by providing a mobile self-service portal for residents; and • a 360 degree view provide an overview of information from each of the underlying business modules, which can be personalised to the user accessing it and include full drill down capability. Our audit identified that there is reliance on staff being aware of processes, but that processes are not followed. Introducing automation and workflows would help to enforce compliance.	Where there is no workflow system in place, there is a greater risk that processes are not adhered to, which may lead to an incomplete audit trail of the decant process, and the potential that all options are not assessed prior to decanting. This may lead to non-compliance with the approved approach, the Council's objective to be ruthlessly financially efficient not being met and tenants not being supported.	The service should engage with the development of the new IHMS to determine how it could improve the decant process and remove reliance on other separate systems, such as the spreadsheets referred to in Recommendation 10. This engagement could consider introducing a workflow system for the decant process, which automates all steps of the decant process and allows for a complete audit trail of applications and approvals to be automatically maintained.

Management Response
Agreed. The Service is engaged with Business Transformation project which oversees the IHMS implementation project and if possible a workflow system will be introduced.

Responsible Officer	Deadline
Allocations & Voids Manager – Mariana Stojanovic	1/10/2021

Appendix 2: Definition of Assurance Opinions and Recommendation Priorities

In order to help put the audit opinion and recommendation priority ratings in context the following tables detail the current ratings used by Internal Audit.

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

Priority	Description
High	Recommendation addresses fundamental weaknesses, which seriously compromise the effective accomplishment of the system's objectives. Risks presented by the control weaknesses could be damaging in the short term. The management action required should be implemented as soon as possible, certainly within 0-3 months.
Medium	Recommendation addresses serious weakness, which affect the reliance to be placed on the system. Risks presented by control weaknesses could be damaging in the medium term. Management action is required within 0-6 months.
Low	Recommendation addresses minor weaknesses, or suggests a desirable improvement. Risks presented by control weaknesses are unlikely and inconsequential. Management action is recommended to address concerns within 0-9 months.

Appendix 3: Audit Scope, Limitations & Inherent Risks

This audit was a risk based review of the arrangements for Housing Decants and included the following areas:

Ref	Audit Area	Coverage
01	Strategy, Policy and Procedures	A Decant policy has been developed that reflects the aims and priorities of the Council and has been communicated to staff. The service has in place clear guidance and maps out the various approaches for when a decant becomes applicable. Suitable arrangements are in place to manage the impact of the pandemic and that appropriate health and safety measures are taken into consideration.
02	Authorisation, Assessment and Costs	Decision to decant is authorised by an appropriate officer with the delegated authority. Assessments are conducted to determine the type and location of where the tenant will be decanted to. All options are considered before a Decant is completed including associated costs.
03	Licence Agreement	Licence agreements between the tenant and the Council is in place. Agreement ensures all relevant tasks required to secure the previous property has been conducted and recorded as completed prior to a decant taking place.
04	Support to Tenants	Tenants should be fully informed and involved throughout the decanting process. Tenants should be advised of any compensation and any other matters affecting their tenancies or home due to decanting.
05	Financial and Operational Management and Reporting	Performance of the service is monitored, and any poor performance is identified and addressed. Management information is accurate, complete, relevant, and timely to allow effective management decision making. Effective processes are in place to manage the length of stay of tenants in decanted property. The service operates within the agreed financial constraints. Any variances are promptly identified and an effective course of action taken.

Limitations to the Scope of the Audit

- The work will be undertaken using a risk based approach and testing will be on a sample basis to verify compliance;
- The records maintained by third parties to the Council will not be reviewed and are outside of the scope of this audit; and
- The audit review does not provide absolute assurance that material error, loss or fraud does not exist.

Inherent Risks

The risks listed below are **potential** inherent risks which are common for any service of this type:

- Inconsistencies in the decant process;
- Tenants being decanted into unsuitable properties;
- Financial loss where all options are not considered including costs;
- Lack of information provided to tenants leading to their accommodation needs not being met; and
- Management decisions made on incomplete information.

Appendix 4: Timetable and Distribution List

Stage	Date
Exit Meeting/ End of Fieldwork	31/03/2021 (contacted on 09/06/2021 & 17/06/2021 no response)
Draft Report Issued	30/06/2021
Responses Received	20/10/2021
Final Report Issued	25/10/2021

Audit Team
Kanta Patel – Client Engagement Manager
Navdeep Sidhu – Senior Auditor
Auditee
Gerry Crowley – Head of Allocations and Lettings
Mariana Stojanovic – Allocations and Voids Service Manager
Jay Ashby – Senior Supported Moves Officer
Client Sponsor
Glendine Shepherd – Assistant Director Housing Management

Report Distribution List
Glendine Shepherd – Assistant Director Housing Management
Gerry Crowley – Head of Allocations and Lettings
Michelle Comley – Head of Service (Client Repairs)

We take responsibility to London Borough of Hammersmith and Fulham for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk

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London Borough of Hammersmith and Fulham

Final Internal Audit Report

Operational Security Management

December 2021

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1 Introduction

As part of the internal audit plan for 2020/21, agreed by the Audit Committee, we have undertaken an internal audit of Operational Security Management at the London Borough of Hammersmith & Fulham.

The Operational Security Management team provides physical and strategic security to Council sites, staff and users. Services were previously provided by a contractor until 1st May 2019 when security was brought back inhouse. This has included TUPE'd staff.

In August-October 2019, 1,700 staff were decanted out of the old Town Hall complex into serviced accommodation while the annexe building was demolished, and the listed building stripped out and refurbished as part of a wider mixed use. We were advised that the speed of the decant programme resulted in a number of issues:

- A number of staff, who were transferred in on the basis of the job titles and brief role profiles provided by the contractor, could not be matched to specific roles in LBHF and were made redundant. Others were placed into roles which did not suit their competencies and a significant cohort of staff have not had any training, supervision, or management for significant periods.
- Staffing levels in the delivery of cleaning and security were high, resulting in significant HR caseloads of performance management, discipline, timekeeping, and unverified working hours.
- The standards of service, customer care and delivery are perceived as low. A number of support functions provided by the contractor were outside of the scope of TUPE. Therefore, they have had to be rebuilt, including space planning and workplace management.
- A contract was agreed for the provision of Agency staff to fulfil operational needs.

The fieldwork for this review was completed during the government measures put in place in response to the coronavirus pandemic (Covid-19). Therefore, this review was completed remotely.

2 Executive Summary

2.1 Assurance Opinion

	Nil	Limited	Satisfactory	Substantial
Audit Opinion		L		

2.2 Recommendations Summary

The following table highlights the number and categories of recommendations made.

Area of Scope	Adequacy	Effectiveness	Recommendations Raised		
			High	Medium	Low
Policy and Procedures			0	1	0
Operational Risk Assessments	*	*	0	1	0
Use of Agency Staff			1	1	0
Skills of Security Officers and Training	*	*	0	1	0
Workforce Deployment and Performance Management			0	3	0
Monitoring			0	2	0
Budgetary Control			0	0	0
Total			**1**	**9**	**0**

Please refer to the Appendix 1 for recommendations and Appendix 2 for a definition of the audit opinions and recommendation priorities.

* We were unable to provide an assurance in these areas due to a lack of information provided.

3 Summary of Findings

In Internal Audit's opinion, **Limited Assurance** can be given to Members, the Chief Executive and other officers that the controls relied upon at the time of the audit were suitably designed, consistently applied and effective in their application.

Findings within this report have been impacted by insufficient information provided by Operational Security Management team during the audit. Where applicable, we have referred to missing information within each finding.

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

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

Policy and Procedures

- There are five sites within the Council for which security staff are required to be in place. We confirmed that Security Assignment Instructions are in place for these five sites and are available on a Teams shared site for all relevant officers to access. These Assignment Instructions assist Security Officers in performing their duties to the standards expected and agreed by Facilities Management and the client. All five sets of instructions were noted as dated May 2020 and discussion with the Facilities Management (FM) Manager indicated that the Security team is in the process of consolidating all Security Assignment Instructions, with the instructions being reviewed as part of this process.
- Whilst the FM Manager advised that procedures are in place for the Operational Security Management (OSM) team, which set out procedures for deploying security staff to sites, when to use agency staff, completion of risk assessments etc., these could not be located. We understand that this is due to the previous manager moving these to another shared area before leaving the Council. Furthermore, the FM Manager stated that these procedures have not been reviewed or updated over the past few years **(Recommendation 1)**.

Operational Risk Assessments

- The FM Manager stated that the OSM team has created a new set of Security Workplace Risk Assessments for each site. We obtained a risk assessment for one of the sites undertaken in July 2020 and confirmed that it was completed by an FM Officer and signed off by the Head of Soft Services. However, we were unable to confirm that risk assessments had been completed by the other four sites due to no response from the FM team. Therefore, we are unable to provide assurances in this area.
- Risk assessments are required to be reviewed annually. We were unable to confirm that the risk assessment for the one site had been reviewed annually due to copies of the previous risk assessments not being available. A new risk assessment form is in place that includes a field to record the review dates; however, given that this was the first year of use of the new forms, the risk assessment is not yet due for review.
- Discussion with the FM indicated that there is no monitoring system in place to review when the risk assessment was carried out, by whom, and when the next assessment is due **(Recommendation 2).**

Use of Agency Staff

- We confirmed that the Council obtains agency staff from two sources. Discussion with the FM Manager indicated that a Council-wide contract is in place with one of these which includes the provision of security services. However, we noted that a contract is not in place with the other supplier, who provide more specialised security and key holding services. We were advised that this is due to the team only using this supplier for covering members of staff who have not turned up to their shift at short notice and, therefore, the Council does not use them to a sufficient level to justify entering into a contract. **(Recommendation 3)**

- For a sample of agency security staff used between January 2021 to March 2021, we confirmed that they were all from the contracted supplier.
- We confirmed that the OSM team does not carry out any formal checking or monitoring of qualifications of agency workers. The FM Manager advised that pre-checks are carried out by the agencies prior to the staff member being assigned to the Council, with the staff member being required to wear their SIA license (a compulsory security guard licence) whilst working. However, the FM Manager stated that no evidence is sought or provided regarding these checks. **(Recommendation 4)**
- Review of a sample of timesheets from December 2020 to March 2021 confirmed that the timesheets were approved by the FM Manager.

Skills of Security Officers and Training

- Discussion with the FM Manager indicated that a spreadsheet is in place for monitoring permanent staff members' qualifications. We were however unable to confirm this as no evidence was provided.
- The FM Manager stated that additional training is provided to staff members where there has been an update in the SIA qualification specification or if a complaint has been made in relation to the OSM team. However, evidence of this additional training is not maintained and there is no monitoring to confirm whether or not training has been completed by all relevant officers. **(Recommendation 5)**
- We confirmed that induction training is carried out for new permanent members of staff, with a copy of the induction training checklist provided. Although not recorded on a monitoring system, the checklist is signed by the trainer and the trainee with copies being retained. No induction training has taken place over the past 12 months as there has not been any new permanent members of staff joining the OSM team.

Workforce Deployment and Performance Management

- The FM team is responsible for ensuring that there are adequate number of permanent security staff available for each site. We confirmed that a weekly staff rota is in place detailing the names of permanent security staff required to be present at each site.
- We reviewed weekly staff rotas for the five sites where the OSM team currently provides security staff and noted that one was manned solely by agency staff for four out of seven days every week between September 2020 and March 2021, with one week (w/c 1 February 2021) being manned solely by agency staff for 7 days **(Recommendation 6)**.
- Each site manned by security staff has a Daily Occurrence Book (DOB) which is used to log all activities and incidents throughout the security officers' shift. The supervisor should complete the first section on commencement of duty and record the names of all security officers on duty. We were unable to confirm whether a DOB is completed on a daily basis at each of the sites as evidence of this was not provided. It was noted that the OSM team is also unaware of whether the DOB is completed on a daily basis as this is not monitored. The DOB is only reviewed by the team if a member of the public raises a complaint in respect of the security team on site **(Recommendation 7).**
- Whilst we were advised that the OSM team conducts spot checks on each site during the month to confirm that security officers are present as per the staff rota and are undertaking their roles as per the Assignment Instructions, the outcome of these spot checks is not formally recorded **(Recommendation 8).**

- For permanent staff, performance is monitored via the Council's annual performance management process. However, this is on an annual basis and there is no other mechanism in place to continually monitor staff performance in to order to identify areas of concern. **(Recommendation 7).**
- For agency staff members, if there is an issue with regards to performance, this will be raised directly with the agency staff. Where further action is required, then this will be escalated to the provider.

Monitoring

- The OSM team is required to undertake a cost benefit analysis prior to the use of agency staff to determine whether the roles can be fulfilled by permanent staff. However, due to the need for rapid turnover for requests for the provision of security staff during the coronavirus pandemic, these exercises have not been completed during the past 12 months. Additionally, we were informed that cost benefit analysis previously completed had not been formally recorded and retained. **(Recommendation 9).**
- Whilst the OSM team is able to obtain a list of agency staff used from the provider, there is currently no formal monitoring system in place detailing the number of agency staff being used, the length of their use or that they all hold the relevant qualifications. Furthermore, no monitoring process is in place in respect of agency staff supplied by the second provider **(Recommendation 10)**.

Budgetary Control

- The Facilities Management budget is monitored by the Head of Soft Services on a monthly basis. This was confirmed by review of a sample of three monthly budget monitoring spreadsheets. Budget monitoring meetings are held between the Finance team and the Head of Soft Service with notes and any action points recorded on the monitoring spreadsheets.
- A recharge document is required to be issued to Finance team within the Council detailing items that have been allocated to the Operational Security Management budget from departments requiring additional security services outside of their agreed provision.
- Review of the year end budget for 2020/21 confirmed that there was an underspend of £273,484 due to a number of initiatives, including a Voluntary Redundancy programme.

4 Acknowledgement

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

- Mark Finch – Head of Soft Services
- Ray Rahman – Facilities Management Manager

Appendix 1: Management Action Plan

1. Policies and Procedures – Procedures for Operational Security Management Team

Priority	Issue	Risk	Recommendation
Medium	Discussion with the Facilities Management (FM) Manager indicated that procedures are in place for the Operational Security Management (OSM) team detailing procedures for deploying security staff to sites; when to use agency staff, completion of risk assessments etc. However, the FM Manager was unable to locate these and confirmed that the procedures have not been reviewed or updated over the past few years.	Where up to date procedures are not in place and are not accessible to staff, there is risk that Operational Security Management team members will be unaware of formal practices that are required of them. This in turn leads to incorrect or inconsistent practices being carried out.	The FM Manager should put in place general policy and procedure notes for the Operational Security Management team. These should include, but not limited to: • undertaking risk assessments; • authorisation responsibilities; • use and authorisation of agency workers; • timesheet practices; • monitoring practices; and • reporting practices. Once developed, the procedures should made available to all relevant staff and reviewed on a periodic basis to ensure they remain relevant.

Management Response
The recommendation is accepted in full. The management team of FM will look at the policies and procedures and will ensure that they are specific to each site and in place for further inspections. An electronic document will be available, and parts of the document will be made available in paper format and kept on each site for unannounced audits.

Responsible Officer	Deadline
Ray Rahman – Head of Facilities Management	15 November 2021

2. Operational Risk Assessment – Monitoring System

Priority	Issue	Risk	Recommendation
Medium	Security risk assessments are designed to identify and address threats and operational issues in accordance with a framework. There is no monitoring system in place currently to provide oversight of when risk assessments are carried out, by whom, and when the next assessments are due.	Where a monitoring system is not in place risk assessments may be incomplete or out-of-date and corrective action may not be taken in a timely manner.	The OSM team should ensure that a system is put in place to monitor the completion of risk assessments. The monitoring system should include, but not limited to, the following: • Name of site manned by the Security team; • When the risk assessment was last completed/formally reviewed; • Who completed the risk assessment; and • The date for the next risk assessment.

Management Response
The recommendation is accepted. A full process will be implemented to ensure that risk assessments are review and signed by the officers who are undertaking the assignments at the sites. This will pick up the monitoring areas identified. The process will also include toolbox talks as a refresher and annual reviews (or reviews as and when changes occur).

Responsible Officer	Deadline
Ray Rahman – Head of Facilities Management	15 November 2021

3. Use of Agency Staff – Contracts with agencies used

Priority	Issue	Risk	Recommendation
High	We confirmed that the Council obtains agency staff from two providers. Whilst we understand that a Council-wide contract is in place with one of these, a contract is not in place with a second company, who provide more specialised security services and key holding services, including short notice cover for absent members of staff. We were advised that the Council does not use the specialist provider to a sufficient level to warrant entering into a contract.	Where a contract is not in place with an agency for the provision of temporary security staff, there is an increased risk of an inadequate service being provided by the agency, such as inappropriate or unqualified staff being provided, and / or value for money not being attained. Furthermore, the Council may be unable to enforce any penalties on the agency in the event of any issues arising.	Contracts should be held with all agencies used to supply agency staff. The level of annual spend with the specialist provider should be assessed and used to negotiate favourable hourly rates for temporary security staff provided. This should be compared to other similar agencies to ensure that value for money is achieved. A contract should then be entered into to formalise these agreed rates and set out the level of service required, including the specifications for the staff supplied.

Management Response
The recommendation is accepted and the issue is proposed to be addressed through directly employing security officers rather than as was the case when the audit was undertaken through the contracted provider. This is in process of being approved through the Council's internal sign-off for staffing. This approach will provide a sustainable resourcing model and mean that we reduce reliance on external agency resources. It is the intention to only use the contracted provider for emergency cover going forward. The contract with the specialist provider was used as a last resort where the regular contractor are unable to provide emergency cover. We do not foresee the need going forward to use the specialist provider as a security contractor should the RMB request be approved. Therefore no formal agency worker contract would be required.

Responsible Officer	Deadline
Ray Rahman – Head of Facilities Management	15 November 2021

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4. Use of Agency Staff – Evidence of licence checks

Priority	Issue	Risk	Recommendation
Medium	The OSM team does not carry out any formal checking or monitoring of qualifications of agency workers. Whilst the FM Manager advised that pre-checks are carried out by Pertemps or United Guarding prior to the staff member being assigned to the Council, no evidence is sought or provided regarding these checks.	Where the Council does not require evidence of the check or monitoring of qualifications of agency security staff, there is risk individuals may be provided who lack the necessary skills / qualifications to perform the required tasks or who may be unacceptable, and as a consequence, services may not be delivered or delivered in a sub-standard manner.	The Council should ensure that pre-employment checks, including licence checks, are carried out by the agencies by requiring evidence of these checks on booking the temporary member of staff. The requirement to undertake these compliance checks should be built into contracts with the agencies.

Management Response	
As part of the contractor's onboarding process they undertake checks on security officers under employment and we (H&F) specify that a valid SIA licence is required. When the agency worker attends the FM team ensure that they always have the physical SIA licence on display and that it is valid. Unfortunately, and due to DPA the contractor has been unwilling to give us SIA licence details in advance – however happy for us to view and get the information in person on day 1 Happy to keep a password protected document with this information on as we gain it.	
Responsible Officer	**Deadline**
Ray Rahman – Head of Facilities management	16 December 2021

5. Skills of Security Officers and Training – Training Records

Priority	Issue	Risk	Recommendation
Medium	Discussion with the FM Manager stated that currently, refresher training is only completed if there have been any changes within the SIA qualification or if a complaint has been received in relation to the Security team. It was noted that this refresher training is not formally recorded by the OSM team and there is no monitoring to confirm whether or not training has been completed by all relevant officers.	Where training records are not maintained or where completion of training is not monitored, there is risk of security staff members not having the required skills to undertake their roles leading to ineffective /incorrect practices being carried out.	The OSM team should ensure that refresher training is formally provided, recorded and monitored for each member of staff. Those who have not completed the training should then be requested to complete the training in a timely manner.

Management Response
This recommendation is included in item 2 – Monitoring and continual development

Responsible Officer	Deadline
Ray Rahman – Head of Facilities Management	15 November 2021

6. Workforce Deployment and Performance Management – Sites manned solely by Agency Staff

Priority	Issue	Risk	Recommendation
Medium	We reviewed weekly staff rotas for the five sites that the OSM team currently provide security staff to and confirmed that one location has been manned solely by agency staff for four out of seven days for every week between September 2020 and March 2021, with one week (w/c 1 February 2021) being manned solely by agency staff for 7 days. Discussions with the FM Manager indicated that this was due to the site requiring 24-hour monitoring by security staff.	Where a site is manned solely by agency staff members, this increases the risk of ineffective or incorrect practices being carried out and not highlighted in a timely manner.	The OSM team should review staff contracts and ensure that at least one permanent member of security staff is placed at each site to provide oversight.

Management Response
This is not possible at the moment due to financial restraints; we have however started the process of directly employing the security staff which will meet this recommendation

Responsible Officer	Deadline
Ray Rahman – Head of Facilities Management	16 December 2021

7. Workforce Deployment and Performance Management – Review of Daily Occurrence Book and Site Visits

Priority	Issue	Risk	Recommendation
Medium	Each site manned by security staff has a Daily Occurrence Book (DOB) which is used to log all activities and incidents. The supervisor should complete the first section on commencement of duty and record the names of all Security Officers on duty. We were unable to confirm whether a DOB is completed on a daily basis at each of the sites as evidence of this was not provided. It was noted that the OSM team does not check this on a periodic basis. The DOB is only reviewed by the OSM team if a member of the public raises a compliant in respect of the security team on site. The OSM team conducts spot checks on each site during the month to confirm that Security Officers are present at each site as per the staff rota and are undertaking their roles as per the Assignment Instructions. However, the outcome of these spot checks is not formally recorded	Where the DOB is not reviewed and monitored by the OSM team, there is risk of the OSM team being unaware of activities and incidents having occurred. This in turn can lead to the DOB becoming a tick box exercise used by the team, rather than as an effective monitoring system. Where the outcome of spot checks is not recorded, there is risk of the OSM team being unable to demonstrate that checks were completed and whether any issues were identified.	The OSM team should ensure that spot checks are undertaken on a periodic basis on each site and check at the least the following: • The daily completion of DOB; • The Security Officers present at each site as per staff rota; and • Security Officers are undertaking their roles as per the Assignment Instructions. Outcome of the spot checks should be formally recorded.

Management Response
We are in the process of procuring finger print logging in systems to ensure that the security team are onsite and, on their shift, as per the rota, the management team do currently undertake spot checks, however not formally recorded, an inspection form will be devised and will be completed and filed for future audits.

Responsible Officer	Deadline
Ray Rahman – Head of Facilities Management	15 November 2021

8. Workforce Deployment and Performance Management – Performance Monitoring

Priority	Issue	Risk	Recommendation
Medium	For permanent staff, their performance is monitored via the Council's annual performance management process. However, this is on an annual basis and there is no other mechanism in place to continually monitor staff performance in to order to identify areas of concern.	Where performance is not continually monitored, there is risk of underperformance not being highlighted and addressed in a timely manner.	The OSM team should ensure that a formal performance monitoring system is implemented to allow for continual review of staff performance and development. Where underperformance is identified, action should be identified and taken in a timely manner.

Management Response
The council have appraisals which are undertaken with the directly employed team – these are recorded and send across to P&T as part of the process. (IBC) Where shortfalls are identified then action is taken to rectify these as soon as possible.

Responsible Officer	Deadline
Ray Rahman – Head of Facilities Management	16 December 2021

9. Monitoring – Formal Cost Benefit Analysis

Priority	Issue	Risk	Recommendation
Medium	The OSM team are required to undertake a cost benefit analysis prior to the use of agency staff to determine whether the roles can be fulfilled by permanent staff. However due to the need for rapid turnover for requests for the provision of security staff during the coronavirus pandemic, these exercises were not completed during the past 12 months. Additionally, whilst we were informed that cost benefit analysis has been completed previously, it is not formally recorded and retained for future purposes.	Where a cost benefit analysis is not completed and/or formally recorded, there is risk that agency staff may be used instead of permanent staff even though this may not be a more financially effective solution.	The OSM team should ensure that a cost benefit exercise is completed prior to requesting the use of agency workers to determine if the role can be undertaken by a permanent member of staff. The cost benefit exercise should be recorded and retained by the team for future reference.

Management Response
A full cost review has taken place and it has been deemed that directly employing the agency positions is more beneficial to the council, by paying the current LEAN team additional hours it would not be cost beneficial due to their current terms of employment. For short term cover it is deemed that agency is more suitable from a cost perspective.

Responsible Officer	Deadline
Ray Rahman – Head of Facilities Management	16 December 2021

10. Monitoring – Agency Workers

Priority	Issue	Risk	Recommendation
Medium	Whilst the OSM team can obtain a list of agency staff used from the contractor, there is currently no formal monitoring system in place detailing the number of agency staff being used, the length of their use or that they all hold the relevant qualifications.	Where a monitoring system for agency workers is not in place, there is risk that an increase in usage is not identified to confirm that it is appropriate.	The OSM team should put in place a monitoring spreadsheet that outlines each agency worker that is currently in use by the Security team and how long they are being used for.

Management Response
This information is held with the contractor on the system under each assignment. The FM team also have a copy of the rota going back to pre-2019 which does detail the name of the agency worker and from which length of service details can be gained.

Responsible Officer	Deadline
Ray Rahman – Head of Facilities Management	16 December 2021

Appendix 2: Definition of Assurance Opinions and Recommendation Priorities

In order to help put the audit opinion and recommendation priority ratings in context the following tables detail the current ratings used by Internal Audit.

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

Priority	Description
High	Recommendation addresses fundamental weaknesses, which seriously compromise the effective accomplishment of the system's objectives. Risks presented by the control weaknesses could be damaging in the short term. The management action required should be implemented as soon as possible, certainly within 0-3 months.
Medium	Recommendation addresses serious weakness, which affect the reliance to be placed on the system. Risks presented by control weaknesses could be damaging in the medium term. Management action is required within 0-6 months.
Low	Recommendation addresses minor weaknesses or suggests a desirable improvement. Risks presented by control weaknesses are unlikely and inconsequential. Management action is recommended to address concerns within 0-9 months.

Appendix 3: Audit Scope, Limitations & Inherent Risks

This audit was a full risk based review of the arrangements for Operational Security Management and included the following areas:

Ref	Audit Area – Description	Comments on Coverage / Area Objectives
1	Policy and Procedures	All staff act consistently in compliance with management requirements and the processes are conducted in an economic, efficient and effective manner. Organisational structures and processes are fully documented and are fit for purpose.
2	Operational Risk Assessments	Security Risk Assessments address threats and operational issues in accordance with a clear framework. There is ongoing monitoring to ensure risks remain appropriate and action plans are robust.
3	Use of Agency Staff	Contracts are in place with relevant agencies and terms agreed by both parties. The contract details the requirements for the provision of security services. Checks are undertaken to ensure that agency staff used to provide security are from the approved list of providers. Timesheets are checked and authorised by appropriate staff.
4	Skills of Security Officers and Training	Staff delivering services (including permanent and agency staff) hold relevant qualifications and have been appropriately vetted. Staff are provided with sufficient support and training to allow them to discharge their responsibilities effectively and safely. Any skills or training gaps are identified and addressed. New staff receive appropriate induction prior to being allocated to a site.
5	Workforce Deployment and Performance Management	Staff are deployed as per service requirements and monitored for effectiveness ensuring that sites are not solely manned by agency staff. Mechanisms are in place for management to have oversight of security officers present at each site. The quality of staff is monitored with any issues being addressed in a timely manner.
6	Monitoring	Agency staff are used when necessary and to cover absence of permanent staff. Use of agency staff is monitored and cost benefit exercise undertaken to determine whether the roles can be fulfilled by permanent staff.

Ref	Audit Area – Description	Comments on Coverage / Area Objectives
7	Budgetary Control	The service is delivered within the agreed budget. Any overspend or irregularities are identified, and prompt corrective action is taken.

Limitations to the Scope of the Audit

The following limitations to the scope of the audit were agreed when planning the audit:

- The work will be undertaken using a risk-based approach and testing will be on a sample basis to verify compliance;
- The records maintained by third parties to the Council will not be reviewed and are outside of the scope of this audit; and
- The audit review does not provide absolute assurance that material error, loss or fraud does not exist.

Inherent Risks

The risks listed below are **potential** inherent risks which are common for any organisation of this type:

- Governance arrangements do not address security risks;
- Overdependency on agency staff leading to budget overspend;
- Security officers are not adequately trained and equipped to discharge their duties effectively;
- Security officers. are not deployed effectively to sites; and
- Inefficiencies in the provision of security service is not identified and addressed.

Appendix 4: Timetable and Distribution List

Stage	Date
End of Fieldwork	18/05/2021
Draft Report Issued	10/08/2021
Responses Received	05/11/2021
Final Report Issued	16/12/2021

Audit Team
Kanta Patel - Client Engagement Manager
Benjamin Ferguson - Auditor
Client Sponsor
David McNulty – Assistant Director Operations
Joanne Woodward – Interim Director for the Economy / Acting Strategic Director

Report Distribution List
David McNulty – Assistant Director Operations
Mark Finch – Head of Soft Services
Ray Rahman – Facilities Manager

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 15/03/2022

Subject: Internal Audit Plan 2022/23

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

The Strategic Audit Plan has been reviewed to document significant, persistent risks that the Council faces and the business areas to be covered over a five-year period. The Strategic Plan will support the annual planning process and ensure that internal audit continues to provide assurance over the breadth of the Council's operations.

The Plan has been prepared following consultation with Directors and takes into account the Council's corporate risks and priorities.

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 will be reviewed and updated following discussions with Directors, taking into account changing risks and priorities. The revised Plan will be reported to the Committee on a quarterly basis.

Recommendations

1. The Committee review the draft Strategic Audit Plan, as set out in Appendix 1, and consider whether it covers the persistent risks that the Council faces and outlines the business areas or themes that need to be considered as part of a five-year plan.
2. The Committee review the draft of the Annual Audit Plan, as set out in Appendix 2, and comment on the audit work due to undertaken in the first quarter of 2022/23 and identify any specific audits to be considered during the coming year.

Wards Affected: None

H&F Values

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

Contact Officer:

Name: David Hughes
Position: Shared Services Director for Audit, Fraud, Risk and Insurance
Telephone: 020 7361 2389
Email: David.HughesAudit@lbhf.gov.uk

Background Papers Used in Preparing This Report
None.

DETAILED ANALYSIS

1. The Council's internal audit service is provided by the Shared Services Internal Audit Team which is managed by the RBKC based Shared Services Director for Audit, Fraud, Risk and Insurance. Audits are undertaken by the in-house audit team or through the external contractors to the service, in accordance with the Internal Audit Charter. 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. A primary role of internal audit is to provide assurance that the Council has robust systems of governance and control in place to achieve its priorities and meet its statutory responsibilities. The Council's internal and external environment continues to evolve and the way in which the Internal Audit Service is delivered must change to keep pace with this. The traditional audit approach of planning a full year of audits in advance has become unsuitable as the original plan fails to keep pace with the organisation's needs.
3. As a result, we have implemented the following changes to the way in which we deliver the Internal Audit Service:
    - A Strategic Audit Plan has been developed which documents the significant, persistent risks that the Council faces and outlines, in broad terms, themes to be covered over a five-year period. This will help to ensure that internal audit does not become a purely reactive function. The Strategic Audit Plan is attached as Appendix 1.
    - We will work with a '3 plus 9' Annual Audit Plan – planning out the next three months in detail, meeting on a quarterly basis with Directors to take into account key risks and priorities, whilst keeping the remaining nine months more flexible. The Plan will then be revisited each quarter to confirm the following quarter's work and will include sufficient audit coverage to enable an overall annual opinion to be reached on the Council's control framework.
    - New reporting formats have been developed which are more appropriate to the work being undertaken, such as succinct reports for short/focused reviews.
    - The option of faster paced audit work, through more focused coverage or less formal reporting, will be available where the traditional approach would not provide assurance as quickly as needed; and
    - We will seek to increase attendance on 'working groups' to provide advice and constructive challenge where real time input to projects and initiatives can add value.
4. The draft '3 plus 9' Internal Audit Plan for 2022/23 is attached as Appendix 2 to this report. It should be noted that this Plan is an early draft, based on discussions with Directors, and

is intended to focus on the work planned in the first quarter of 2022/23. Some changes may be required once all of the audit planning meetings have been held.

5. The Audit Strategy, Annual Plan and audit work is undertaken in line with the expectations of the Public Sector Internal Audit Standards (PSIAS). 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 is also a requirement for regular review and assessment of Internal Audit's conformance with the Standard and this is done as part of the Annual Report of the Shared Services Director for Audit, Fraud, Risk and Insurance which is reported to the Audit Committee.

7. A peer review process has been established by the London Audit Group (LAG) to externally validate self-assessments of compliance with the PSIAS 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 is due to be undertaken in the final quarter of the 2021/22 financial year and the outcome of this assessment will be reported to the Committee.

Consultation

8. The '3 plus 9' approach to the Plan has been operating during 2021/22 and requires on-going engagement with Departments throughout the year to identify and scope audits and more frequent discussions regarding emerging and changing risks and priorities. The quarterly meetings with the Council's Senior Leadership Team have been successful and Management are supportive of the changes to the way we have delivered our work and this will continue into the new financial year.

Legal Implications

9. 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.

10. 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.

11. There are no particular legal implications arising from this report.

12. *Implications verified by Grant Deg, Chief Solicitor (litigation & employment), tel: 07798 588 766.*

Financial Implications

13. The Internal Audit Plan is delivered within the revenue budget for the service. Actions required as a result of audit work, and any associated costs, are the responsibility of the service managers and directors responsible for the areas which are reviewed.

14. The proposals contained in this paper have no additional resource implications for the audit service.

15. *Implications completed by Andre Mark, Finance Business Partner, tel: 020 8753 6729 and verified by Emily Hill, Director of Finance, tel: 0208 753 3145.*

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. The audit of services is a crucial component of the Council's approach to Being Ruthlessly Financially Efficient. A plan contributes considerably to the ongoing mitigation and management of financial and significant standing service risks as required by the Account and Audit Regulations and as outlined in Appendix 1 of the report.

17. *Implications verified by Moira Mackie, Head of Internal Audit, tel: 07800 513 192*

List of Appendices:

Appendix 1 Draft Strategic Internal Audit Plan
Appendix 2 Draft Internal Audit Plan 2021-22

APPENDIX 1

Strategic Internal Audit Plan

The Strategic Audit Plan sets out the medium-term direction of the Internal Audit service. This five-year plan outlines the priorities of the service and how Internal Audit can continue to provide an adequate level of assurance whilst taking account resource limitations and the changing risk landscape.

The Strategic Plan is supported by the Audit Charter, which sets out the roles and responsibilities of Internal Audit, and the Annual Audit Plan which outlines the internal audit work which will be undertaken each year.

All Local Authorities have faced significant financial reductions in recent years and increasing demand for services. All Council services have seen a reduction in the resource available to them and this in turn has an impact on the control environment. In addition, local authorities are taking more risks as they explore innovative solutions in order to bridge the funding gap and transform the organisation. It is important that the Internal Audit service continues to evolve to ensure that it remains an effective assurance provider.

This Strategic Audit Plan has been prepared to document significant, persistent risks that the Council faces and outlines, in broad terms, themes to be covered. The intention of the five-year period of this plan is to ensure that, in becoming more agile, internal audit does not become a purely reactive function and continues to provide assurance over the entire breadth of the Council's operations.

Area of Review	Significant Persistent Risks	Five-year Approach
Corporate Resources Back office and support functions including Finance, HR, Pension Fund, business continuity, risk management, health and safety and procurement	• Internal and external fraud • Poor Financial management • Risks to staff safety and welfare • Value for money not achieved in commissioning, procurement and contract management • Failure to provide robust and compliant pensions administration service • Council/Pension Fund funds not invested effectively • Staff do not have the skills, resources or support to discharge their roles effectively • Council unable to cope with business disruption or emergencies.	At least one full audit of each key financial system and ongoing testing of key controls every year. Cyclical Coverage of Revenues and Benefits over a three-year period. At least one full audit on Pension Fund activity every year. At least one audit of each key HR Function Work on other functions, themes or departments based on conversations with management, assessment of risk and other sources of assurance. Annual coverage of management of individual procurements and contracts based on review of forward plans, perceived risk, significance and discussions with management.

APPENDIX 1

Strategic Internal Audit Plan

Area of Review	Significant Persistent Risks	Five-year Approach
Governance, Partnerships and Transformation Council governance functions, key strategic partnerships, commercial ventures and transformation programmes and projects.	• Governance failures, bringing the Council into disrepute or leading to the aims and objectives of the Council not being achieved. • Programmes and projects are not managed effectively within the required budget and timescales, delivering all expected benefits. • Ill-advised strategic partnerships or ventures entered into or poor governance arrangements lead to objectives not being achieved. • Information requests (such as SARs and FOIs) are not responded to promptly and appropriately. • Statutory functions such as Registrars and Electoral Services are not discharged effectively • Commercial property portfolio is not managed effectively.	At least one full audit of SARS, FOIs, Members Enquiries and Complaints. Annual coverage of Health and Safety based on discussions with management and understanding of risk areas. At least one audit of Gifts, Hospitality and Declarations of Interest. At least one audit of the Registrars Service. Annual audits of specific areas of governance based on discussions with management and understanding of risk. Coverage of each significant Partnership, Joint Venture, Council Owned Company or Commercial Venture. Annual Coverage of Risk Management at either a corporate, thematic or departmental level.
Information Management & Technology (Digital Services) Management of data, compliance with the Data Protection Act /GDPR. Information technology including cyber security, asset management and disaster recovery.	• Loss of information, data breaches or inappropriate disclosure. • Loss of access/information due to systems failure or cyber-attack. • Breach of access controls. • Loss, theft or misuse of IT assets.	Audit coverage based on periodic IT audit needs assessment, horizon scanning and frequent discussions with management to understand of risk areas. At least one full audit of IT Strategy, Cyber Security, Asset Management, Disaster Recovery, Network Security, Cloud Computing, Mobile Device Management, PCI Compliance. Annual reviews of Information Governance and Data Protection At least three software application reviews.

APPENDIX 1

Strategic Internal Audit Plan

Area of Review	Significant Persistent Risks	Five-year Approach
Housing Housing Services provided to Council Tenants, Leaseholders and those at risk of homelessness.	• Properties are either acquired or disposed of that are not in line with the Council's strategy or value for money is not achieved. • Rent payments and service charges are not recovered promptly and completely • Council housing is acquired through fraud or is used inappropriately • Housing stock is not maintained in a satisfactory condition leading to health and safety hazards and increased reactive maintenance. • Risks to the health and safety of residents are not identified and addressed promptly. • Leaseholders and not consulted and correctly charged for any works affecting their property. • Homeless and those at risk of becoming homeless in the borough do not receive the support they require.	At least one full audit of key Housing functions such as Rents, Homelessness, Housing Allocations, Temporary Accommodation, Tenancy Management, Leaseholder Services. More frequent coverage of both responsive repairs and planned repairs and maintenance. Annual coverage of building Health and Safety compliance.
Children Services Provision of services for children and families including looked after children, family support, schools and SEND.	• Failure in service continuity, safeguarding arrangements, financial management and governance. • Increased demands for services with reduced funding.	On-going in-year assurance on funding claims for Supporting People. Cyclical full review of specific areas such as placements, direct payments, looked after children based on discussions with management and understanding of risk. Each school reviewed at least once (with more frequent review where required).
Adult Social Care Services provided to adults including day care, home care, direct payments and reablement.	• Increased demands for services with reduced funding. • Lack of suitable provision; • Weak supplier financial resilience.	Cyclical review of specific areas such as direct payments, home care, day centres, client affairs, charges and debt management, partnership agreements based on discussions with management and understanding of risk.

APPENDIX 1

Strategic Internal Audit Plan

Area of Review	Significant Persistent Risks	Five-year Approach
Public Health Services provided to support the public health & wellbeing of the community and reduce health inequalities within the borough including the response to the Covid-19 and other pandemics.	• Access to appropriate affordable resources to support improvement to public health priorities. • Changing public health priorities and capacity for delivery (as exemplified by Covid-19 pandemic).	At least one procurement and one contract monitoring review across 2 to 3-year period. Targeted reviews in specific areas based on discussions with management and understanding of risk.
Environment, Infrastructure and Community Services Management of highways infrastructure and services provided for residents, businesses and visitors. Includes Planning & building control, parking, highways, public realm, environmental health, trading standards, community safety, leisure, culture and amenity services.	• Statutory and regulatory functions not discharged effectively. • Weak supplier resilience / lack of provision. • Poor value for money/ ineffective service delivery/ failure to deliver outcomes for the community. • Injury to health /wellbeing to the community, businesses and visitors.	At least one procurement and one contract monitoring review across 2 to 3-year period. Cyclical review across the service areas based on discussions with management and understanding of risk.

High and Medium Risks (February 2022)

The Council's Corporate Risks are linked to the following Council Values:

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

Where possible, planned audit work is linked to the Council's high and medium priority risks which are shown below:

Risk No.*	Risk	Residual Exposure	Council Value*

APPENDIX 1

Strategic Internal Audit Plan

Risk No.*	Risk	Residual Exposure	Council Value*
1	Commercial, contract management and procurement risks, rules, outcomes, social value, management of spend and contractor performance management.	Medium	4
3	Failure to maintain services to residents in the event of IT systems being compromised and affecting service resilience.	High	4
4	Information management and digital continuity, regulations, legislation and compliance.	Medium	4
5	Managing statutory duties, equalities, human rights, duty of care regulations, highways.	Medium	2
6	i) Standards and delivery of care, protection of children and adults and associated data quality and information risks. ii) Reliance on external assurance providers and providers to identify and communicate issues arising from inspections eg Ofsted and Care Quality Commission.	Medium	2
8	Failure to identify and address internal and external fraud.	Medium	4
9	Failure to ensure compliance with the statutory duties to undertake inspection regimes covering management of asbestos, electrical testing, fire risk, plant and equipment, water testing/ legionella.	Medium	3 & 5
10	Co-ordination and response to calls on the Council for Mutual Aid in a crisis and emergency planning response.	Medium	3 & 5
16	High needs budget pressure continues, impacting on provision of services for vulnerable young residents.	Medium	2
18	Management of complaints, requests for information, members enquiries.	High	All
19	Financial management – in year budget 2021/22 and Medium-Term Planning.	Medium	4
20	Financial management – in year budget 2021/22 and Medium-Term Planning: Social Care.	High	2
21	Corporate management of health and safety.	Medium	All
22	Impact on the local economy and businesses from the closure of Hammersmith Bridge to pedestrians, road and river traffic.	Medium	3 & 5
24	Failure to transfer the Pension Administration function to a new provider and ensure appropriate records are maintained and payments made. (Risk to be closed following transfer).	Medium	4
25	Coronavirus – spread of infectious disease, particularly affecting vulnerable groups of residents and workforce/ contractors providing front line services.	High	2
26	Failure on the part of the Council to mobilise its response to the Climate Change emergency.	High	6
27	Housing repairs performance – contractor failure given that there are a number of contractors providing repairs and maintenance. Repair system and contractor management not delivering performance at required levels.	High	3 & 5

APPENDIX 1

Strategic Internal Audit Plan

Risk No.*	Risk	Residual Exposure	Council Value*
28	Civic Campus Energy centre may not be ready in time for handover and occupation in April 2023 which may impact the exit from decant accommodation.	High	3
29	Changes to Western Riverside Waste Authority contract or waste disposal arrangements that do not align with the Council's financial or climate priorities and potential missed opportunities for improvements or savings as a result of the current governance and management arrangements.	Medium	4 & 6
30	Failure to manage the requirements of the New Environmental Act which will change the way in which the waste service operates and how it contributes to the Council's carbon zero commitment.	Medium	4 & 6
31	Failure to manage the negative impact of flooding, due to adverse weather conditions, on residents and businesses. Consequences of the Climate Emergency. One in a hundred events that lead to the overloading of our surface water systems (gullies) which results in widespread flooding and consequent damage to homes and businesses. Fluvial flooding as the most at risk London Borough.	Medium	5

*Risk number and associated Council Value as shown on the Corporate Risk Register, February 2022

Draft Annual Plan 2022/23

The Annual Internal Audit Plan for 2022/23 is presented in two parts: the three months of the year where we have identified a number of audits to be undertaken; and the remaining nine months where planning is more flexible. To achieve this, we have increased our engagement with Management Teams to:

- Become more involved in risk discussions throughout the year, to better understand the risk environment and alternative sources of assurance available;
- Firm up the scope and timing of the following quarter's audit work; and
- Identify other areas for internal audit involvement not yet considered in the Annual Audit Plan.

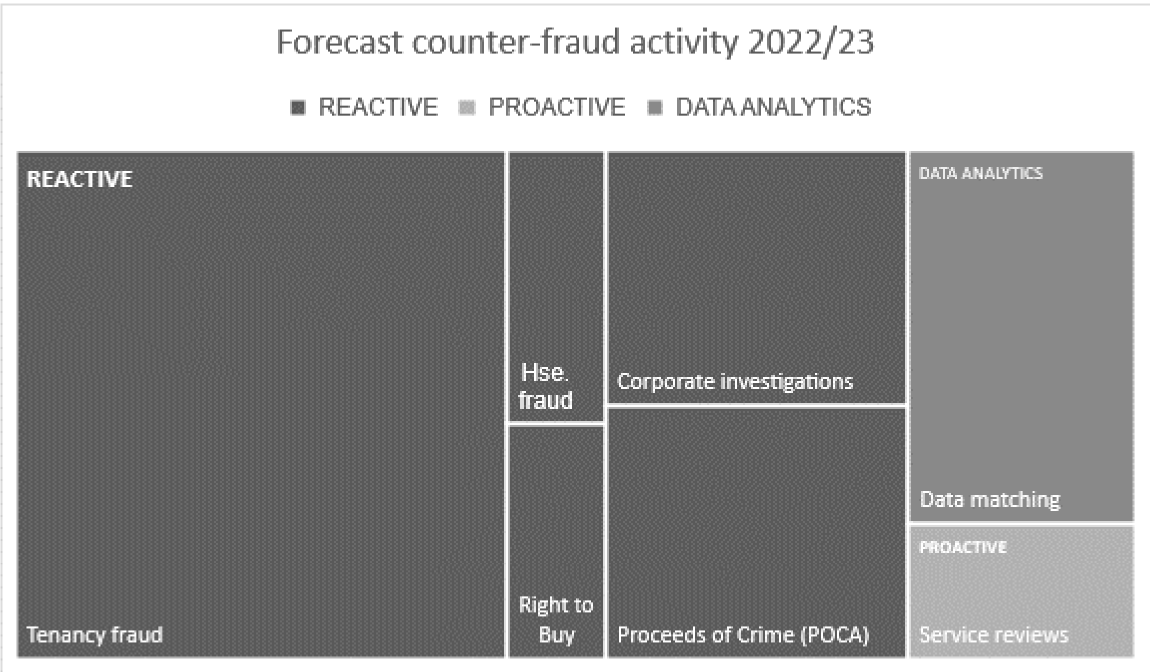
Where possible the Plan is aligned to the Council's risks and values, however, it should be noted that the Council's risks and priorities may change during the year and the Plan may be updated as appropriate.

The Plan will be presented to the Strategic Leadership Team and the Audit Committee at the start of the financial year and will then be presented every quarter. The delivery of the Plan helps to create a culture of accountability; ensures that risk management processes are embedded, and contributes to the Council's governance framework.

In addition, areas of fraud risk are evaluated by the Corporate Anti-Fraud Service (CAFS) and this information will be used to inform and focus some of the audit work planned, as well as identifying areas where pro-active exercises and data analytics can provide additional assurance that fraud risks are effectively managed.

<u>Corporate Anti-Fraud Service (CAFS) – Quarter 1 2022/23</u>

The work undertaken by the Corporate Anti-Fraud Service (CAFS) complements the work of Internal Audit and provides additional assurance to the Council that fraud risks are being managed effectively. Reactive and proactive work is planned during 2022/23 by CAFS in the following areas:



APPENDIX 2

Draft Internal Audit Plan – Quarter 1 2022/23

Department	Review	Potential Coverage	Risk*
Cross-Cutting	Key Financial /HR Controls (Q1 to Q4)	Annual testing programme.	n/a
Social Care	Disabled Facilities Grants (Advisory)	Quality of works, VfM.	20
Children's Services	New Placements Team (advisory)	Effectiveness of new ways of working	15
Children's Services	Supporting People Claims	Ongoing. Review and approval of claims for Supporting People funding.	16
Children's Services - Schools	Schools (3-4 of the 11 due for audit)	Financial control and governance review.	n/a
Finance	VAT (Q1 or Q2)	Deferred from 2021/22. General review.	19
Finance	Capitalisation of Works	Deferred from 2021/22.	19
Resources	Registrars	Cyclical review	n/a
Resources – Digital	IT Audit Needs Assessment	Identify key areas of risk and other forms of assurance.	3,4
Resources – Digital	Remote Working Resilience	Scope to be confirmed	3,4

Draft Internal Audit Plan – Quarters 2 to 4 2022/23

Department	Review	Potential Coverage	Risk*
Cross-Cutting	Governance & Compliance	Compliance with standards, may include: declarations of interest; gifts and hospitality; transparency data, etc.	Various
Cross-Cutting	Key Financial /HR Controls (Q1 to Q4)	Annual testing programme.	n/a
Cross-Cutting	Business Continuity	Deferred from 2021/22 – New BC system.	2, 3
Cross-Cutting	Programmes & Project Management	TBC	14,28
Cross-Cutting	Contract Management Framework	Deferred from 2021/22 – TBC	1, 6, 27
Social Care	Commissioning & Procurement	Scope to be confirmed.	1, 6,
Social Care	Mediquip Contract	Review of contractual arrangements & future provision.	1, 6
Social Care	Integrated Care Partnership	TBC	1, 6
Children's Services	Shared Services Governance (Q4)	Arrangements in place for services shared with other authorities.	6
Children's Services	SEND	TBC	5, 16
Children's Services	Climate Education Business Plan	TBC	26

APPENDIX 2

Department	Review	Potential Coverage	Risk*
Children's Services	Supporting People Claims	Ongoing. Review and approval of claims for Supporting People funding.	16
Children's Services - Schools	Schools (remainder of 11 due not completed in Q1)	Financial control and governance review.	n/a
Economy	Leaseholder Debt	Deferred from 2021/22. Accuracy, level and management of debt.	27
Economy	Health & Safety	Cyclical review due.	21
Economy	Cyclical review	TBC eg repairs, S20 etc	27
Economy	Efficiency Review	Scope to be discussed.	TBC
Economy	Development Board	New Development Board (regeneration). New process and strategy - compliance.	TBC
Economy	IHMS	TBC – following new system implementation	TBC
Economy	Neighbourhood CIL	TBC	TBC
Economy	Implementation of online version of iWorld	TBC	3
Environment	NNDR	Annual testing from 3-year rolling scope	3
Environment	Council Tax	Annual testing from 3-year rolling scope	3
Environment	Housing Benefits	Annual testing from 3-year rolling scope	3
Environment	Resident Experience and Access Programme (REAP) – Q2	Realisation (and measuring) of savings and benefits.	18
Environment	Hammersmith Bridge	TBC	22
Environment	FOIs, SARs, Members & MPs Enquiries	Deferred from 2021/22. Departmental management of requests.	18
Environment	Libraries	Cyclical review due	n/a
Cross-cutting	Risk Management (Q3)	Cyclical review due	various
Resources – People & Talent & Digital	Adaptive Tech	Review system for providing accessible software.	n/a
Resources – People & Talent	Pensions Administration	Identify assurances available and management of service delivery by new provider.	24
Resources	Mortuary	Cyclical review due	5
Resources	Right to Work (Advisory)	Manager compliance with centre led requirements.	5
Resources – Digital	Service Continuity Plans – Q4	Link between the business and IT on BC. See also audit on BC (cross-cutting).	2, 3

*High and medium risks, as identified in the Council's Corporate Risk Register (February 2022).

Agenda Item 7

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 15/03/2022

Subject: Risk Management Highlight Report

Report of: Director of Audit, Risk, Fraud and Insurance

SUMMARY

The purpose of this report is to provide members of the Audit Committee with an update on risk management across the Council.

RECOMMENDATION

1. For the Committee to review, note and comment on the report.

Wards Affected: None

H&F Values	**Summary of how this report aligns to the H&F Values**
• Building shared prosperity	*Good risk management helps to: maintain and promote the Council's reputation;*
• Creating a compassionate council	*Is an enabling tool to help protect residents and staff including some of the most vulnerable in society;*
• Doing things with local residents, not to them	*Place people, businesses and the wider community at the heart of everything we do;*
• Being ruthlessly financially efficient	*Ensure robust financial and information management and supports internal control, opportunity and innovation;*
• Taking pride in H&F	*Protect valuable assets and the built and natural environment.*
• Rising to the challenge of the climate and ecological emergency	*Enabling an approach to climate-sensitive decision making*

Financial Impact

The current and future context for local government represents a significant risk to the council with the ongoing challenge of delivering services and increased demand with reduced funding levels. This is further impacted by the coronavirus pandemic and wider economic factors leading to rising costs and inflation. This has seen the council incur additional expenditure whilst at the same time seeing reductions in the level of resources available through a combination of lower income levels and inherent pressures that existed prior to Covid-19 which must also be managed.

There are no specific financial implications arising from this report. Services are expected to manage their risks within current budgets. Where additional funds are required to mitigate or manage risks, separate decisions reports will be required for the approval of unbudgeted expenditure. The council holds a corporate contingency budget and adequate levels of reserves to enable it to manage unforeseen costs.

A standing corporate risk, Financial Management of in-year budget and Medium-Term Planning, identifies the risks to balancing the budget in response to continued government funding and demand pressures faced by the Council and the sector more generally and is assessed as high risk. The in-year position is reported in the Corporate Revenue Monitor to Cabinet and includes financial risks. Other corporate risks also identify financial pressures arising from demand and complexity of service provision which need to be managed.

Comments verified by Emily Hill, Director of Finance, 4 March 2022

Legal implications

There are no particular legal implications arising from this report.

Comments verified by Rhian Davies, Director of Resources, 4 March 2022

Background Papers Used in Preparing This Report

Risk Registers, reports to Children and Education Policy and Accountability Committee; Health Inclusion and Social Care Policy and Accountability Committee; Finance, Commercial Revenue and Contracts Policy and Accountability Committee.

DETAILED ANALYSIS

Background

1. To achieve the ambitions, outcomes and priorities set out in our Business Plan, it is essential that we continue to understand, manage and communicate the diverse range of risks and challenges that could threaten the organisation and vital services. Risks originate from a variety of sources, many of which are out of our direct control for example global events such as the coronavirus pandemic, the Russian invasion of Ukraine, Brexit, economic or market shocks, austerity or from climate change.

More localised incidents can impact on residents, individuals, services and infrastructure.

2. It is paramount that all risks are clearly identified, managed and reported through the relevant channel. Risks can never be eliminated entirely but proportionate and targeted action can be taken to reduce risks to an acceptable level. Furthermore, the work of the Council's Policy and Accountability Committees is acknowledged as a source of robust and additional assurance for the management of risk across its services.

3. Effective governance and management of risks are particularly significant as funding for local government has diminished authorities' objectives and are becoming increasingly fundamental and relate, for instance, to continuing to meet statutory service obligations. Arrangements must therefore be effective in a riskier, more time-pressured and less well-resourced context.

4. Local authorities are required to maintain a sound system of internal control, including risk management, internal audit, and whistleblowing arrangements. Risk management is the application of Council strategies, governance, policies and processes to identify and manage risks that are unacceptable to the Council. Managing risk processes effectively enables the Council to safeguard against potential threats and take advantage of potential opportunities to improve services whilst continuing to provide better value for money for residents, visitors, local businesses and service users.

5. The Council is accountable to the public for its performance and financial management. This means that the Council naturally has a low appetite for risk, however as financial challenges continue the Council will need to take carefully considered risks to develop new and innovative ways to deliver services, support communities and ensure the long-term wellbeing of communities is not impaired by decisions made in the short term. This makes good risk management essential.

6. As part of its governance arrangements, the Council's approach to risk management requires Directors, managers and staff, through their departmental Senior Management Teams, to:
    - identify risks;
    - assess the risk;
    - agree and take action to manage the risk; and
    - monitor, review and escalate risks.

7. The Council has robust risk management arrangements in place which feed into the Corporate Risk Register, which is set out in Appendix 1. This register contains the most significant cross-cutting risks that could impact on the outcomes that are set out in the Council's priorities. These risks can be internal or external facing.

8. Internal risks relate to the organisation itself and cover areas such as programmes, workforce, business continuity, safety or technology. External risks are those that can affect the local area, its people, communities, businesses and infrastructure where the Council often has a role, in partnership, to mitigate them.

9. Risks relating to the coronavirus pandemic remain under close review and the ongoing efforts to increase vaccination rates as well as promoting and encouraging uptake of the vaccine booster.

10. Officers are in the process of reviewing and assessing the impact of and implications for residents and the Council from the events unfolding in Ukraine. This includes ensuring that risks relating to the supply chain/contracts and cyber security are being appropriately and robustly mitigated and where support is needed for those residents with families in Ukraine and neighbouring countries.

11. This report provides the Committee with an updated Corporate Risk Register, presenting a suite of risks as reviewed by the Council's Strategic Leadership Team (SLT).

Changes since December

12. At its meeting on 2 March 2022, SLT Assurance reviewed the Corporate Risk Register and agreed a number of changes which are reflected in the updated Risk Register provided in Appendix 1.

13. No risks have had their rating increased since December. However, as noted above, officers are reviewing and assessing the impact of developments in Ukraine to consider where further entries to the Risk Register may be required. These will be reported to the Committee at the next meeting.

14. Four risk have had their rating reduced since December:

    - Risk 9 due to the mobilisation of reserve contractor, robust contract management arrangements continuing and the scoping and procurement of phase 1 capital works (including compliance works) being in progress.
    - Risk 13 due to the ongoing vaccine rollout and fall in Covid deaths as well as the reduction in the UK terror threat level.
    - Risk 20 due to the robust mitigation and tight financial controls in place which have contributed to the improved position as reflected in the monitoring reports and the plans in place to reduce the remaining (reduced) in-year overspend. However, it is recognised uncertainties remain around future funding and changes in national arrangements.
    - Risk 25 due to the ongoing vaccine rollout including close working with the NHS to focus on vaccinating the most vulnerable as well as communities with lowest uptake.

15. Three new risks have been added to the Register (see risks 29 to 31 in Appendix 1), relating to changes in contractual arrangements for waste disposal, potential changes to the Environment Act and the impact of severe weather on flooding in the borough.

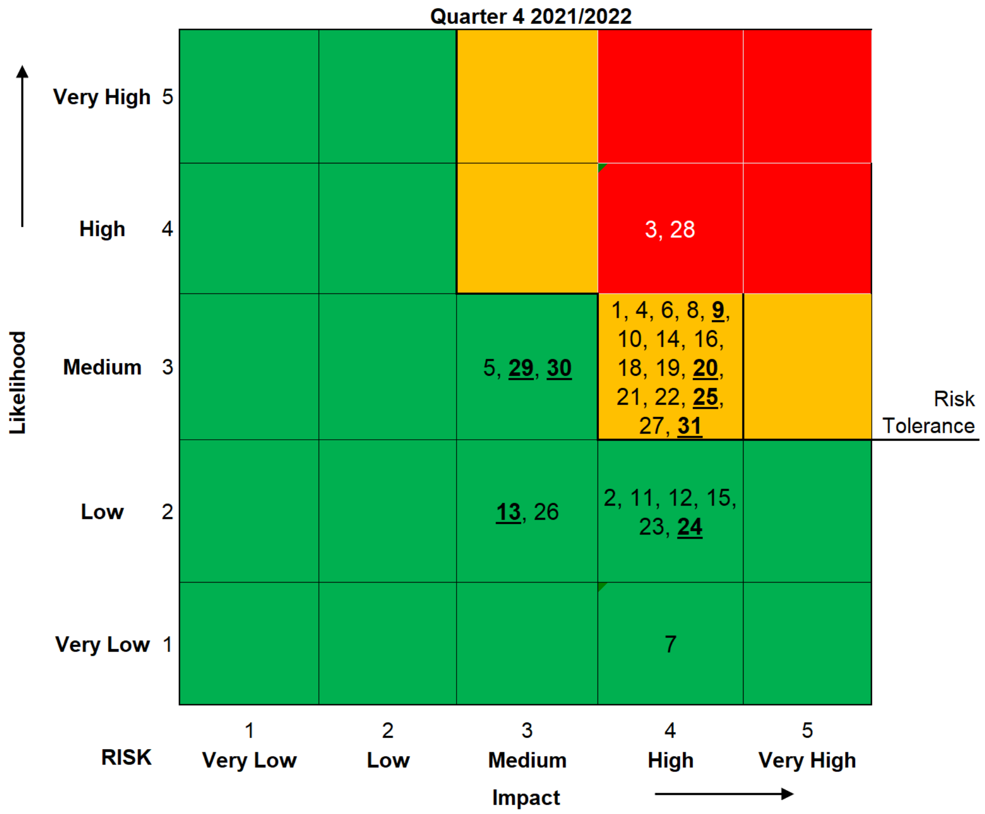
16. One risk (Risk 24) has been closed where the new Pensions Administration service commenced on 26 January 2022, data was successfully migrated from Surrey County Council to LPPA prior to the new service commencing and the first member payroll run was completed on schedule in February 2022.

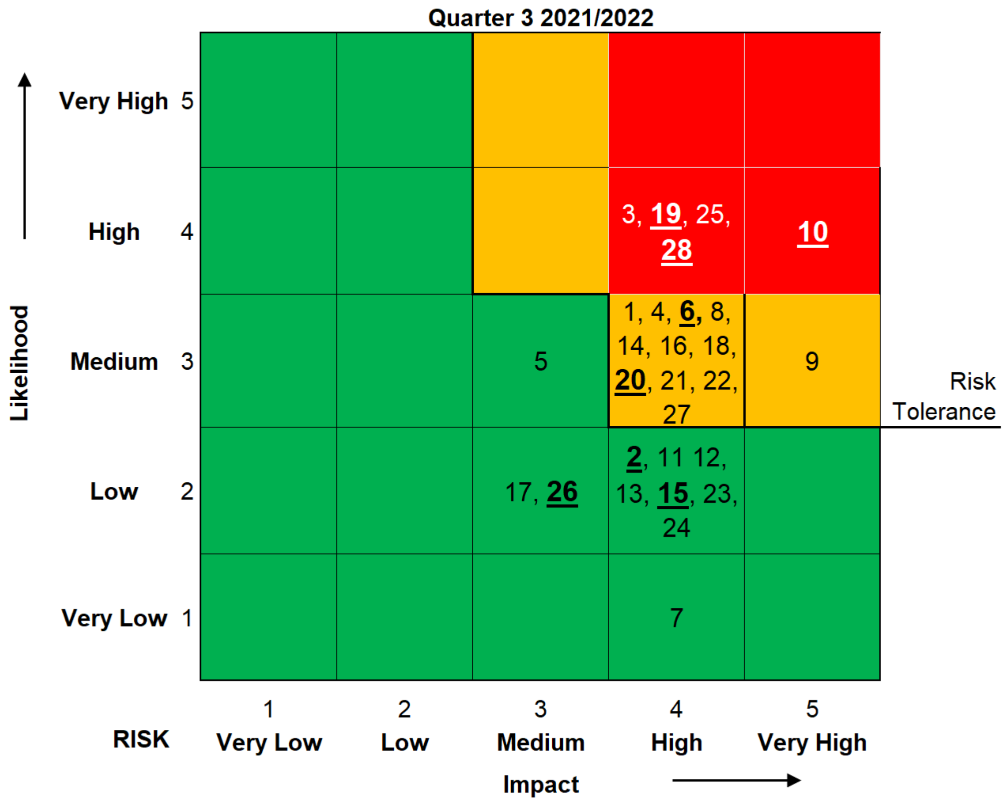
17. For one risk (Risk 6) separate mitigations have now been recorded for Children's Services and Adult Social Care relating to safeguarding arrangements and assurance relating to services delivered by external providers.

Corporate risk register – heat map

18. The Corporate Risk Register is set out in Appendix 1 and summarised in the following Heat Map as at Quarter 4 for 2021/22, with the Quarter 3 Heat Map provided for comparison. Risks which have been subject to change since the Quarter 3 Risk Register was reported to the Committee in December 2021 are shown in the larger bold underlined type:

OVERVIEW RISK HEAT MAP





Risk appetite

19. The Council remains accountable to the public for its performance and financial management. This means that the Council naturally has a low appetite for risk, however as the Covid-19 outbreak continued through a second successive wave the Council needed to take carefully considered risks and develop new and innovative ways to continue to deliver services, support and ensure the long-term wellbeing of communities is not impaired by decisions made in the short term. This makes good risk management essential.

20. This report provides assurance on the Council's corporate risk management arrangements, explaining the internal control arrangements in place at a strategic level. It provides one of the sources of assurance the Committee can consider when approving the Annual Governance Statement. It also enables the Committee to fulfil its roles under the Committee's Terms of Reference to review the adequacy of Council's Corporate Governance arrangements, including matters such as internal control and risk management.

Conclusions

21. Local authorities will continue to face significant pressures over the coming months responding to the ongoing coronavirus pandemic combined with financial pressures and the other concurrent demand led pressures. Council officers and services continue to respond with partners to changing circumstances at pace, interpreting and implementing new guidance and regulations as they arise.

LIST OF APPENDICES

Appendix 1 – Corporate Risk Register

Appendix 1 - Corporate Risk Register – March 2022

Priority	Risk	Risk No.	Q3 21/22 Likeli-hood	Q3 21/22 Impact	Q4 21/22 Likeli-hood	Q4 21/22 Impact	Current position	Residual Exposure	Status	Lead Director/ Risk Owner
Being ruthlessly financially efficient	Commercial, contract management and procurement risks, rules, outcomes, social value, management of spend and contractor performance management.	1	3	4	3	4	Work continues in support of the Ruthlessly Financially Efficient Action Plan. Atebios (Cardiff City Council) carried out a Peer review of the Council's operating model for Commissioning and Procurement and recommended that the Procurement function is centralised. Actions are now being taken to centralise the Service. The Corporate Procurement Team are reviewing contract expenditure and sample checks on goods receipting is taking place. The Contracts Assurance Board meets weekly, compliance with governance, legislation, the Council's Social Value Policy and RFE are reviewed.	M	Stable	Emily Hill
Being ruthlessly financially efficient	Failure to maintain services to residents in the even to significant events/incidents where business resilience risks (systems, processes, resources, IT) may be compromised.	2	2	4	2	4	The Council must remain vigilant and ensure business continuity plans are robust, particularly in the event of contractor failure or Public Health issue. All Service departments are required to review, and refresh plans periodically, including in respect of the Coronavirus pandemic and threat of an act of terrorism in London. Where services have updated continuity plans, they will be reviewed by the Emergency Planning Team. The recent alerts from the Cabinet Office and Public Health England had resulted in the risk levels being increased, although in February 2022 it was lowered from 'severe' to 'substantial'.	L	Stable	Sharon Lea
Being ruthlessly financially efficient	Failure to maintain services to residents in the event of IT systems being compromised and affecting service resilience.	3	4	4	4	4	The Council continues to monitor and mitigate external risks which may affect its IT systems, including attempts to breach our network through cyber-attacks, on-going security patching, the robustness of our supplier chain and overall disaster recovery provision. A report on cyber security arrangements was provided to the Committee in June 2021 and a report on ransomware to SLT in November 2021. Digital services has delivered Ransomware mitigation workshops October-December 2021 with service leads to provide advice and prompt consideration of alternative options actions to take in the event of IT systems being unavailable. This will both inform Digital Services' disaster recovery plans and assist services to update business continuity plans where appropriate. Services are currently participating in two internal audits on Ransomware and IT access management to ascertain its levels of assuredness and preparedness in those areas. The findings will be shared with SLT around April 2022.	H	Stable	Rhian Davies
Being ruthlessly financially efficient	Information management and digital continuity, regulations, legislation and compliance.	4	3	4	3	4	The nature of the Council's business activities means that there are ongoing information governance risks, including cyber security risks and IT network security, which continue to require careful management. These risks are managed through a range of organisational measures including Information Management (IM) & Information security (IS) mandatory training, maintenance of policies, guidance documents, standards, and codes of practice. The Council deploys technical measures to protect its network and infrastructure, including technical controls to prevent malware attacks, account compromises and risks associated with data transfers. The Council continues to monitor the regulatory environment to ensure continued compliance with information governance obligations. Digital services engaged with services across the council to update H&F's Information Asset Register May-September 2021. We are procuring a software solution in March 2022 to enable the continued maintenance of H&F's asset register leading to improved compliance with information assets laws and quicker identification, assessment and mitigation of information related risks. Digital Services has been recruiting to its new target operating model with a view to having an Information Security Manager in March/April 2022.	M	Stable	Rhian Davies
Creating a compassionate council	Managing statutory duties, equalities, human rights, duty of care regulations, highways. * Health and Safety moved to new Risk 32	5	3	3	3	3	The Chief Executive chairs the Statutory Accountabilities Board, whose membership includes the Monitoring Officer (Director of Resources), Section 151 Officer (Director of Finance), Director of Children's Services, Director of Social Care and Director of Public Health. The remit of the Board is to review and consider the Council's compliance with its statutory duties. The potential for ongoing changes in the regulatory environment post-Brexit are kept under review, with reporting taking place to SLT and Finance PAC.	M	Reduced	ALL SLT MEMBERS
Creating a compassionate council	i) Standards and delivery of care, protection of children and adults and associated data quality and information risks. ii) Reliance on external assurance providers and providers to identify and communicate issues arising from inspections e.g., Ofsted and Care Quality Commission	6	3	4	3	4	Children's Services The last Ofsted inspection of Children's Services were judged as 'Good' across all four areas. Post Ofsted inspection action planning continues and performance improvement activity is integral and BAU. Work is underway to develop a robust management infrastructure for the Education Service and prepare for the Local Area SEND inspection. Corporate BI is working alongside the service to develop a suite of operations, performance and finance reports to support continuous service improvement. Children's Placements receive regular intelligence directly from Ofsted and or regional partners on concerns and or judgements following regulatory inspections. This information is routinely cross checked against children we may have in Placement with external providers, and actions plans put in place where necessary to address and or mitigation concerns. The Placements team was disaggregated and brought back in house.	M	Stable	Jacqui McShannon/ Lisa Redfern

Appendix 1 - Corporate Risk Register – March 2022

Priority	Risk	Risk No.	Q3 21/22 Likeli-hood	Q3 21/22 Impact	Q4 21/22 Likeli-hood	Q4 21/22 Impact	Current position	Residual Exposure	Status	Lead Director/ Risk Owner
							The Council is partly reliant on the performance of external bodies, undertaking reviews of establishments and that all issues are communicated to them for action in a timely manner. An external inspection regime RAG rating monitor is included in the quarterly dashboard to SLT Assurance. <u>Adult Social Care:</u> ASC commissioning work closely with commissioned providers to manage risk through regular and focused contract monitoring meetings. For homecare providers, twice weekly SITREP meeting are held and commissioning in liaison with our Quality Assurance Lead also carry out regular visit to provider locations. Quality Leads focused on understanding home care provider systems and processes in order to suggest improvements have been assigned to each main homecare provider. For our main 4 residential care providers focussed monthly Joint Operational Group meetings involving the provider, health, GPs and H&F are held to support the entire health and social care system and hospital discharge pathway. Where providers evidence consistent poor performance contractual sanctions are considered and performance improvement plans put in place to support improvements and keep our residents safe. This feeds into discussions that take place at as monthly ASC Care Governance & Quality Assurance Board. The board meets to share, discuss and agree actions in relation to information received both internally and externally regarding providers of services. Further engagement with providers is evident through regular provider forums for key sub-categories, monthly newsletters to all providers from the AD for Commissioning & ASC Strategic Director. Our ASC Strategic Director also chairs a six-weekly CQC area leads meeting where all parties are keeping abreast on quality of care issues with regulated care providers.			
All Council Values	Decision making and maintaining reputation and service standards. Good Governance, conduct, external inspections.	7	1	4	1	4	*Governance and decision-making framework:* The Constitution and associated documents, including codes of conduct, are subject to regular review and approval by Members. SLT review corporate policies and strategies. *Staff training and induction:* Corporate induction training is provided to new starters, staff and for managers. Decision making training is being refreshed. Transformation, talent and inclusion maintain and provide a range of training activities covering HR policies. A range of training on other council policies is provided, including: Health and Safety, information security and data protection, fraud and corruption. *Organisational performance and programme management:* A quarterly performance dashboard monitor is prepared and presented to SLT Assurance and Members. A Programme Management Office and PMO framework are in place. The PMO provide monitoring and support to major programmes access the council and report to SLT. The Commercial Assurance Board undertake monitoring and endorsement authorisation of directly awarded contracts, and review compliance with governance and decision-making thresholds for procurement decisions.	L	Stable	Rhian Davies
Being ruthlessly financially efficient	Failure to identify and address internal and external fraud.	8	3	4	3	4	Policies are reviewed annually at Audit Committee. Refreshed Fraud Response Plan, Anti-Money Laundering and Bribery Policies have been reviewed and were presented to the Audit Committee in June 2021.The Council's Anti-Fraud and Corruption Strategy spans 2020-2023 and contains an action plan to provide SLT with a tool to ensure progress and transparency regarding counter-fraud activities. Performance is reported to both the Audit Committee and SLT to demonstrate how counter fraud work aligns with the Strategy and contributes to the Council's overall fraud resilience. Fraud Awareness training is available on the Learning Platform to all staff and a bespoke course was assigned to staff in the Social Care department. The Corporate Anti-Fraud Service has been available to support services impacted by COVID-19.	M	Stable	David Hughes

Appendix 1 - Corporate Risk Register – March 2022

Priority	Risk	Risk No.	Q3 21/22 Likeli-hood	Q3 21/22 Impact	Q4 21/22 Likeli-hood	Q4 21/22 Impact	Current position	Residual Exposure	Status	Lead Director/ Risk Owner
Taking Pride in Hammersmith & Fulham, Doing things with, not to residents	Failure to ensure compliance with the statutory duties to undertake inspection regimes covering management of asbestos, electrical testing, fire risk, plant and equipment, water testing/Legionella.	9	3	5	3	4	Overall compliance reporting of 73 buildings that Property and FM directly provides FM support to as well as a summary of its 6 legally required statutory compliance modules consisting of Fire Management; Electrical; Mechanical; Lift and Lifting Equipment; Occupational Health and Environmental and Energy Management covering in total of 35 workstreams carried out and managed by Property and FM. Housing stock remains compliant across key areas - gas, electrical safety, water, gas, asbestos etc – monthly rolling monitoring programme in place. Monthly Contract meetings remain in place with all contractors and reported to senior management teams. Annual review of repairs contract in train. United Living, repair contractor for largest lot, exited on 31 Oct 2021 and reserve contractor, Morgan Sindall in place. Working with Erith, asbestos removal contractor, for mutual exit, performance issues being monitored. Risk based assessment in place for 27 buildings over 18+ metres with combustible spandrels/infill panels. Data on DELTA for MHCLG. Works scoped and phase 1 in progress. Compliance based capital works, including fire door upgrades, sprinkler installation, dry riser installation etc continue. FRA works (7,000+) via DLO continue with estimated two-year completion date. Programme of lone working training & devices continues to be rolled out to officers.	M	Stable	Jonathan Pickstone
Taking Pride in Hammersmith & Fulham, Doing things with, not to residents	Co-ordination and response to calls on the Council for Mutual Aid in a crisis and emergency planning response	10	3	4	3	4	The UK Terror Threat Level has recently been raised to SEVERE meaning an attack is highly likely. This followed a terrorist attack outside a hospital in Liverpool and concerns about MP Safety following the murder of David Amess. Flooding remains a concern and the issue which may most likely result in mutual aid requests. A successful multi-agency MTFA exercise was held on 15th November 2021 and a multi-agency flooding exercise was held on 10th January 2022.	M	Increased	Sharon Lea
All Council Values	Framework and resourcing of change programmes e.g., Civic Campus, Hello Hybrid Future, new systems, not sufficient to ensure programmes are delivered.	11	2	4	2	4	Stable. Mechanisms in place to manage change through SLT, Department Management Teams (DMTs), programme/ project governance and teams, the PMO/BI service and project methodology. Collectively aim to ensure all major programmes do change well and managers support people well through change.	L	Stable	Emily Hill
All Council Values	Unable to retain talented people in key posts at LBHF.	12	2	4	2	4	The People Strategy implementation including the 'H&F Way' culture change movement, various staff networks and the Race Equality staff working groups are addressing the issues that most concern our workforce to improve our employer reputation and ability to retain talent. The People and Talent Team (in TTI) are leading on work to improve our Employer brand and Employer Value Proposition (pay and benefits). The Council is committed to staff wellbeing, learning and development and has delivered online wellbeing and learning and development events throughout the pandemic including World class managers, the H&F Academy (earn while you learn apprenticeships), Wellbeing Wednesdays, mental health first aiders, recruitment for hiring managers and a suite of manager essentials courses. Get Ahead and Apprenticeship schemes are making a difference. Workforce dashboards and KPIs are closely monitored. Attrition has fallen from 16% to 14% (rolling 12-month turnover) and RMB continues to closely monitor all recruitment requests and approvals. However, there are areas which remain difficult to recruit including: occupational therapists, planners, revenues and benefits, procurement, business intelligence, policy, environmental health and noise & nuisance officers, social workers and highways and transportation engineers.	L	Stable	Rhian Davies
Doing things with, not to residents	An event which triggers the Fulham Mortuary being designated as a disaster Mortuary	13	2	4	2	3	Designated Disaster Mortuary Plan has been reviewed and updated. Participated in the virtual H&F Borough Resilience Forum Terrorist Attack Exercise on 15 November 2021.	L	Stable	Rhian Davies
Doing things with, not to residents	Failure to deliver the Civic Campus Programme.	14	3	4	3	4	Governance arrangements are in place and now well established, assurance is provided through the Civic Campus Programme Delivery Board. The Board is currently reviewing its Terms of Reference, including membership, to ensure a more strategic focus, with detail being fed from a newly established Workplace and Workforce Transformation Group. Key programme milestones, workstream progress, budgets and risks and issues are reported to the Executive Board and to SLT Programme meetings. The status remains the same this quarter although progress is being made which should reduce the likelihood of this risk going into the next quarter. Agreement has been reached with Ardmore in relation to the increased cost to complete construction. The additional investment required was approved at Cabinet on 11 October 2021 and the key decision report which recommends entering into a Deed of Variation with Ardmore has been signed off by the Cabinet Member. There are ongoing negotiations in relation to revised Employers Requirements which will be appended to the deed which is now expected to be executed on 10 March 2022.	L	Stable	Jonathan Pickstone

Appendix 1 - Corporate Risk Register – March 2022

Priority	Risk	Risk No.	Q3 21/22 Likeli-hood	Q3 21/22 Impact	Q4 21/22 Likeli-hood	Q4 21/22 Impact	Current position	Residual Exposure	Status	Lead Director/ Risk Owner
Creating a compassionate council	Increase in the number of looked after children in the last 3 years creates budget pressures which are not able to be met to deliver the required services.	15	2	4	2	4	A strong focus on early intervention and intensive family support to enable children to live safely in their family or extended network has meant that we are starting to care for less of our children. Work to promote early permanence is supporting a reduction in the time children spend as cared for children. This includes the promoting and support packages for Special Guardianship. A proportion of our cared for children have turned 18 years old and pathways into secure housing have further strengthened during this period The total number of children in care was 246 at the end of the previous financial year. The total number has seen a general downward trend throughout this year, with a slight rise in August through to October, reducing again from November onwards. The rise reflected an increase in UASC presentations during that period, however the updated National Transfer Scheme is supporting a more equitable distribution of these responsibilities. The current total cohort as of February 2022 is 222, a total reduction of 24 children when compared with March 2021. As at month 6 of 2021/22 the Placements Budget is reporting an underspend of £1.1m. Based on the current trajectory the MTFS saving in 22/23 remains achievable. However, we are also considering contingencies as increasing need in respect of a small number of children in more specialist or intensive arrangements could lead to increase associated costs. Further, we continue to have a close eye on the impact of the pandemic and economic climate with vulnerability for increased family breakdown despite the strong interventions we have put in place. In addition to this, a fully integrated sovereign Children's Placements Team has strengthened arrangements with practitioners in the child's placement journey, ensuring we maintain our priority of placing children in family settings wherever possible. Improved processes within this team include negotiation with provider organisations, use of the Careplace system and procurement has also supported the underspend position.	L	Stable	Jacqui McShannon
Creating a compassionate council	High needs budget pressure continues, impacting on provision of services for vulnerable young residents.	16	3	4	3	4	In accordance with the RFE Priority, a High Needs Block (HNB) programme is in place with a focus on better outcomes for children. Monitoring is undertaken by the HNB Board, chaired by the Director of Children's Services and attended by key officers including the Director of Education, Director of Finance and PMO. Programme reports as amber hence the same assessment in this quarter. DSG monitoring at monthly SLT Finance as part of assurance reporting on major projects/ programmes and the position is reported to the Schools Forum. Following a successful negotiation, the council received additional High Needs Block Safety Valve funding in 2020/21 as part of an agreed action plan with the Department for Education (DfE). Quarterly monitoring is undertaken with the DfE as a condition of future years' funding. The risk factors, in part, are the extension of statutory responsibilities to the full 0 to 25 age range, rising demand for Education, Health and Care Plans and the impact of Covid.	M	Stable	Jacqui McShannon
All Council Values	Management of complaints, requests for information, members enquiries	18	3	4	3	4	Performance is stable overall excluding one service area where improvement plan is in place. Whilst there are still performance concerns, they are mainly in the area of complaints and relating to particular service areas rather than across the board. Regular reporting and controls are in place and action being taken to address areas of concern. LGSCO is satisfied with improvement trajectory and actions being taken. Main ongoing risk is with regard to Housing Ombudsman in relation to Repairs complaints. Quarter four risk has been reviewed but should be reviewed further if risk status for risk 27 in relation to Housing Repairs changes as this service is the main area of risk in relation to this area currently.	H	Stable	Sharon Lea
Being ruthlessly financially efficient	Financial Management - Medium-Term Planning.	19	3	4	3	4	Month 6 position, reports an in-year underspend of £2.7m following application of £4.9m of Covid-19 funding. Covid-19 continues to have an impact on income and expenditure and future restrictions and their impact and funding for Covid-19 is uncertainty. The Council is experiencing increased demand and costs, particularly in Social Care and concern remains that pent-up demand for services will result in additional cost pressures later in the year. In addition, there are significant risks of cost increases as a result of inflationary pressures in short and medium term. 2022/23 budget approved by Full Council. Whilst the Spending Review 2021 covered a 3-year period the Final Local Government Settlement provided only 1-year settlement for Local Government with the new Services Grant not subject to transitional protection and potentially subject to significant redistribution in 2023/24. A number of local government funding reforms expected in the medium term and the impact on the Council remains unclear. The continued financial uncertainty regarding government funding of local government beyond 2022/23 creates a significant challenge in terms of budget setting and medium-term financial planning and is a risk driver. Key risks relate to Social Care – separately identified below.	M	Revised	Emily Hill

Appendix 1 - Corporate Risk Register – March 2022

Priority	Risk	Risk No.	Q3 21/22 Likeli-hood	Q3 21/22 Impact	Q4 21/22 Likeli-hood	Q4 21/22 Impact	Current position	Residual Exposure	Status	Lead Director/ Risk Owner
Creating a compassionate council	Financial Management - in year budget 2021/2022 and Medium-Term Planning: Social Care	20	4	4	3	4	The Social Care budget forecast has improved with the position as at month 6 2021/22 of £1.3m overspend. However this is after the application of £1.3m Covid-19 funding and the forecast remains with many variable demands from the ongoing impact of Covid-19. This includes: 1) the impact of the Hospital discharges placed by the NHS and requiring reassessment of care which is leading to significantly higher costs in social care, in terms of the volume of care requests and the acuity of need; 2) the impact on the care market providers for on-going additional costs from Covid-19; and, 3) market instability following Covid-19. Robust mitigation and tight financial controls have contributed to the improved position and are in place to reduce the remaining in-year overspend. There is uncertainty and risk around the continuation of any Covid-19 funding and long term funding solutions for increased demand and complexity of demand in Social Care. The Social Care reform funding is expected only to meet the costs of new government proposals, rather than underlying pressures, and there are concerns that the funding may not be sufficient to fund the new requirements.	H	Reduced	Lisa Redfern
All Council values	Corporate management of Health and Safety	21	3	4	3	4	The health and safety board continues to meet every 8 weeks. Corporate health and safety report no HSE enforcement this quarter and for the previous quarter. KPIs for 2021 / 2022, agreed by APSC in June 2021 are on target: Fire safety policy review (to reflect new legislation); Coronavirus ongoing monitoring and provision of information to worker via IPC awareness (also see risk 37); review of H&S training; improvements to driver safety management; risk profiling to realign council to new ways of working; reduction of work-related stress; training and assessment for the home working environment. A deep-dive audit of water hygiene compliance in all council buildings has been completed in all areas has been completed. A rise in assaults and threats on staff is noted this quarter and a safer workforce task and finish group, instructed by the CEO to review personal safety and lone working, has completed its findings and has presented 8 recommendations for reducing violence and other unacceptable behaviour against staff. The delivery of these recommendations will be KPIs for FY 2022 2023. A strategic risk assessment for hybrid working (including wellbeing) has been presented and is being formatted to a RAG rating status for ease of reference. An external audit has been presented from Mazars. It gives a score of satisfactory assurance but recommends improvements in risk assessment record keeping, review as well as training in risk assessment methods across many areas of the council to achieve a corporate integrated approach. These recommendations will be priorities for the council in 2022 / 2023 and driven through the health and safety board with support from the corporate health and safety service. No change to risk rating	M	Stable	Jonathan Pickstone
Taking Pride in Hammersmith & Fulham, Doing things with, not to residents	Impact on the local economy and businesses from the closure of Hammersmith Bridge to pedestrians, road and river traffic.	22	3	4	3	4	Controls in place include: **CCSO** (Group of experts from LBHF officers/Xanta/Motts/WSP) Review monitoring data from the bridge on a continuous basis and continues to meet every two weeks. **Opening** Bridge reopened on 17th July after stress reports found that the temperature system and stress was being managed to such an extent that the risk was significantly reduced. Bridge opened up to pedestrians and cyclists. River traffic allowed to operate again under the bridge. **Sensors** 350 sensors on the bridge monitoring 24/7 with alerts of any changes to officers by text and emails. **Temperature Control System** – Operational managing chain temperatures to reduce stress on the structure. Sensors alert of any temperature issues outside permitted levels. Monitored 24/7. **Stabilisation -** Mott MacDonalds option has been selected**.** Design works underway and report authorising £6 million works has been approved and published. **Stabilisation works due to start during February 22 and be completed November 22.**	M	Stable	Sharon Lea
Doing things with, not to residents	Failure to progress safety improvement works on the Charecroft Estate.	23	2	4	2	4	As set out in the HRA 12 Year Asset Management Capital Strategy to Cabinet in Sept 2021, Charecroft Phase 1 is nearing completion: 98% fire Doors/Compartmentation complete. Lifts in two blocks complete and other started. Door Entry, LED Lighting and CCTV planned. Evac alarm approved to enable phased evacuation, Kier to install. Phase 2 works: Replacement windows and infill panels, Roofing, External/structural repairs and wet riser systems. Bailey Garner commissioned to oversee delivery.	L	Stable	Jonathan Pickstone
Being ruthlessly financially efficient	Failure to transfer the Pension Administration function to a new provider and ensure appropriate records are maintained and payments made.	24	2	4	**TO CLOSE**	**TO CLOSE**	An external review of the performance of our pension admin provider, Surrey County Council, led to a number of mitigating actions including – the creation of an in-house H&F pensions team and the appointment of a H&F Strategic Pensions Manager, the establishment of a pensions taskforce to oversee the change programme to move from Surrey CC to LPPA in Jan 2022, procurement of an external provider to support with correcting data gaps and a focus on improving performance standards. Regular updates are provided to the Pensions Fund Committee and the Pensions Board. The risk rating has therefore decreased but is monitored on a monthly basis by the	M	Reduced	Rhian Davies

Appendix 1 - Corporate Risk Register – March 2022

Priority	Risk	Risk No.	Q3 21/22 Likeli-hood	Q3 21/22 Impact	Q4 21/22 Likeli-hood	Q4 21/22 Impact	Current position	Residual Exposure	Status	Lead Director/ Risk Owner
							Pensions Taskforce. **Risk to be closed as the transfer to the new service took place on 26 January 2022, along with a successful migration of Member data from SCC to LPPA.**			
Creating a compassionate council	Coronavirus – spread of infectious disease, particularly affecting vulnerable groups of residents and workforce/ contractors providing front line services.	25	4	4	3	4	We have maximised efforts to work with the NHS, who lead the Covid vax programme. We have focussed on vaccinating the most vulnerable as well as communities with lowest uptake. We now follow the government guidance on opening up, as mitigations are reduced and we are back in Plan A. It is unclear what role LAs would play if there are new variants of concern, again we await the Cabinet office 'Living with Covid' strategy	H	Stable	Linda Jackson
Rising to the challenge of the climate and ecological emergency	Failure on the part of the Council to mobilise its response to the Climate Change emergency.	26	2	3	2	3	The Climate Emergency Unit is now in place, with initial posts recruited to. A climate strategy for a net zero borough by 2030 has been approved and adopted by Cabinet. The resident-led commission has now been replaced with a new Climate Strategy Implementation Group to increase scrutiny and deliver actions at pace. A detailed audit of the Council's carbon footprint is now an annual activity to track progress against our action plan and to provide a robust evidence base for costing and prioritising organisational carbon reduction activity. Quick win workstreams to influence emissions through policy have been progressed, including emissions-based policies on parking, council fleet, energy procurement, and wider procurement. Engagement has begun with local businesses and organisations to develop an H&F Climate Alliance, and H&F has been a leader in designing and implementing the UN's climate education programme. Recent flooding has expedited the need for a climate adaptation plan to prepare residents, businesses and the council for more extreme weather including heavy rainfall and heatwaves. Individuals, households and infrastructure will need to adapt and prepare for more of occurrences and the council has an important supporting role.	H	Reduced	Sharon Lea
Taking Pride in Hammersmith & Fulham, Doing things with, not to residents	Housing repairs performance -contractor failure (administration) given that there are a number of contractors providing repairs and maintenance. Repair system and contractor management not delivering performance are required levels.	27	3	4	3	4	There are robust contract provision for poor performing contractors. There is a regular monitoring of contractors' performance and financial health. There is a clear mechanism for recovery of costs in relation to contractor failure. We continue to build the in-house DLO capability and capacity with a focus on planned preventative maintenance. Although these measures would mitigate the disruption in the short term would be significant if a contractor went into administration. Four principles agreed (stabilise contract, isolate disrepair & stage 2, ownership, resident engagement). United Living exited. Reserve contractor mobilised. Service improvement plans, new KPIs, and additional resource for contractors and client agreed. Data insight and analytics. Audit to review systems thinking processes. PPM programme with DLO. £600 million investment over 12-year capital strategy. Improvement plans for Morgan Sindall and Mears. £350k penalties administered to date.	H	Stable	Jonathan Pickstone
Doing things with, not to residents	Civic Campus Energy centre may not be ready in time for handover and occupation in April 2023 which may impact the exit from decant accommodation	28	4	4	4	4	Utility diversions are currently delaying construction progress on new build Block B, where the Town Hall energy centre will be housed. Mitigation strategies are already being discussed including negotiations to minimise delays as much as possible; the use of an onsite temporary package plant until the energy centre is delivered; whether energy can be pulled from surrounding sub stations to meet Town Hall requirements in the meantime. Depending on outcomes to these discussions, a clearer way forward will be known next quarter but initially setting this as "high". Diversion works are expected to be completed by 1st April which will then support a handover of the Town Hall on 19th April 2023. The agreed temporary solution incorporates Air Source Heat Pumps and we are currently awaiting a feasibility report and design from Ardmore's subcontractor. The Council has its own expert advisor working with Ardmore on this to ensure its requirements are met. A further risk associated with the delays to the energy centre is the requirement for a boosted water supply for the life safety systems (sprinklers). There are additional mitigation strategies being formulated to address this issue.	H	Stable	Jonathan Pickstone
Being ruthlessly financially efficient, Rising to the challenge of the climate and	Changes to Western Riverside Waste Authority contracts or waste disposal arrangements that do not align with the Council's financial or climate priorities and potential missed	29	New	New	3	3	Work with WRWA and other WRWA boroughs to seek alignment of priorities and minimisation of waste along with achievement of carbon reduction commitments.	M	New	Sharon Lea

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ecological emergency	opportunities for improvements or savings as a result of the current governance and management arrangements.									
Being ruthlessly financially efficient, Rising to the challenge of the climate and ecological emergency	Failure to manage the requirements of the New Environmental Act which will change the way in which the Waste service operates and how it contributes to the Council's carbon zero commitment.	30	New	New	3	3	Work to feed into any further Defra consultation on potential changes. Likely and foreseeable changes are being factored into current waste service procurement, however there is little clarity on how the Act will be implemented at present until detailed regulations and guidance have been published.	M	New	Sharon Lea
Taking pride in Hammersmith and Fulham	Failure to manage the negative impact of flooding, due to adverse weather conditions, on residents and businesses. Consequences of the Climate Emergency. One in a hundred events that lead to the overloading our surface water systems (gullies) which results in widespread flooding and consequent damage to homes and businesses. Fluvial flooding as the most at risk London Borough.	31	New	New	3	4	Mitigations: 1. Tree management system allowing water to collect underneath the tree and slow release into the ground has been installed in Bloemfontein Road, Seagrave Road, Overstone and Gallaway Roads. 2. Countess Creek Project with Thames Water: 6 schemes to take away surface water completed. 3. White City Project working with G&P and Thames Water - to do a 'greening' of the whole area - similar to the Queen Caroline Street scheme, but in White City completed. 4. First City (Artificial) Tree in Hammersmith installed. 5. Working with IoTech to install air quality sensors in the SW6 Area. 6. Working with FM Conways to develop a pilot using the borough's street furniture to have a sensor network that picks up road condition, surface water, fly tipping and counts traffic.	M	New	Sharon Lea

Key

16-25	Red	High risk, immediate management action is required.
11-15	Amber	Medium risk, review controls for appropriateness and effectiveness
1-10	Green	Low risk, monitor and if escalates quickly check controls
	Blue	Opportunity risk

Likelihood and Impact Based on a 1 to 5 scale with 1 Very Low and 5 Very High, the Score then is automatically calculated by multiplying them together.

Help

Risk Description	Risk described in a language that articulates clearly what could go wrong or what opportunity could be achieved.
Residual Exposure	Extent of the risk once the controls are currently in place. This is known as the residual risk and is calculated by multiplying impact of risk and likelihood of occurrence.
Existing Controls	Not all risks can be managed, but those that can are managed using a variety of controls. The art of risk management is to apply controls that are effective and efficient in reducing the exposure.
Risk Owner	This is the person or team best positioned to manage the identified risk