London Borough of Hammersmith & Fulham

Audit Committee

Agenda

Tuesday 12 September 2023 at 7.00 pm

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

Watch the meeting live: youtube.com/hammersmithandfulham

MEMBERSHIP

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

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Corporate Services
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Web: www.lbhf.gov.uk/committees

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

Date Issued: 04 September 2023

Audit Committee
Agenda

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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 4 - 11

This item includes an appendix that contains exempt information. Discussion of the appendix will require passing the proposed resolution at the end of the agenda to exclude members of the public and press.

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

4. STATEMENT OF ACCOUNTS 2021/22, INCLUDING PENSION FUND ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT AND UPDATE ON 2020/21 ACCOUNTS AND 2022/23 EXTERNAL AUDIT 12 - 402

This report presents the London Borough of Hammersmith & Fulham's 2021/22 Statement of Accounts, including the Pension Fund Accounts and Annual Governance Statement for approval.

London Borough of Hammersmith & Fulham

Audit Committee

Minutes

Wednesday 26 July 2023

PRESENT

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

Other Councillor: Councillor Alexandra Sanderson (Cabinet Member for Children and Education)

Officers
Sharon Lea (Chief Executive)
Sukvinder Kalsi (Strategic Director of Finance) (attended remotely)
Jacqui McShannon (Strategic Director of Children's Services) (attended remotely)
David Hughes (Director of Audit, Fraud, Risk and Insurance)
Paul Neary (Head of Corporate Health and Safety)
Andy Hyatt (Head of Fraud)
Moira Mackie (Head of Internal Audit)
Jules Binney (Risk and Assurance Manager)
Ben Savage (Head of Information & DPO, Digital Services) (attended remotely)
Tina Akpogheneta (Interim Chief Digital Officer, Digital Services)
Debbie Yau (Committee Coordinator)

1. APOLOGIES FOR ABSENCE

There were no apologies for absence.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES OF THE PREVIOUS MEETING

The minutes of the previous meeting held on 13 March 2023 were agreed as an accurate record.

4. ANNUAL HEALTH AND SAFETY AT WORK REPORT FOR THE FINANCIAL YEAR 2022/2023

Paul Neary (Head of Corporate Health and Safety) presented the report on the Council's activities and performance in health and safety at work for the financial year 2022/2023. He said that no enforcement action had been taken against the

Council by the Health and Safety Executive (HSE) during 2022/2023 and there were no cases requiring further investigation.

In reply to Councillor Paul Alexander's question relating to the number of reporting of injuries, diseases and dangerous occurrence regulations (RIDDORs), Paul Neary advised that all of the nine RIDDORs reported to the HSE in 2022/23 were incidents of a minor nature.

Councillor Adrian Pascu-Tulbure asked if the lower number of safety incident reporting figures in the previous two years on Table 2 were due to lockdown. Paul Neary responded that following more employees and teams returning to work in the office, there were more incidents in 2022/23 and more anonymously reported cases after training than the two previous years.

On Councillor Pascu-Tulbure's further questions about training provided to the front-facing staff to prevent violence and aggression towards them, Paul Neary said that a conflict management training module had been produced, with dates of delivery to be set soon. As regards the action analysis of the Property and FM Statutory Compliance Report in Appendix B, Paul Neary said that the report, reflecting the overall compliance of the Council's 69 buildings, was a snapshot of circumstance on the 1st of every month, and these could go up and down on a daily basis.

Councillor Ashok Patel referred to holding his Councillor surgery alone at St Matthew Church Hall and expressed concerns about Councillor safety. Paul Neary noted that Corporate Health and Safety had carried out site risk assessments for all surgery locations, looking at security and suitability of the premises, including lighting, CCTV provision, and accessibility. Solo Assist Monitors had been provided to Councillors for use during surgeries. Councillor Alexandra Sanderson advised that, if necessary, arrangement could be made for councillors to conduct surgeries together to make sure no Councillor would be on their own.

The Chair noted that working from home was becoming more prevalent and enquired whether risk assessments and staff training were provided under the Hello Hybrid Future programme to avoid staff injuries. He also asked if homeworkers had requested adequate equipment. In response, Paul Neary referred to the display screen equipment training and self-assessment compliance completed by all staff working in the home environment. Staff could request equipment required for working from home through an online questionnaire.

Sharon Lea (Chief Executive) said that some of the Council's workforce were able to do hybrid working involving some home working while others due to their job nature could not perform duties from home and needed to be present in Borough. Staff were provided with a laptop for use at home or in the office, they received training, and engaged in development opportunities via teams or in person. She remarked that the health and safety of staff was a top priority for the Strategic Leadership Team, particularly for in person interactions under challenging circumstances involving confrontational or even violent expressions where enforcement activities were taking place. Hence, apart from staff training, the Council also sent messages to residents advising them to treat Council staff with respect.

RESOLVED
That the Committee noted the health and safety at work performance of the council during the financial year 2022/2023.

5. CORPORATE ANTI-FRAUD SERVICE END OF YEAR REPORT - 1 APRIL 2022 TO 31 MARCH 2023

Andy Hyatt (Head of Fraud) presented the report which provided an account of fraud-related activities during 2022/23 to minimise the risk of fraud, bribery and corruption occurring within and against the Council. He highlighted the following:

- The Corporate Anti-Fraud Service (CAFS) identified 154 positive outcomes with a total notional value of over £857,000, recovering 36 properties by detecting the tenancy fraud (Council and registered providers). CAFS was able to recover 14 more properties than last year by focusing resources on detecting tenancy fraud;
- The ongoing lack of affordable housing and the cost-of-living crisis meant individuals taking more risk than before to look for additional income from subletting or via moonlighting (working at a second job) which, though still rare due to effective controls in place, was on the rise. The two cases reported had come to light due to the effective operation of management controls; and
- The Council's Anti-Fraud & Corruption Strategy covering 2020/23 was based on five key themes: i) Govern, ii) Acknowledge, iii) Prevent, iv) Pursue and v) Protect.

Councillor Paul Alexander noted that under some tenancy fraud, the original tenant who signed the tenancy agreement was not a resident in the property. Andy Hyatt echoed his observations that of the 36 property recoveries, some were unlawful sublets while others were abandonment (where the original tenant no longer lived in the property and there were suspicions of unlawful subletting). He also noted that in 9 out of 10 cases, the sub-tenant and the original tenant had used the same address to apply for housing benefits or the Council Tax Relief Scheme, hence alerting officers to investigate further. Andy Hyatt advised that local authorities no longer had a jurisdiction over housing benefit fraud which was controlled by the Department for Work and Pensions (DWP) but could still consider issues relating to fraud under the Council Tax Relief Scheme.

Councillor Florian Chevoppe-Verdier welcomed the report which brought about more positive outcomes than the past years. He was keen to find out whether the Council was investing more to get greater returns. Andy Hyatt said that in arriving the aforesaid notional value, the Council’s actual spending in housing a family’s temporary accommodation was taken into account, instead of adopting the cost of buying a new unit which was ever-increasing. On staff cost, Andy Hyatt noted that the cost of his team was in the region of half a million per year. He highlighted the resource-intensive investigative work, with staff working in pairs at odd hours in order to track down unlawful sublettings. David Hughes (Director of Audit, Fraud, Risk and Insurance) noted that of the 36 recoveries, 24 involved the return of keys which was a much quicker and cheaper process to re-possess the unit for reallocation without the need for lengthy and costly legal action.

Councillor Chevoppe-Verdier asked about the working mechanism of the London FraudHub. Andy Hyatt noted that the London FraudHub is a data matching exercise. The Council used that data in a range of areas, for example, to detect fraudulent moonlighting. In another example, following the monthly upload of DWP's deceased list onto the Hub, the Council was able to recover properties whose former tenants had passed away without the Council being notified. Andy Hyatt highlighted that work was underway to take all Council data into one place for use by all the departments across the Council. For example, an applicant on the waiting list for social housing might be found out by this internal system having had a property already.

Responding to Councillor Chevoppe-Verdier's enquiry, Andy Hyatt noted that mobile phone and email addresses were useful tools in combating frauds via data-matching and IP address checks. The initial matching helped CAFS move forward in the investigations.

Noting two instances of "moonlighting" were identified, the Chair asked if they involved the same employment agency. Andy Hyatt said no and noted that one instance was tracked down by data-matching against the Council's payroll. He added that sometimes, consultancy staff used limited companies to receive wages making it hard to detect anomalies. The Council had also matched payroll data to Companies House.

On the Chair's further enquiry about the Council's whistleblowing policy, Sharon Lea (Chief Executive) noted that the Council's whistleblowing policy continued to be the primary support route for staff reporting concerns. The Monitoring Officer had also encouraged all staff members to report any relevant issues anonymously.

In reply to Councillor Adrian Pascu-Tulbure's question, Andy Hyatt noted that there were 46 and 42 identified fraud cases of the Business Grants and Interruption Fund (COVID support) in 2021 and 2022 respectively.

Noting that the notional value of 5 Right to Buy frauds proved cases amounted to a notional value of £133,200, Councillor Ashok Patel sought an account for this and the number of prosecutions involved. Andy Hyatt remarked that fraud-related activities were undertaken to intervene, deter and disrupt fraud. He said it was prudent to keep the notional values of frauds identified at a realistic level. The values were determined by the information and evidence provided by the individuals concerned and if applicable, the value of any property recovered, discounting the administrative and ongoing staff costs. He hoped the figures reflected a genuine saving for the Council.

Andy Hyatt confirmed there had been no prosecutions in the last year due to the lag from the pandemic. Nevertheless, the service had a large number of cases in the pipeline with legal services. On cost incurred, Andy Hyatt noted that the valuation of the property for Right to Buy cases, was payable by the Council.

Councillor Patel noted the case description in Appendix 1 and expressed concern that some tenants were staying abroad while their properties were being repossessed by the Council. Andy Hyatt explained that these tenants were not going abroad for a short time, evidence showed that they had left the country for a long period of time and had no intention of coming back. He assured that the CAFS did not receive any complaints from the tenants in the process.

Addressing Councillor Chevoppe-Verdier's concerns, Andy Hyatt said that the innocent sub-tenant in the repossessed property would be given a grace period to move out and provided with housing solutions services.

Councillor Alexander quoted two scenarios relating to succession and assignment of tenancies. Andy Hyatt referred to the criteria of tenancy succession and said the Council could trace whether the claimant had resided with the late tenant for 12 months before death. Assignment, on the other hand, was harder to verify and housing colleagues would ask a number of questions during investigations. Addressing Councillor Alexander's further concerns, Andy Hyatt said that the Council, in implementing a succession policy, sought to protect the community and its own stock, while recognising the housing associations in the borough had their own succession criteria which might differ to the Council's.

RESOLVED
That the Committee noted the report.

6. <u>RISK MANAGEMENT UPDATE</u>

David Hughes (Director of Audit, Fraud, Risk and Insurance) introduced his new colleague, Jules Binney (Risk and Assurance Manager) who briefed members on his background and private sector experience in risk and assurance. Then, David Hughes presented the report which provided members with an update on risk management across the Council, including the Corporate Risk Register (CRR) set out in Appendix 1.

Councillor Ashok Patel asked about the initial cost involved due to "Failure to deliver the Civic Campus Programme" (CRR #14). Sharon Lea (Chief Executive) advised that the additional cost was not known yet because discussions with the contractor involving commercially sensitive matters were still underway.

On Councillor Patel's further enquiry about "Unable to retain talented people in key posts at LBHF" (CRR #12), David Hughes noted that London boroughs relied heavily on agency workers in job areas like social care and planning as these professional roles were difficult to recruit and retain. While all London boroughs were facing similar challenges, H&F's retention and turnover rates were stable, as the People and Talent team continued to lead on activities to attract and retain staff. The Council was committed to developing existing staff. Sharon Lea added that it was easy for employees to move around among the 32 London boroughs, but she was impressed with the significant number of H&F staff receiving the Long Service Awards between 20 to 40 years.

Councillor Florian Chevoppe-Verdier appreciated the authority keeping the CRR with granular details. He observed that following Brexit, the country was building up its skilled labour market locally. Echoing his observation, David Hughes cited the field of social care as an example whereby smaller local providers offering smaller contracts helped stimulate market resilience. The successful apprenticeship programme in H&F also helped sustain the ageing workforce by attracting and retaining new talents. Sharon Lea remarked that new staff were encouraged to move through the ranks via the Get Ahead Programme. H&F also encouraged gender and ethnic diversity amongst colleagues for the Council to benefit from the best from a mixed team.

Councillor Paul Alexander referred to the experience of some tenants on their request for downsizing from 2-bed to 1-bed between the Council and housing associations' units. Sometimes, the process took 3 to 4 months to complete or the request record was purged after 6 months and had to re-start again. He called for streamlining the transfer system so that the 2-bed could be released earlier for reallocation. Sharon Lea said that the Council supported tenants to downsize and undertook to look into the matter and revert with more updated information.

ACTION: Sharon Lea / David Hughes

Councillor Adrian Pascu-Tulbure noted performance concerns persisted with regard to completion of repairs and resolving complaints which had aroused the attention of both the Housing Ombudsman and Social Housing Regulator. Sharon Lea responded that the Council had achieved good results in key standards, decent homes standards such as fire, gas and electricity monitoring etc. However, the Council had regrettably received a number of Ombudsman judgments of severe maladministration, the majority of which were triggered during the pandemic in 2021. Having analysed them, the relevant teams had drawn lessons from the issues involved and were determined to change the processes, put more contractor capacity in place, improve complaint handling, and enhance staff training.

As regards Councillor Pascu-Tulbure's concern about the closure of Hammersmith Bridge, Sharon Lea advised that stabilisation work of the Bridge was expected to conclude in the early Autumn. The next step was to discuss with the Department for Transport and Transport for London on reviewing the business plan for the refurbishment of the bridge under the tripartite arrangements.

RESOLVED
That the Committee noted the report.

7. HEAD OF INTERNAL AUDIT ANNUAL REPORT 2022/23

Moira Mackie (Head of Internal Audit) introduced the report which summarised the work of Internal Audit in 2022/23 and provided the opinion of the Director of Audit, Fraud, Risk and Insurance on the adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion was used to support the Council's Annual Governance Statement. The report also set out a consistent level of assurance being obtained and provided for 2022/23 through the work of internal audit, including Limited Assurance reviews for a few areas with a total of 5 audits, and five Substantial Assurance reviews involving three schools.

Councillor Ashok Patel asked why the percentage of audits receiving a positive assurance opinion had dropped from 91% in 2021/22 to 86% in 2022/23. David Hughes (Director of Audit, Fraud, Risk and Insurance) assured that the systems of internal control were effective and the audits undertaken received a consistent positive assurance opinion. He said that the small fluctuation was just denoting that two areas, ie. tenant service charges and disrepair legal claims, were at higher risk.

Addressing Councillor Patel's further question relating to Old Oak Primary (2021/22), David Hughes and Moira Mackle recalled that at the March Committee meeting, 4 high priority recommendations were made for the school. The school had agreed to take corresponding actions and there had been a lot of changes going on. However, as evidence could not be provided during this period, follow up on the recommendations would be carried out in Autumn. That was why the high priority recommendations remained as 4.

RESOLVED
That the Committee noted the Head of Internal Audit's opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control environment.

8. <u>CYBER SECURITY UPDATE</u>

Tina Akpogheneta (Interim Chief Digital Officer, Digital Services) introduced that the report provided an update on Hammersmith & Fulham's cyber-security readiness.

Exclusion of the public and press

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

The Committee held further discussions in private session.

RESOLVED
That the Committee noted the report, including the exempt Appendix 1.

9. <u>DATES OF FUTURE MEETINGS</u>

The following dates of future meetings were noted:

- 12 September 2023
- 27 November 2023
- 11 March 2024

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

Please see Item 8.

Meeting started: 7.00 pm
Meeting ended: 9.15 pm

Chair ....

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Agenda Item 4

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 12/09/2023

Subject: Statement of Accounts 2021/22, including Pension Fund Accounts and Annual Governance Statement and update on 2020/21 Accounts and 2022/23 External Audit.

Report Author: Christopher Harris – Head of Corporate Accountancy, Systems and Tax

Responsible Director: Sukvinder Kalsi, Director of Finance

SUMMARY

This report presents the London Borough of Hammersmith & Fulham's 2021/22 Statement of Accounts, including the Pension Fund Accounts and Annual Governance Statement for approval.

RECOMMENDATIONS

1. To approve the 2021/22 Annual Governance Statement which is included in the Statement of Accounts (Appendix 1).

2. To approve the Statement of Accounts for 2021/22, including the Pension Fund Accounts (Appendix 1).

3. 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).

4. To approve the 2021/22 management representation letters (Appendices 3 and 4).

5. To approve the Pension Fund Annual Report 2021/22 (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, 2, 3, 4 and 5 which may be required as part of the completion of the audit work.

8. To note the supplementary updates on the conclusion of the audit of the 2020/21 accounts and publication of the draft 2022/23 accounts and associated appendices.

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 financial 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 2021/22

1. The 2021/22 Statement of Accounts, for approval by the Audit 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 2021/22.

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. 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.

Supplementary update - 2020/21 Audit

12. The external auditor issued an unqualified opinion on the 2020/21 Accounts on 26 May 2023. These accounts had previously been approved the Audit Committee and there are no material differences to report between the previous Committee version and the final accounts.

13. The external auditor has issued their final audit findings report in respect of the 2020/21 financial years. Again, there are no significant changes to report between this final version and the version previously presented to committee. For completeness the final 2020/21 audit findings report has been included at appendix 6.

14. Final audit certification of the 2020/21 year – the process by which that year's audit is formally closed - remains subject to the conclusion of audit work in respect of the national Whole of Government Accounts (WGA) exercise.

Supplementary update - 2022/23 Draft Accounts

15. The draft 2022/23 accounts have now been published and are available for review on the Council's website here:

    https://www.lbhf.gov.uk/sites/default/files/section_attachments/unaudited-statement-of-accounts-2022-23.pdf

16. An update on the audit plan for 2022/23 is included elsewhere on the agenda.

LIST OF APPENDICES:

STATEMENT OF ACCOUNTS
2021/22

Draft subject to final audit opinion and certification

Hammersmith & Fulham Council

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CONTENTS

The Director of Finance’s Narrative Report, the Council's Statement of Accounts for the Year Ended 31 March 2022 and the Council's Annual Governance Statement are set out on the following pages.

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

Audit report, opinion and certificate to follow with final version of the 2021/22 accounts.

CERTIFICATION BY CHAIR OF THE AUDIT COMMITTEE

Certificate to follow pending Committee approval of final 2021/22 accounts.

THE DIRECTOR OF FINANCE'S NARRATIVE REPORT

Introduction from the Director of Finance

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. Over the past decade the national public finances have been under pressure and the austerity agenda has triggered unprecedented funding cuts while at the same time demand for our services has increased. The Council has seen an overall reduction of government funding of £57m during the period 2010/11 to 2022/23 - a real terms funding cut of 54%.

The pandemic continued to impact on the Council and residents during 2021/22 with the country also facing an emergent cost of living crisis. These challenges reinforce the importance of finding ever more efficient ways to make our resources go further.

The Council's continued focus on financial resilience, embedded through the medium-term financial strategy and programme to deliver savings has enabled it to mitigate against the financial challenges and manage the financial resources effectively. There was a net underspend of £6.7m on the General Fund (this will be added to overall reserves), the HRA used only £2m from reserves compared to an expected £4.3m and more than 80% of the capital investment was delivered.

The earmarked reserves continue to be strong at £158m (after taking into account temporary timing grant adjustments relating to business rate reliefs for the pandemic).

Looking ahead to 2022/23, the approved budget provides for a council tax freeze and no increase in the adult social care levy. Further measures are included to strengthen the Council's future financial resilience by contributing one-off resources of £2.9m to reserves and general balances. A further one-off contingency of £1.5m has also been set aside to meet potential pandemic funding pressures and a further £0.5m has been added to the unallocated contingency.

Since the 2022/23 budget was set there has been a sharp increase in inflation. This financial challenge combined with other world-wide issues will present major concerns during the next 24 months.

The Council will continue to act prudently to maintain adequate levels of one-off reserves to manage financial risk and to maintain the investment to deliver the Council priorities and complete the Building Homes and Communities Programme and the major Regeneration Schemes including Civic Campus. The Council will continue to deliver services in line with the six values and especially being 'ruthlessly financially efficient'.

Priorities and Performance

The Council has established 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

The Council is updating the Corporate Plan and Business Objectives and performance is robustly monitored at a corporate, departmental and service level and reported to the Strategic Leadership Team (SLT) and Cabinet.

Organisational Overview and External Environment

As a unitary authority Hammersmith & Fulham has responsibility for the delivery of a broad range of services including:

- Adult Social Care
- Children Services
- Collection of Revenues (Council Tax and Business Rates)
- Social and Affordable Housing and Homelessness
- Economic Regeneration and Development
- Welfare Benefits Administration
- Community Services (Libraries, Parks, Leisure Centres)
- Planning and Building Control
- Public Health
- Regulatory Services (Trading Standards, Food Safety, Environment Health, HMOs)

- Highways and Transport
- Waste Management and Recycling

Additional details of our services are available on our website.

Governance

The Council operates the Leader/Cabinet system with 50 councillors in total representing 21 Wards. The Council's governance arrangements are explained in detail in the Annual Governance Statement (AGS) and this is published as part of these financial statements. 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 residents. 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 2021/22 financial year was as follows:

Chief Executive	Kim Smith
Strategic Director of Economy	Jonathan Pickstone
Strategic Director of Environment	Sharon Lea
Director of Social Care	Lisa Redfern
Director of Resources	Rhian Davies
Director of Children's Services	Jacqui McShannon
Director of Finance	Emily Hill

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 2,271 people in full time and part-time contracts (excluding schools). The workforce generally reflects the diversity of residents across the Borough. The table below sets out a Departmental breakdown of the Council's employees by gender, age, disability and ethnicity.

Gender

Department	Female Employees	Female Employees %	Male Employees	Male Employees %
Social Care	170	68.5%	78	31.5%
Children's Services	319	79.2%	84	20.8%
Finance	81	53.6%	70	46.4%
Resources	116	60.4%	76	39.6%
The Economy	309	47.1%	347	52.9%
The Environment	289	46.5%	332	53.5%
Grand Total	1284	56.5%	987	43.5%

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

Age Group	Social Care	Children Services	Finance	Resources	Economy	Environment
<20	-	-	-	-	-	0.3%
20-24	3%	2%	5%	4%	2%	3%
25-29	4%	10%	9%	8%	10%	5%
30-34	7%	15%	13%	7%	10%	6%
35-39	11%	14%	8%	13%	12%	9%
40-44	13%	14%	14%	11%	13%	13%
45-49	14%	11%	9%	12%	10%	11%
50-54	15%	14%	14%	14%	13%	17%
55-59	15%	9%	19%	17%	14%	18%
60-64	17%	9%	9%	13%	13%	15%
>65	2%	1%	1%	2%	4%	3%
Grand Total	100%	100%	100%	100%	100%	100%

Disability

Disability	Social Care	Children Services	Finance	Resources	Economy	Environment
Disabled	6%	6%	7%	6%	7%	5%
Non-disabled	94%	94%	93%	94%	93%	95%
Grand Total	100%	100%	100%	100%	100%	100%

Ethnicity

Ethnicity	Social Care	Children Services	Finance	Resources	Economy	Environment
Asian	4%	6%	11%	14%	7%	12%
Black	31%	23%	21%	23%	22%	26%
Mixed	5%	6%	5%	5%	5%	7%
No data provided	11%	18%	15%	9%	12%	7%
Other	1%	1%	4%	2%	2%	1%
Prefer not to say	2%	1%	3%	2%	13%	1%
White	45%	45%	42%	46%	40%	45%
Grand Total	100%	100%	100%	100%	100%	100%

Risks and Opportunities

The Council's risk management framework involves an ongoing process to identify the risks to our policies, aims and objectives and to prioritise them according to likelihood and impact. 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.

LBHF Risk Register

The Council's key risks are summarised below:

Highest-Level Risks	Impact and Mitigation
Financial Sustainability	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. In addition, there are significant risks of cost increases as a result of inflationary pressures in short and medium term and these will be monitored throughout the year. The Council has a MTFS and the Budget for 2022/23 was approved by Full Council.
High needs budget pressure continues, impacting on provision of services for vulnerable young residents	The Early Intervention offers have launched although some were delayed due to various reasons, including recruitment challenges and school pressures as a result of COVID outbreak responses. The infrastructure has been established to monitor the impact of these services. The SEND Transformation programme is monitored via fortnightly Working Groups and programme updates to the High Needs Block Board which is chaired by the Director of Children's Services and membership includes the Director of Finance (S151 Officer). Progress is monitored at both meetings and a risk register is in place to actively monitor the risks.
Failure to maintain services to residents in the event of IT systems being compromised and affecting service resilience	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 against a backdrop of increasing costs. Digital services held 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. Internal Audit continue to provide assurance in this area.

Highest-Level Risks	Impact and Mitigation
Delivering the Civic Campus Programme in a timely way.	Assurance is now provided through the more strategic Civic Campus Executive Board (CCB), the Civic Campus Design Board and the Civic Campus Working Group (CCWG). The CCB will provide a steer to the operational leads where required. Key programme milestones, workstream progress, budgets and risks and issues continue to be reported to the Executive Board and to SLT Programme meetings.
Spread of infectious disease, particularly affecting vulnerable groups of residents and workforce/ contractors providing front line services	Since the government have lifted restrictions, testing has now stopped. Vaccinations continue to be offered via pop ups and pharmacies. Restrictions have been lifted in all office areas, with staff being advised to stay at home if feeling unwell. All departments are now working through recovery, if not back to BAU. We will however, continue to monitor the data and stand back up response if required.
Commercial, contract management and procurement risks, rules, outcomes, social value, management of spend and contractor performance management.	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

Opportunities

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 effect of the pandemic and the cost-of-living crisis 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 and as a result, 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 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 **Building Homes and Communities Programme** 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 land for housing. The Council also has London Plan commitments to deliver new housing.

The Cabinet approved the Council's **HRA Asset Management Compliance Strategy and Capital Programme** in July 2019. 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.

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 during the last 12 to 18 months are set out below:

- launched “Zipcar Flex”, a new flexible car club in the borough in association with Zipcar
- installed the largest concentration of air quality monitors (AQMs) anywhere in Europe.
- introduced a range of new, free cycle training sessions which were launched to help promote bicycle usage in the Borough.
- 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.
- 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 part of 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 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

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. In brief, the 2021/22 budgets included:

- Investment of £7.9m to meet the costs of statutory obligations, demographic, service and demand pressures and key resident priorities
- Savings of £6.9m 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 £1.1m to general balances and setting aside an additional one-off contingency of £1.1m regarding Covid-19 financial pressures

This resulted in a gross budget of £584m (net revenue budget requirement of £124.5m) funded from council tax, the local share of business rates and revenue support grant from government.

The 2021/22 Budget Strategy recognised that the pandemic had heightened the financial risks facing the Council and recommended that the range for the optimal level of general balances be increased to between £19m-£25m. The actual general balances carried forward at the end of 2021/22 were £20.4m.

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 2021-25 capital programme included:

- A housing and regeneration programme of £373m
- 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 2021/22 shows a year end underspend of £6.7m. At the end of the year, the General Fund Balance stands at £20.4m and earmarked reserves at £158m.

The Draft Statement of Accounts for 2021/22 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	58.3	58.2	(0.1)
Children's Services	56.7	55.8	(0.9)
The Economy Department	(5.3)	(6.6)	(1.3)
The Environment Department	78.4	78.3	(0.1)
Controlled Parking Account	(25.4)	(28.8)	(3.4)
Finance	2.1	1.5	(0.6)
Resources	9.0	8.9	(0.1)
Centrally Managed Budgets (including unallocated contingency)	17.9	17.6	(0.3)
Gross Operating Expenditure	**191.7**	**184.9**	**(6.7)**
Technical and Financial Accounting Adjustments	8.3	8.3	-
Non-Ring-fenced Revenue Grants and Capital Grants	(44.9)	(44.9)	-
Net Contribution (to)/from Earmarked Reserves	(20.2)	(20.2)	-
Total Net Expenditure	**134.9**	**128.2**	**(6.7)**
Funded by:			
Localised Business Rates	(68.4)	(68.4)	-
Council Tax	(67.6)	(67.6)	-
Total Funding	**(136.0)**	**(136.0)**	**-**
Final Position	**(1.1)**	**(7.8)**	**(6.7)**

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 £11.8m, which in line with statutory accounting requirements is held in an unusable reserve, and this is matched by a 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 £15.6m with associated Earmarked Reserves of £10.6m. This reflects a budgeted use of reserves during 2021/22. 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 2021/22 are set out in the HRA Statement of Accounts.

The Council's **Balance Sheet** as at 31 March 2022 is summarised below. The overall balance sheet position is substantially stable.

Summary Balance Sheet	31-Mar-22	31-Mar-21
	£m	£m
Long Term Assets	2,127	2,026
Current Assets	388	369
Current Liabilities	(255)	(230)
Net Pension Liabilities	(477)	(658)
Other Long-Term Liabilities	(307)	(302)
Net Assets	**1,476**	**1,205**
Represented by:		
Usable Reserves	(282)	(289)
Unusable reserves	(1,194)	(916)
Total Reserves	**(1,476)**	**(1,205)**

The breakdown of the usable reserves is set out below:

Summary Usable Reserves	31-Mar-22 £m	31-Mar-21 £m
General Fund Balance	(20)	(19)
General Fund Earmarked Reserves	(161)	(172)
HRA Balance and Earmarked Reserves	(26)	(30)
Schools Reserves	(10)	(10)
Capital Reserves (Receipts and Grants)	(65)	(58)
Total	**(282)**	**(289)**

Capital

In 2021/22, the actual capital expenditure (outturn) totalled £95.1m and the table below summarises capital expenditure by service area:

Department	2021/22 £m	2020/21 £m
Adult Social Care	1.5	1.6
Children's Services	0.7	0.8
The Environment Department	10.5	7.9
Finance	0.5	0.2
The Economy Department - General Fund Schemes	26.3	26.8
The Economy Department – Housing and Regeneration	16.0	9.2
The Economy Department - Housing Revenue Account	39.6	42.1
Total	**95.1**	**88.6**

The 2021/22 capital programme was financed as follows:

Capital Financing	2021/22 £m	2020/21 £m
Capital Receipts	7.6	3.5
Increase in Capital Finance Requirement (CFR)	43.6	37.8
Capital Grants and Contributions	26.1	20.8
Major Repairs Reserve (MRR)	17.0	26.3
Council and School Reserves	0.1	0.2
General Fund Revenue Account	0.7	-
Total	**95.1**	**88.6**

The capital additions during the year included:

- £39.6m investment in the Council’s social housing stock and fire safety measures
- £22.7m on the Civic Campus development
- £17.1m on affordable housing schemes
- £10.5m on the borough’s highways and infrastructure schemes

Financial Outlook

The Council’s 2022/23 budget proposals were approved in February 2022 to support the local recovery from the pandemic and delivery of resident priorities. The ongoing pandemic and health emergency has led to an increase in demand for services whilst the upturn in inflation and resetting of the public finances, at a national level, has placed a further strain on local authorities. The 2022/23 budget was set with the need to strengthen the Council’s financial resilience as mitigation against this increased financial risk.

General government grant funding has increased by an estimated £6.9m from 2021/22 to 2022/23. This is well below the increase in the Council's costs due to inflation, demographic pressures and the health pandemic and economic crisis.

The key summary of the 2022/23 revenue budget is as follows:

- Investment of £7.4m was 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 the pandemic
- Savings of £4.9m were put forward to balance the 2022/23 budget
- The budget proposals included measures to strengthen the Council's future financial resilience by contributing one-off resources of £2.9m to reserves and general balances. In addition, a one-off contingency of £1.5m was set aside regarding pandemic financial pressures
- Overall this produced a net revenue budget requirement of £125.7m 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 pandemic, future government funding allocations, the sharp upturn in inflation and cost of living crisis, the potential impact of Brexit and impact of the war in Ukraine and increasing demand for services.

The 2022-26 capital programme was also approved in February 2022. The programme for this period totals £577.1m. The gross anticipated spend for 2022/23 is £191.6m, comprising the General Fund (GF) Programme of £113.9m and the Housing Revenue Account (HRA) Programme of £77.7m.

The General Fund programme includes:

- The Civic Campus Programme/Refurbishment of Hammersmith Town Hall
- Hammersmith Bridge Stabilisation
- The Council's rolling programmes for Planned Building Maintenance and Footways and Carriageways
- The Schools Maintenance Programme.

The Grade II* Listed 134-year-old Hammersmith Bridge (the Bridge) was closed to motor vehicles in April 2019 and to all users in August 2020 on public safety grounds. Following an 11-month closure and extensive investigations by Hammersmith & Fulham engineers and the introduction of a pioneering temperature control scheme, it re-opened to pedestrians, cyclists and river traffic on 17 July 2021. The re-opening, with strict conditions, was recommended by the Board for the Continued Case for the Safe Operation (CCSO). One condition was that for the Bridge to remain open, it must be properly and permanently stabilised as soon as possible.

Following detailed cost-analysis the Council has approved a stabilisation construction project for the Bridge at an estimated value of £8.9m (including indirect costs, preliminaries and contingencies). This work is to be completed expeditiously (anticipated by January 2023) so that users can continue to use the Bridge safely.

In line with government announcements, central government (Department for Transport (DfT)) and Transport for London (TfL) are expected to fund two-thirds of the total project costs and this is expected to be formalised in a proposed Memorandum of Understanding (MoU). The Council will fund its share of the stabilisation project costs through borrowing. This funding split is assumed within the capital programme.

The Council is continuing to develop an outline business case for a full strengthening and restoration programme which will see the Bridge re-opened to motor vehicles. This is exploring options to fund the Council's contribution to both stabilisation and strengthening and restoration through a road charge or toll.

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

The Council has approved a 12-year HRA Asset Management Capital Strategy which details the spending priorities for the twelve-year period between 2022/23 and 2033/34 and will be investing almost £728.6m. The aim of the Strategy is to direct capital investment to where it will make the biggest impact on residents' quality of life, health and wellbeing with the following key spend areas:

- Fire Safety
- Structural Safety
- Asset Replacement
- Disabled Adaptations
- Stock Condition Survey findings
- Climate Emergency
- Estate Improvements
- White City Estate
- Charecroft Estate Phase 2
- West Kensington Estate

The 2022-26 HRA capital programme includes additional spend of £188.7m regarding the 12 year strategy and the delivery of the strategy will inform every subsequent annual revision of the capital programme budget.

The medium-term outlook for local authority financing remains extremely challenging and 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 2021/22 and its Balance Sheet as at 31 March 2022. 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 2021/22, 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 Supplementary Financial Statements (also with 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 2022. 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 2022 (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 2021/22 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 36 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 2021/22 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 2020/21.

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 2021/22 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 2022 and income and expenditure for the financial year 2021/22.

Sukvinder Kalsi
Director of Finance
Date:

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 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 Budget Deficit at 1 April 2020			(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)**
Movement in Reserves during 2021/22													
Total Comprehensive Income and Expenditure		26,534	-	-	(16,743)	-	-	-	-	-	9,791	(280,787)	(270,996)
Adjustments between accounting basis & funding basis under regulations	3	(16,929)	-	-	20,788	-	(3,221)	(554)	(2,562)	-	(2,478)	2,478	-
Transfer to/(from) Earmarked Reserves		(10,706)	10,772	(66)	(2,047)	2,047	-	-	-	-	-	-	-
(Increase)/Decrease in 2021/22		**(1,101)**	**10,772**	**(66)**	**1,998**	**2,047**	**(3,221)**	**(554)**	**(2,562)**	**-**	**7,313**	**(278,309)**	**(270,996)**
Balance at 31 March 2022		**(20,408)**	**(160,761)**	**(10,169)**	**(15,564)**	**(10,593)**	**(53,313)**	**(554)**	**(9,561)**	**(878)**	**(281,801)**	**(1,193,873)**	**(1,475,674)**

* 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.

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 2022			Year Ended 31 March 2021		
	Notes	Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
		£000	£000	£000	£000	£000	£000
Children's Services		174,024	(122,203)	51,821	176,690	(125,627)	51,063
Social Care		113,465	(66,325)	47,140	109,414	(59,864)	49,550
Economy		57,455	(45,392)	12,063	52,126	(64,560)	(12,434)
Local Authority Housing (HRA)		86,453	(82,794)	3,659	78,544	(79,779)	(1,235)
Local Authority Housing (HRA) - Dwelling Revaluation	5	(13,996)	-	(13,996)	(46,572)	-	(46,572)
Environment (including Parking)		110,842	(69,250)	41,592	99,453	(49,035)	50,418
Finance		10,647	(1,288)	9,359	9,482	(1,150)	8,332
Resources		29,670	(7,693)	21,977	26,701	(8,601)	18,100
Centrally Managed Budgets		117,836	(119,132)	(1,296)	107,431	(107,500)	(69)
Cost of Services		**686,396**	**(514,077)**	**172,319**	**613,269**	**(496,116)**	**117,153**
Other Operating Expenditure	6	6,352	8,710	15,062	3,724	4,023	7,747
Financing and investment income and expenditure	7	25,577	(5,324)	20,253	23,524	(4,845)	18,679
Taxation and non-specific grant income and expenditure	8	17,209	(215,052)	(197,843)	16,299	(246,652)	(230,353)
(Surplus) or Deficit on Provision of Services				**9,791**			**(86,774)**
(Surplus) or deficit on revaluation of non-current assets				(56,944)			(31,529)
Remeasurements of the net defined benefit liability	27			(223,843)			136,716
Other Comprehensive Income and Expenditure				**(280,787)**			**105,187**
Total Comprehensive Income and Expenditure				**(270,996)**			**18,413**

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'.

	Notes	31 March 2022	31 March 2021
		£000	£000
Property, Plant and Equipment	9	1,994,114	1,902,525
Heritage Assets	11	8,023	8,023
Investment Property	10	81,131	82,608
Intangible Assets		545	734
Assets Held for Sale	12	13,229	13,229
Investments in Associates and Joint Ventures	33	15,679	10,085
Long Term Debtors	21 & 33	14,502	8,523
Long Term Assets		**2,127,223**	**2,025,728**
Short Term Investments	21	124,658	164,017
Short Term Debtors	16	53,954	62,817
Inventories		98	68
Cash and Cash Equivalents	17	208,855	142,567
Current Assets		**387,565**	**369,469**
Short Term Borrowing	21	(2,581)	(2,575)
Short Term Creditors	18	(215,541)	(195,391)
Provisions	20	(26,071)	(25,794)
Grants and Contributions Receipts in Advance	30	(10,374)	(6,525)
Current Liabilities		**(254,567)**	**(230,285)**
Long Term Borrowing	21	(272,011)	(272,005)
Long Term Creditors	21	(100)	(100)
Provisions	20	(6,000)	(6,376)
Other Long Term Liabilities	19	(483,224)	(664,454)
Grants and Contributions Receipts in Advance	30	(23,212)	(17,299)
Long Term Liabilities		**(784,547)**	**(960,234)**
NET ASSETS		**1,475,674**	**1,204,678**
Usable Reserves	3b	(281,802)	(289,114)
Unusable Reserves	3c	(1,193,872)	(915,564)
TOTAL RESERVES		**(1,475,674)**	**(1,204,678)**

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	**2021/22 £000**	**2020/21 £000**
Net surplus or (deficit) on the provision of services		(9,791)	86,774
Adjustments to net surplus or deficit on the provision of services for non-cash movements	22a	87,691	(71,380)
Adjust for items in the net deficit on the provision of services that are investing or financing activities		(14,836)	(3,944)
Net cash flows from Operating Activities		**63,064**	**11,450**
Investing Activities			
Purchase of Property, plant and equipment, investment property and intangible assets		(81,547)	(72,024)
Proceeds from sale of property, plant and equipment, investment property and intangible assets		14,836	3,944
Net proceeds/payments in respect of short-term and long-term investments		33,765	(5,359)
Other receipts from investing activities		26,681	55,171
Net cash flows from Investing Activities		**(6,265)**	**(18,268)**
Financing Activities			
Net Cash receipts of short and long term borrowing		142	28,007
Cash payments for the reduction of the outstanding liabilities		(455)	(400)
Other proceeds/payments for financing activities		9,802	66,009
Net cash flows from Financing Activities		**9,489**	**93,616**
Net increase or (decrease) in cash and cash equivalents		**66,288**	**86,798**
Cash and cash equivalents at the beginning of the reporting period		142,567	55,769
Cash and cash equivalents at the end of the reporting period	17	**208,855**	**142,567**

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.

2021/22	As reported for resource management	Adjustments to arrive at Net Expenditure chargeable to GF and HRA Balances	Net Expenditure chargeable to GF and HRA Balances	Adjustments between Accounting and Funding Basis	Comprehensive Income and Expenditure Statement (CIES)
	£000	£000	£000	£000	£000
Children's Services	55,810	(14,554)	41,256	10,565	51,821
Social Care	58,246	(13,876)	44,370	2,770	47,140
Economy	(6,564)	14,949	8,385	3,678	12,063
Local Authority Housing (HRA)	-	(21,531)	(21,531)	11,194	(10,337)
Environment (including Parking)*	49,468	(29,040)	20,428	21,164	41,592
Finance	1,532	6,600	8,132	1,227	9,359
Resources	8,871	10,183	19,054	2,923	21,977
Centrally Managed Budgets	17,566	(18,136)	(570)	(726)	(1,296)
	184,929	**(65,405)**	**119,524**	**52,795**	**172,319**
Other income and expenditure not charged to services	(56,809)	(49,065)	(105,874)	(56,654)	(162,528)
(Surplus) or Deficit on Provision of Services before planned use of Earmarked Reserves	**128,120**	**(114,470)**	**13,650**	**(3,859)**	**9,791**
Opening Balance of General Fund/ HRA Balances			(231,145)		
add: (Surplus) or Deficit on Provision of Services			13,650		
Closing Balance of General Fund/ HRA Balances			(217,495)		

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

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

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

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

1a. Note to the Expenditure and Funding Analysis

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

Adjustments for Capital Purposes

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

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

Net Change for the Pensions Adjustments

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

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

Other Statutory Adjustments

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

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

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

Adjustments from the General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts are set below

	2021/22				2020/21			
	Adjustments for Capital Purposes £000	Net Change for Pension Adjustments £000	Other Differences £000	Total Adjustments £000	Adjustments for Capital Purposes £000	Net Change for Pension Adjustments £000	Other Differences £000	Total Adjustments £000
Children's Services	(1,861)	(8,704)	-	**(10,565)**	(1,179)	(7,673)	-	**(8,852)**
Social Care	(204)	(2,566)	-	**(2,770)**	716	(457)	1,416	**1,675**
Economy	(1,333)	(2,345)	-	**(3,678)**	34,928	(385)	-	**34,543**
Local Authority Housing (HRA)	(2,462)	(8,732)	-	**(11,194)**	32,967	(871)	-	**32,096**
Environment (including Parking)*	(15,510)	(5,654)	-	**(21,164)**	(15,615)	(1,106)	630	**(16,091)**
Finance	(16)	(1,211)	-	**(1,227)**	70	(290)	-	**(220)**
Resources	(675)	(2,248)	-	**(2,923)**	(621)	(446)	-	**(1,067)**
Centrally Managed Budgets	-	218	508	**726**	(2,230)	(83)	(842)	**(3,155)**
Net Cost of Services	**(22,061)**	**(31,242)**	**508**	**(52,795)**	**49,036**	**(11,311)**	**1,204**	**38,929**
Other income and expenditure not charged to services - General Fund	(4,931)	(9,902)	39,505	**24,672**	3,851	(10,531)	(48,512)	**(55,192)**
Other income and expenditure not charged to services - HRA	30,880	(1,925)	3,027	**31,982**	16,456	(886)	-	**15,570**
(Surplus) or Deficit on Provision of Services	**3,888**	**(43,069)**	**43,040**	**3,859**	**69,343**	**(22,728)**	**(47,308)**	**(693)**

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.

	2021/22 £000	2020/21 £000
Expenditure		
Employee Benefits	223,032	206,505
Other Services Expenses	440,533	420,072
Support Service Recharges	(1,469)	(588)
Capital Charges & Revaluations	24,767	(12,288)
Interest Payments	11,250	11,675
Levies	2,453	2,372
Business rates tariff	17,148	16,299
Payments to the Government Housing Capital Receipts Pool	3,954	1,352
Net interest on the net defined benefit liability (asset)	13,400	11,417
Schools converted to Academy Status	467	-
Total Expenditure	**735,535**	**656,816**
Income		
Fees, Charges and other Service Income	(227,655)	(200,779)
Grants and Contributions	(381,729)	(453,085)
Income from Council Tax and NDR	(127,174)	(96,279)
Interest and Investment Income	2,109	2,509
(Gains)/losses on the disposal of non-current assets	8,705	4,044
Total Income	**(725,744)**	**(743,590)**
(Surplus) or Deficit on the Provision of Services	**9,791**	**(86,774)**

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 2021/22 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)

2021/22	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)	(32,411)	-	-	-	(10,657)	-	-	-	**(43,068)**
Financial instruments (transferred to the Financial Instruments Adjustments Account)	74	-	-	-	-	-	-	-	**74**
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	28,562	-	-	-	-	-	-	-	**28,562**
Holiday pay (transferred to the Accumulated Absences Reserve)	510	-	-	-	-	-	-	-	**510**
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)	(40,715)	-	-	-	(7,483)	-	-	-	**(48,198)**
Transfer in-year Dedicated Schools Grant deficit/(surplus) (to DSG Adjustment Account)	2,174	-	-	-	-	-	-	-	**2,174**
Total Adjustments to Revenue Resources	**(41,806)**	**-**	**-**	**-**	**(18,140)**	**-**	**-**	**-**	**(59,946)**
Adjustments between Revenue and Capital Resources									
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	47	-	-	-	14,152	-	(14,198)	-	1
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	-	-	-	-	(110)	-	110	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(3,954)	-	-	-	-	-	3,954	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	-	-	-	17,566	(17,566)	-	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	2,000	-	-	-	-	-	-	-	2,000
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	713	-	-	-	-	-	-	-	713
Total Adjustments between Revenue and Capital Resources	**(1,194)**	**-**	**-**	**-**	**31,608**	**(17,566)**	**(10,134)**	**-**	**2,714**
Adjustments to Capital Resources									
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	-	-	-	-	7,572	-	7,572
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	-	-	17,012	-	-	17,012
Application of capital grants to finance capital expenditure	17,621	-	-	8,498	4,293	-	-	-	30,412
Transfers of capital grants from revenue to Capital Grants Unapplied	8,693	-	-	(11,719)	3,027	-	-	-	1
Movements in the market value of investment properties	(243)	-	-	-	-	-	-	-	(243)
Cash payments in relation to deferred capital receipts	-	-	-	-	-	-	-	-	-
Total Adjustments to Capital Resources	**26,071**	**-**	**-**	**(3,221)**	**7,320**	**17,012**	**7,572**	**-**	**54,754**
Total Adjustments	**(16,929)**	**-**	**-**	**(3,221)**	**20,788**	**(554)**	**(2,562)**	**-**	**(2,478)**

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)	(778)	-	-	-	-	-	-	-	(778)
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	**(92,886)**	**-**	**-**	**-**	**27,326**	**(223)**	**-**	**-**	**(65,783)**
Adjustments between Revenue and Capital Resources									
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	45	-	-	-	3,422	-	(3,467)	-	-
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	-	-	-	-	15,490	(15,490)	-	-	-
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**	**(15,490)**	**(2,065)**	**-**	**3,060**
Adjustments to Capital Resources									
Use of the Capital Receipts Reserve to finance capital expenditure	27,140	-	-	(26,650)	(491)	-	3,479	-	3,478
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	-	-	26,287	-	-	26,287
Application of capital grants to finance capital expenditure	16,688	-	-	2,514	1,967	-	-	-	21,169
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	**42,776**	**-**	**-**	**(24,136)**	**1,476**	**26,287**	**3,479**	**-**	**49,882**
Total Adjustments	**(48,359)**	**-**	**-**	**(24,136)**	**47,666**	**10,574**	**1,414**	**-**	**(12,841)**

3b. Usable Reserves

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

3c Unusable Reserves

	31 March 2022 £000	31 March 2021 £000
Revaluation Reserve	(337,899)	(294,148)
Capital Adjustment Account	(1,363,405)	(1,340,943)
Pensions Reserve	477,078	657,853
Financial Instruments Adjustment Account	830	904
Collection Fund Adjustment Account	11,685	40,248
Accumulated Absences Account	3,334	3,843
Dedicated Schools Grant Adjustment Account	14,505	16,679
Total Unusable Reserves	**(1,193,872)**	**(915,564)**

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.

	2021/22 £000	2020/21 £000
Balance as 1 April	(294,149)	(267,068)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(56,944)	(31,529)
Difference between current value depreciation and historical cost depreciation	2,894	2,625
Accumulated gains on assets sold or scrapped	10,300	1,823
Amount written off to the Capital Adjustment Account	13,194	4,448
Balance at 31 March	**(337,899)**	**(294,149)**

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 fair 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 and gains recognised on donated assets that have yet to be consumed by the Council. 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.

	2021/22 £000	2020/21 £000
Balance as 1 April	(1,340,944)	(1,278,868)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
• Charges for depreciation non-current assets	20,220	20,705
• Revaluation losses on property, plant and equipment	(17,628)	(52,041)
• Amortisation of intangible assets	190	266
• Revenue expenditure funded from capital under statute	5,212	3,435
• Reversal of Major Repairs Allowance credited to the HRA	16,774	15,489
• 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	23,431	7,462
	48,199	(4,684)
Adjusting amounts written out of the Revaluation Reserve	(13,195)	(4,448)
Net written out amount of the cost of non-current assets consumed in the year	35,004	(9,132)
Capital financing applied in the year:		
• Use of the Capital Receipts Reserve to finance new capital expenditure	(7,572)	(3,479)
• Use of the Major Repairs Reserve to finance new capital expenditure	(17,012)	(26,287)
• Capital grants and contributions applied	(30,381)	(21,170)
• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(2,000)	(2,888)
• Capital expenditure charged against the General Fund and HRA balances	(743)	(172)
	(57,708)	(53,996)
Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement	243	1,052
Balance at 31 March	**(1,363,405)**	**(1,340,944)**

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.

	2021/22 £000	2020/21 £000
Balance as 1 April	657,853	498,410
Remeasurements of the net defined benefit liability/(asset)	(223,843)	136,716
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	63,984	43,111
Employer's pensions contributions and direct payments to pensioners payable in the year	(20,916)	(20,384)
Balance as 31 March	**477,078**	**657,853**

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.

	2021/22 £000	2020/21 £000
Balance as 1 April	40,247	(9,900)
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	(28,562)	50,147
Balance as 31 March	**11,685**	**40,247**

Accumulated Absences Account

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

	2021/22 £000	2020/21 £000
Balance as 1 April	3,843	3,065
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(509)	778
Balance as 31 March	**3,334**	**3,843**

Dedicated Schools Grant Adjustment Account

The DSG Adjustment Account represents the DSG deficit balance. Parliament 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.

	2021/22 £000	2020/21 £000
Restated Balance as 1 April	16,679	19,791
In-year Dedicated Schools Grant (surplus)/deficit (to DSG Adjustment Account)	(2,174)	(3,112)
Balance as 31 March	**14,505**	**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 2021/22.

		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	Transfers Out 2021/22 £000	Transfers In 2021/22 £000	Movement Between Reserves 2021/22 £000	Balance at 31 March 2022 £000
	General Fund Reserves									
1	Insurance Fund	(5,932)	6	(11)	-	**(5,937)**	689	-	-	**(5,248)**
2	Controlled Parking Fund	(267)	312	(521)	-	**(476)**	275	(521)	-	**(722)**
3	Efficiency Projects Reserve	(664)	183	(750)	-	**(1,231)**	-	(750)	-	**(1,981)**
4	Corporate Demand Pressures	(12,511)	7,597	(21,236)	(2,440)	**(28,590)**	3,116	(6,749)	3,856	**(28,367)**
5	Temporary Accommodation	(450)	-	-	-	**(450)**	-	-	-	**(450)**
6	Supporting People Programme	(600)	-	-	-	**(600)**	300	-	-	**(300)**
7	Troubled Families	(795)	-	(34)	-	**(829)**	-	(805)	-	**(1,634)**
8	C19 Collection Fund Smoothing Reserve	-	12,519	(52,757)	(1,200)	**(41,438)**	39,701	(19,738)	(1,877)	**(23,352)**
9	Partners in Practice	(957)	-	-	-	**(957)**	465	(465)	-	**(957)**
10	Civic Campus	(9,515)	7,240	(1,159)	-	**(3,434)**	4,968	(816)	(6,215)	**(5,497)**
11	Managed Services	(706)	78	(500)	-	**(1,128)**	-	(132)	-	**(1,260)**
12	Corporate People Reserve	-	-	(150)	-	**(150)**	-	-	-	**(150)**
13	Corporate Technology & IT	(1,194)	-	(1,851)	-	**(3,045)**	-	(1,911)	-	**(4,956)**
14	Planning Reserve	-	-	-	-	**-**	-	(1,723)	-	**(1,723)**
15	Corporate Property Reserve	-	-	(650)	-	**(650)**	150	-	-	**(500)**
16a	Dedicated Schools Grant Support Reserve	(19,119)	-	-	2,440	**(16,679)**	-	-	4,859	**(11,820)**
16b	Dedicated Schools Grant Deficit	19,791	-	(19,791)	-	**-**	-	(2,685)	-	**(2,685)**
16c	Dedicated Schools Grant - Schools & Early years Block	(671)	-	(1,502)	-	**(2,173)**	1,874	-	-	**(299)**
17	Covid Response Support & Unringfenced Reserve	(6,221)	-	(4,906)	1,200	**(9,927)**	8,721	(6,673)	1,877	**(6,002)**
18	NHS contributions for Social Care	-	-	-	-	**-**	-	(2,575)	-	**(2,575)**
19	Homlessness Prevention Reserve	-	-	-	-	**-**	-	(750)	-	**(750)**
20	Pre-Development Costs Reserve	-	-	-	-	**-**	-	-	(5,000)	**(5,000)**
21	Other Funds	(4,182)	398	(3,828)	-	**(7,612)**	799	(922)	2,500	**(5,235)**
	General Fund Reserves Sub-Total	**(43,993)**	**28,333**	**(109,646)**	**-**	**(125,306)**	**61,058**	**(47,215)**	**-**	**(111,463)**

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

		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	Transfers Out 2021/22 £000	Transfers In 2021/22 £000	Movement Between Reserves 2021/22 £000	Balance at 31 March 2022 £000
	General Fund Revenue Grants									
22	S106 - Revenue Schemes	(16,362)	13,505	(43,192)	-	**(46,049)**	11,666	(14,533)	-	**(48,916)**
23	Other Revenue Grants	(552)	397	(23)	-	**(178)**	4	(208)	-	**(382)**
	General Fund Revenue Grants Sub-Total	**(16,914)**	**13,902**	**(43,215)**	**-**	**(46,227)**	**11,670**	**(14,741)**	**-**	**(49,298)**
	General Fund Total	**(60,907)**	**42,235**	**(152,861)**	**-**	**(171,533)**	**72,728**	**(61,956)**	**-**	**(160,761)**
	HRA Reserves									
24	HRA Efficiency Reserve	(428)	254	-	-	**(174)**	-	-	-	**(174)**
25	HRA Non-dwellings Impairment Reserve	(6,743)	1,829	-	-	**(4,914)**	2,157	-	-	**(2,757)**
26	HRA Strategic Regeneration and Housing Development	(1,696)	-	(1,900)	-	**(3,596)**	-	-	-	**(3,596)**
27	HRA Utilities Reserve	-	-	(1,962)	-	**(1,962)**	-	-	-	**(1,962)**
28	Disrepairs Compensation and Legal costs	-	-	-	-	**-**	-	(514)	-	**(514)**
29	Other HRA Funds	(255)	64	(1,803)	-	**(1,994)**	440	(36)	-	**(1,590)**
	HRA Total	**(9,122)**	**2,147**	**(5,665)**	**-**	**(12,640)**	**2,597**	**(550)**	**-**	**(10,593)**
	Total	**(70,029)**	**44,382**	**(158,526)**	**-**	**(184,173)**	**75,325**	**(62,506)**	**-**	**(171,354)**

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. In the past, this reserve had to be 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	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.
6	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.
7	Troubled Families	This reserve has been created to carry forward funding that has already been earnt, but not spent, into future years of the project in order to fund the costs associated with running the programme.
8	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 and council tax deficits.
9	Partners in Practice	This is a reserve for Children's Services social care practice improvement as part of DFE innovation programme.
10	Civic Campus (previously King Street West)	This is held to fund the costs of implementing the Civic Campus redevelopment.
11	Managed Services	This reserve is used to fund the cost of major developments to support the Managed Services partnership.
12	Corporate People Reserve	This is the consolidation of various Human Resource related reserves.
13	Corporate Technology & IT	This reserve is used to finance IT projects.
14	Planning Reserve	This reserve is to support funding of CIL related expenditure and projects.
15	Corporate Property Reserve	This is to be used to cover the one-off costs related to LBHF property management.
16	DSG - Various	*16a. 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. *16b. 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. 16c*. DSG (Schools & Early years Block) Reserve* This reserve records the cumulative balance on the Schools and Early years block. Grant deficit to unusable reserves.
17	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.
18	NHS contributions for Social Care	This reserve includes funds held as contributions for various health and social care programmes.
19	Homelessness Prevention Reserve	This reserve is used to deliver homelessness prevention outcomes.
20	Pre-Development Costs Reserve	This reserve is to provide for the risk associated with the council's general fund capital strategy and initiatives.
21	Other Funds	This comprises a number of smaller reserves, existing to fund various projects and potential future commitments
22	S106 - Revenue Schemes	These reserves exist to fund various projects and potential future commitments in line with the requirements of the agreements.
23	Revenue Grants	These are grants which have been transferred as an earmarked reserve due to the implementation of International Financial Reporting Standards (IFRS).

24	HRA Efficiency Reserve	This reserve is to provide funding for the one-off costs associated with implementing MTFS savings.
25	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.
26	HRA Strategic Regeneration and Housing Development	This reserve is to provide for the risk associated with the council's strategy and regeneration and housing development initiatives.
27	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.
28	Disrepairs Compensation and Legal costs	This is a reserve to provide for the further and continuing impact of Welfare Reform.
29	Other HRA Funds	This reserve is to fund various smaller projects specific to the HRA.

5. Material Items of Income and Expense

Transactions in 2021/22

HRA Dwellings have been revalued upwards in-year. The upward revaluation is approximately 4.4%. The size of the asset base means that this revaluation is a material amount. The gross revaluation increase recognised in CIES is £14m.

Queensmill School which was a LBHF maintained school converted to Academy status in year, resulting in the transfer of land and buildings with a net book value of £19.9m. This Academy transfer has been reflected as a disposal loss in the Council's accounts and is included in note 6 on the (gains)/losses on disposal line.

Combined gains valued at £10.6m was realised on disposals of Right-to-Buy and Non Right-to-Buy properties made up of net proceeds of £14m less Net Book Value of £3.4m.

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.

6. Other Operating Expenditure

	2021/22 £000	2020/21 £000
Levies	2,393	2,372
Payments to the Government Housing Capital Receipts Pool	3,954	1,352
(Gains)/losses on the disposal of non-current assets	8,705	4,044
Other Operating Income and Expenditure	10	(21)
Total	**15,062**	**7,747**

7. Financing and Investment Income and Expenditure

	2021/22 £000	2020/21 £000
Interest payable and similar charges	11,250	11,675
Net interest on the net defined benefit liability (asset)	13,400	11,417
Interest receivable and similar income	(290)	(372)
Income and expenditure in relation to investment properties	(6,973)	(6,922)
Net (gains)/losses from fair value adjustments on investment properties	2,399	2,330
Net (gains)/losses from fair value adjustments on assets held for sale	-	551
Schools converted to Academy Status	467	-
Total	**20,253**	**18,679**

8. Taxation and non-specific grant income and expenditure

	2021/22 £000	2020/21 £000
Non-domestic rates income	(59,570)	(33,889)
NDR Levy	60	-
Business rates tariff	17,148	16,299
Non-domestic rates income and expenditure	**(42,362)**	**(17,590)**
Council Tax Income	(67,603)	(62,390)
Non-ringfenced government grants	(70,940)	(106,062)
Capital grants and contributions	(16,938)	(44,311)
Total	**(197,843)**	**(230,353)**

9. Property, Plant and Equipment

(i) Movements on Balances

Movements in 2021/22	Council Dwellings £000	Other Land and Buildings £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 2021	1,412,222	332,591	8,669	27,923	34,810	25,516	**1,841,731**	26,063
Additions	40,109	2,094	723	233	-	26,706	**69,865**	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	20,688	20,813	-	-	5,043	-	**46,544**	576
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	4,787	2,320	-	-	704	-	**7,811**	-
Derecognition – disposals	(2,925)	(20,202)	-	-	-	-	**(23,127)**	-
Derecognition – other	(519)	-	-	-	-	-	**(519)**	-
Assets reclassified (to)/from PPE	-	(1,580)	-	-	1,580	-	**-**	-
Assets reclassified (to)/from Investment Properties	-	(256)	-	-	-	-	**(256)**	-
Other reclassifications	-	-	-	-	-	-	**-**	-
At 31 March 2022	**1,474,362**	**335,780**	**9,392**	**28,156**	**42,137**	**52,222**	**1,942,049**	**26,639**
Accumulated Depreciation and Impairment								
At 1 April 2021	-	(607)	(2,757)	(18,440)	-	-	**(21,804)**	-
Depreciation charge	(16,774)	(3,833)	(1,409)	(1,900)	(44)	-	**(23,960)**	(391)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	7,530	2,827	-	-	43	-	**10,400**	391
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	9,203	582	-	-	30	-	**9,815**	-
Derecognition – disposals	41	296	-	-	-	-	**337**	-
Derecognition – other	-	-	-	-	-	-	**-**	-
Other movements in depreciation and impairment	-	29	-	-	(29)	-	**-**	-
At 31 March 2022	**-**	**(706)**	**(4,166)**	**(20,340)**	**-**	**-**	**(25,212)**	**-**
Net Book Value								
at 31 March 2022	**1,474,362**	**335,074**	**5,226**	**7,816**	**42,137**	**52,222**	**1,916,837**	**26,639**

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

(i) Movements on Balances

Movements in 2020/21	Council Dwellings £000	Other Land and Buildings £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	12,322	27,817	39,675	10,495	**1,736,704**	27,047
Additions	42,840	1,295	351	405	1,803	18,796	**65,490**	-
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**	**8,669**	**27,923**	**34,810**	**25,516**	**1,841,731**	**26,063**
Accumulated Depreciation and Impairment								
At 1 April 2020	-	(481)	(5,345)	(16,628)	-	-	**(22,454)**	-
Depreciation charge	(15,489)	(3,925)	(1,416)	(2,111)	(48)	-	**(22,989)**	(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)**	**(2,757)**	**(18,440)**	**-**	**-**	**(21,803)**	**-**
Net Book Value								
at 31 March 2021	**1,412,222**	**331,985**	**5,912**	**9,483**	**34,810**	**25,516**	**1,819,928**	**26,063**

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

(i) Movements on Balances

<u>Infrastructure assets</u>

	2021/22 £000	2020/21 £000
Net book value (modified historical cost) at 1st April	82,597	88,696
Additions	7,710	7,102
Depreciation	(13,030)	(13,201)
Net book value at 31st March	**77,277**	**82,597**

Reconciliation to Total PPE Assets

	2021/22 £000	2020/21 £000
Infrastructure Assets	77,277	82,597
Other PPE Assets	1,916,837	1,819,928
Total PPE Assets	**1,994,114**	**1,902,525**

The authority has determined in accordance with Regulation 30M England of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

(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)	40 - 54 years
Surplus Assets (Building element only - land not depreciated)	50 - 54 years
Infrastructure Assets	3 - 40 years
Vehicles, Plant, Furniture & Equipment	5 - 25 years
Community Assets	5 - 73 years

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

(iii) Effect of Changes in Estimates

In 2021/22 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 2022.

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	226,598	77,277	5,226	7,816	75,491	52,222	**1,906,954**
Carried at Historical Cost	-	-	77,277	5,226	7,816	-	52,222	**142,541**
Valued at current value as at:								
31 March 2022	1,474,362	309,369	-	-	-	42,137	-	**1,825,868**
31 March 2021	-	7,020	-	-	-	-	-	**7,020**
31 March 2020	-	11,077	-	-	-	-	-	**11,077**
31 March 2019	-	7,608	-	-	-	-	-	**7,608**
	1,474,362	**335,074**	**77,277**	**5,226**	**7,816**	**42,137**	**52,222**	**1,994,114**

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.

Desktop revaluation of housing dwellings stock as at 31 March 2022 was commissioned by the Council and completed by the external valuer Wilks, Head and Eve. A revaluation based on full inspection of housing dwellings stock is scheduled for 2024/25.

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 2021/22 and there were no cases of impairment of assets to report.

Impairment and valuation losses not covered by the Revaluation Reserve in relation to HRA dwellings - are charged to the HRA Income & Expenditure Statement but will continue to be reversible through a transfer to the Capital Adjustment Account (CAA) via the Movement in Reserves Statement (MIRS).Valuation gains in relation to HRA dwellings, where taken to the HRA income and expenditure statement, can also be reversed under the Item 8 Credit and Debit Determination, by a transfer to the CAA via the MIRS.

Impairment and valuation losses not covered by the Revaluation Reserve in relation to HRA non-dwellings can now be reversed in the same way as losses for dwellings. As with dwellings, valuation gains for non-dwellings, where taken to the HRA income and expenditure statement, can also be reversed 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 2022	31 March 2021
Service Department	**£000**	**£000**
Housing Revenue Account	15,892	20,455
Regeneration and Community Projects	115,382	90,679
Affordable Housing Schemes	63,616	1,582
	194,890	**112,716**

10. Investment Properties

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

	2021/22	2020/21
	£000	**£000**
Rental income from investment property	(7,433)	(7,354)
Direct operating expenses (including repairs and maintenance) arising from investment properties	460	432
Net (gain)/loss	**(6,973)**	**(6,922)**

(i) Revaluation

In 2021/22 the Council commissioned a full revaluation of its investment properties including an inspection of each property where appropriate as at the balance sheet date of 31st March 2022. 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 2022 £000	31 March 2021 £000
Balance at start of the year	82,608	84,245
Additions:		
• Subsequent expenditure	666	1,390
Derecognition	-	(697)
Net gains/(losses) from fair value adjustments	(2,399)	(2,330)
Transfers:		
• (to)/from Property, Plant and Equipment	256	-
Balance at end of the year	**81,131**	**82,608**

(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 2021/22.

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 2021	7,688	131	118	86	8,023
Movement on balance	-	-	-	-	-
At 31 March 2022	**7,688**	**131**	**118**	**86**	**8,023**

There have been no movements on Heritage Assets in 2021/22.

12. Assets Held for Sale

	31 March 2022 £000	31 March 2021 £000
Balance outstanding at start of year	13,229	-
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**	**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.

	2021/22 £000	2020/21 £000
Opening Capital Financing Requirement	385,614	350,865
Capital Investment		
Property, Plant and Equipment	77,576	72,593
Investment Properties	666	1,390
Intangible Assets	-	94
Revenue Expenditure Funded from Capital under Statute	5,212	3,435
Capital Funding of third-party capital loans	11,573	11,080
Sources of Finance		
Capital receipts - used to fund Capital Expenditure	(7,572)	(3,479)
Government grants and other contributions	(43,106)	(47,134)
Sums set aside from revenue:		
Direct revenue contributions	(743)	(172)
MRP	(2,000)	(3,210)
Voluntary Application of Capital Receipts	(4,288)	-
Deferred costs of capital disposals	122	152
Closing Capital Financing Requirement	**423,054**	**385,614**
Explanation of movements in year		
Increase in underlying need to borrow	41,669	34,659
(Decrease) in underlying need to borrow	(63)	(63)
Voluntary application of Capital Receipts to repay debt	(4,288)	-
Increase/(Decrease) in Deferred costs of capital disposals	122	153
Increase/(decrease) in Capital Financing Requirement	**37,440**	**34,749**

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 2022 £000	31 March 2021 £000
Not later than one year	3,568	4,595
Later than one year and not later than five years	5,849	10,523
Later than five years	6,711	7,660
	16,128	**22,778**

The Council has sub-let some of the accommodation held under these leases. At 31st of March 2022 the minimum income expected to be received under sub-leases was £480k.

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

	31 March 2022 £000	31 March 2021 £000
Minimum lease payments	4,602	4,654
Sublease payments receivable	(52)	(52)
	4,550	**4,602**

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

14. Leases (Finance and Operating) (cont'd)

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

	31 March 2022 £000	31 March 2021 £000
Not later than one year	4,457	4,407
Later than one year and not later than five years	15,193	14,783
Later than five years	9,093	9,439
	28,743	**28,629**

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

2021/22 was the seventeenth 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 2022 (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 2022/23	5,912	455	961	7,328
Payable within two to five years	24,763	2,559	3,106	30,428
Payable within six to ten years	22,199	3,587	1,287	27,073
	52,874	6,601	5,354	64,829

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

15. Private Finance Initiative (cont'd)

	2021/22 £000	2020/21 (Restated) £000
Balance outstanding at start of year	7,001	7,352
Payments during the year	(400)	(351)
Capital expenditure incurred in the year	-	-
Balance outstanding at year-end	**6,601**	**7,001**

16. Debtors

	31 March 2022 £000	31 March 2021 £000
Council Tax Receivable from Taxpayers	18,733	14,205
Non Domestic Rates Receivable from Taxpayers	19,685	18,425
Business Rates Supplement Debtor	1,574	1,523
Trade Debtors	27,785	29,887
Other Debtors	31,290	32,932
VAT Debtors	6,770	8,476
Prepayments and Accrued Income	18,610	25,614
Impairment Allowance for Doubtful Debts	(70,493)	(68,244)
Total	**53,954**	**62,817**

17. Cash and Cash Equivalents

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

	31 March 2022 £000	31 March 2021 £000
Cash held by the Council	87	89
Bank current accounts	146	321
School bank accounts	10,118	10,493
Short-term deposits	204,420	133,350
Total	**214,771**	**144,253**
Bank overdraft*	(5,916)	(1,687)
	(5,916)	**(1,687)**
Net Cash and Cash Equivalents	**208,855**	**142,567**

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

18. Creditors

	31 March 2022 £000	31 March 2021 £000
Council Tax Creditor	(1,801)	(1,708)
NDR Retained Income Creditor	(112,520)	(65,917)
NDR Taxpayers Receipts not yet Paid to Government	(53)	(53)
Council Tax Refundable to Taxpayers	(5,607)	(6,534)
Non Domestic Rates Refundable to Taxpayers	(12,966)	(12,247)
Other Tax and Social Security Payable	(3,416)	(2,634)
Trade Creditors	(2,818)	(5,644)
Other Creditors	(75,905)	(100,254)
Short Term PFI Lease Liability	(455)	(400)
Total	**(215,541)**	**(195,391)**

19. Other Long-Term Liabilities

	31 March 2022 £000	31 March 2021 £000
Net Pensions Liability	(477,078)	(657,853)
Private Finance Initiative (PFI) Liability	(6,146)	(6,601)
TOTAL	**(483,224)**	**(664,454)**

20. Provisions

	Insurance £000	NDR - Losses on Appeals £000	Other Provisions £000	Total £000
Balance at 31 March 2020	**(2,283)**	**(28,524)**	**(8,834)**	**(39,641)**
Additional provisions	(106)	(3,991)	(2,345)	**(6,442)**
Amounts used	-	-	1,903	**1,903**
Unused amounts reversed	-	12,010	-	**12,010**
Balance at 31 March 2021	**(2,389)**	**(20,505)**	**(9,276)**	**(32,170)**
Additional provisions	-	(16,808)	(9,215)	**(26,023)**
Amounts used	-	-	673	**673**
Unused amounts reversed	159	20,505	4,784	**25,448**
Balance at 31 March 2022	**(2,230)**	**(16,808)**	**(13,034)**	**(32,072)**
Of which will be used in:				
Next twelve months	(2,230)	(16,808)	(7,034)	**(26,072)**
Over twelve months	-	-	(6,000)	**(6,000)**
Balance at 31 March 2022	**(2,230)**	**(16,808)**	**(13,034)**	**(32,072)**

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 that have been currently received for which they expect payment in the next 12 months.

20. Provisions (cont'd)

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 the 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, legal settlements, parking charge refunds, 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 2022 £000	**31 March 2021 £000**	**31 March 2022 £000**	**31 March 2021 £000**
Financial assets at amortised cost				
Investments	195	195	124,658	164,017
Cash and Cash Equivalents	-	-	204,420	144,164
Long Term Debtors	1,330	1,330	-	-
Trade Debtors	-	-	18,487	24,210
Total	**1,525**	**1,525**	**347,565**	**332,391**
Financial Liabilities : Measured at amortised				
Borrowings	(272,011)	(272,005)	(2,581)	(2,575)
Long Term Creditors	(100)	(100)	-	-
Trade Creditors	-	-	(178,601)	(192,225)
Total	**(272,111)**	**(272,105)**	**(181,182)**	**(194,800)**
Other Liabilities:				
PFI & Finance Lease liabilities	**(6,146)**	**(6,601)**	**(455)**	**(400)**

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 2021/22 or previous years.

21. Financial Instruments (cont'd)

(iii) Income, Expense, Gains and Losses

	Financial Liabilities at amortised cost £000	Financial Assets: Loans and receivables £000	Total £000	Financial Liabilities at amortised cost £000	Financial Assets: Loans and receivables £000	Total £000
Interest expense	11,250	-	11,250	11,675	-	11,675
Total expense in Surplus or Deficit on the Provision of Services	**11,250**	**-**	**11,250**	**11,675**	**-**	**11,675**
Interest income	-	(290)	(290)	-	(487)	(487)
Total income in Surplus or Deficit on the Provision of Services	**-**	**(290)**	**(290)**	**-**	**(487)**	**(487)**
Net gain/(loss) for the year	**11,250**	**(290)**	**10,960**	**11,675**	**(487)**	**11,188**

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 31st March 2022.
- 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 2022 (£0.1m at 31 March 2021) 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 2022		31 March 2021	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities				
Borrowings				
PFI Liabilities	(6,601)	-	(7,001)	-
PWLB Debt	(274,592)	(362,656)	(274,581)	(335,408)
Total	**(281,193)**	**(362,656)**	**(281,582)**	**(335,408)**
Financial Assets				
Loans and receivables				
Money market loans less than one year	124,658	124,658	164,017	164,017
Money market loans greater than one year	195	195	195	195
Total	**124,853**	**124,853**	**164,212**	**164,212**

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

The fair value for financial liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. The commitment to pay interest above current market rates increases the amount that the authority would have to pay if the lender requested or agreed to early repayment of the loans. The calculation above uses the PWLB certainty rate as the discount factor, if the premature repayment rate were to be used the fair value would be £362.656m as at 31 March 2022.

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 31st March 2022, 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 2022 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.

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 £15.71 million at 31 March 2022 (£12.81 million at 31 March 2021). 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 2022 £000	31 March 2021 £000
Less than three months	17,717	17,017
Three to six months	1,302	436
Six months to one year	1,859	4,486
More than one year	11,356	7,948
	32,234	**29,887**

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 2022 £000	31 March 2021 £000
Between one and two years	(4,279)	-
Between two and five years	(21,395)	(19,968)
Between five and ten years	(29,952)	(27,100)
More than ten years	(216,106)	(224,664)
Total	**(271,732)**	**(271,732)**

21 Financial Instruments (cont'd)

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

	31 March 2022 £000	31 March 2021 £000
Less than one year	124,500	164,000
Between one and two years	195	195
Total	**124,695**	**164,195**

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, subject to influences from Government grants. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Comprehensive Income and Expenditure Statement.

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

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

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

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

	2021/22 £000	2020/21 £000
Adjustment for items included elsewhere in the Cash Flow Statement:		
Capital Grants	(26,681)	(55,171)
Adjustment for 'non-cash' items included in the Income and Expenditure Statement:		
Depreciation and Amortisation of non-current assets	37,183	36,459
Impairments and revaluations	(15,228)	(49,711)
Value of non-current assets derecognised on disposal	23,309	3,533
Assets transferred to/(from) Assets Held for Sale	-	13,780
Net adjustment made in respect of IAS 19 (Pensions)	43,068	22,727
Amortisation of Premia and Discounts	5	5
Movement in non-cash assets and liabilities:		
(Increase)/decrease in short-term Debtors*	8,722	10,195
add/less: (Increase)/decrease in Capital Debtors	(2,849)	(58)
(Increase)/decrease in Long-term Debtors	(5,979)	(7,193)
Increase/(decrease) in short-term Creditors*	10,354	(6,034)
add/less: Increase/(decrease) in Capital Creditors	6,153	1,783
Assets transferred to 'Assets Held for Sale'	-	(13,229)
(Increase)/decrease in Inventories	(29)	10
Increase/(decrease) in Provisions	(98)	(7,472)
Increase/(decrease) in Grants and Contributions Receipts in Advance	9,761	(21,004)
Adjustments to net surplus or deficit on the provision of services for non-cash movements	**87,691**	**(71,380)**

*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:

	2021/22 £000	2020/21 £000
Interest Received	423	(103)
Interest Paid	(11,241)	(11,804)

22c. Reconciliation of Liabilities Arising from Financing Activities

	Opening Balance	Cash (Inflow)/ Outflow	Other Non-Cash changes	Closing Balance
2021/22	**£000**	**£000**	**£000**	**£000**
Long-Term Borrowing	(272,006)	-	(5)	**(272,011)**
Short-Term Borrowing	(2,576)	-	(6)	**(2,582)**
Lease Liabilities	-	-	-	**-**
PFI	(7,001)	400	-	**(6,601)**
Total	**(281,583)**	**400**	**(11)**	**(281,194)**
2020/21				
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)**

23. Agency Services

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

24. Members' Allowances

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

	2021/22	2020/21
	£000	**£000**
Members' Allowances	835	844

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		**2021/22**	**211,657**	-	-	-	**36,193**	**247,850**
			2020/21	200,363	-	-	-	36,448	236,811
Strategic Director of Economy	Jonathan Pickstone	1	**2021/22**	**83,274**	-	-	-	**14,240**	**97,514**
	Joanne Rowlands		2020/21	71,701	-	-	-	9,308	81,009
Strategic Director of Social Care	Lisa Redfern		**2021/22**	**173,998**	-	-	-	**31,129**	**205,127**
			2020/21	162,605	-	-	-	27,805	190,410
Director of Finance (Section 151 Officer)	Emily Hill		**2021/22**	**141,840**	-	-	-	**24,255**	**166,095**
			2020/21	131,336	-	-	-	24,728	156,064
Strategic Director of Environment	Sharon Lea	2	**2021/22**	**176,610**	-	-	-	-	**176,610**
			2020/21	58,000	-	-	-	-	58,000
Director of Children's Services	Jacqui McShannon		**2021/22**	**150,455**	-	-	-	**25,859**	**176,314**
			2020/21	148,988	-	-	-	25,477	174,465
Director of Resources	Rhian Davies		**2021/22**	**141,840**	-	-	-	**24,255**	**166,095**
			2020/21	138,499	-	-	-	26,173	164,672

Notes

1	Joanne Rowlands left the Council in May 2020 and the amount disclosed includes accrued leave. The role was occupied on an interim basis until the appointment of Jonathan Pickstone in August 2021.
2	Sharon Lea was in post on an interim basis until Nov 2020, and thereafter became a permanent LBHF employee. The payroll costs are shown in the table from Nov 2020. Sharon Lea was appointed acting Chief Executive from 25th Feb 2022.

25. Officers' Remuneration (cont'd)

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	2021/22 Number of Employees	2020/21 Number of Employees
£160,000 - £164,999	1	0
£140,000 - £144,999	1	0
£135,000 - £139,999	4	4
£130,000 - £134,999	1	0
£125,000 - £129,999	0	1
£120,000 - £124,999	3	2
£115,000 - £119,999	2	4
£110,000 - £114,999	4	2
£105,000 - £109,999	2	4
£100,000 - £104,999	14	8
£95,000 - £99,999	11	10
£90,000 - £94,999	17	16
£85,000 - £89,999	21	17
£80,000 - £84,999	15	22
£75,000 - £79,999	15	12
£70,000 - £74,999	32	30
£65,000 - £69,999	45	40
£60,000 - £64,999	83	63
£55,000 - £59,999	155	161
£50,000 - £54,999	206	192
Total	**632**	**588**

Of the 632 employees listed above in 2021/22, 155 (25%) were employees where pay decisions rest with the School Governing Body and not the Council. The corresponding figure for 2020/21 was 183 (31%). Remuneration bands where there are nil employees in both years are excluded from the above table (e.g. £145,000 - £149,999).

Exit Packages

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

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of packages by cost band		Total cost of exit packages in each band	
	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
£0 - £20,000	44	24	22	16	66	40	470,259	411,549
£20,001 - £40,000	19	12	11	3	30	15	827,055	387,237
£40,001 - £60,000	5	3	2	-	7	3	322,112	157,052
£60,001 - £80,000	1	4	1	2	2	6	137,404	430,004
£80,001 - £100,000	2	-	3	1	5	1	445,133	83,505
£100,001 - £150,000	2	5	1	1	3	6	387,035	690,435
£150,001 - £200,000	1	2	1	1	2	3	309,721	512,721
£200,001 - £250,000	-	1	-	-	-	1	-	212,059
Total	**74**	**51**	**41**	**24**	**115**	**75**	**2,898,719**	**2,884,562**

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 2021/22, the Council paid £5.47 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 23.68% of pensionable pay. The figures for 2020/21 were £5.73 million and 23.68%. 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 2021/22 the costs arising from additional benefits amounted to £352.8k (2020/21: £323.7k).

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**	
	2021/22 £000	**2020/21 £000**	**2021/22 £000**	**2020/21 £000**
Comprehensive Income and Expenditure Statement				
Cost of Services:				
• current service costs	52,035	32,500	123	110
• past service costs including curtailments	23	2,808	-	-
• (gain)/ loss from settlements	-	(1,945)		
• administration expenses	-	246	62	56
• unfunded pension payments	(1,632)	(2,054)	(27)	(27)
• employer's pension contributions adjustment	1,632		27	
Financing and Investment Income and Expenditure:				
• net interest expense / (income)	13,443	11,455	(2)	(38)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**65,501**	**43,010**	**183**	**101**
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)	(85,141)	(168,825)	(6,042)	(5,589)
• Actuarial gains and losses arising on changes in demographic assumptions	(30,287)	(15,715)	-	(441)
• Actuarial gains and losses arising on changes in financial assumptions	(84,447)	340,613	(1,044)	5,976
• Experience loss/ (gain) on defined benefit obligation	(23,975)	(19,352)	100	(631)
• Impact of asset ceiling			6,952	680
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**(223,850)**	**179,731**	**(34)**	**96**
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	(65,501)	(43,010)	(183)	(101)
Actual amount charged against the General Fund Balance for pensions in the year:				
• employers' contributions payable to scheme	20,853	20,313	63	71

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	
	2021/22 £000	2020/21 £000	2021/22 £000	2020/21 £000
Opening balance 1 April	**1,725,464**	**1,388,237**	**45,224**	**41,469**
Current service cost	52,035	32,500	123	110
Interest cost	34,661	32,232	838	928
Remeasurement (gains) and losses:				
- Change in financial assumptions	(84,447)	340,613	(1,044)	5,976
- Change in demographic assumptions	(30,287)	(15,715)	-	(441)
- Experience	27,690	(19,352)	100	(631)
Liabilities assumed/ (extinguished) on settlements	-	(1,342)	-	-
Estimated benefits paid net of transfers in	(40,059)	(39,139)	(2,256)	(2,182)
Past service costs, including curtailments	23	2,808	-	-
Contributions by Scheme participants	7,329	6,676	20	22
Unfunded pension payments	(1,632)	(2,054)	(27)	(27)
Closing balance at 31 March	**1,690,777**	**1,725,464**	**42,978**	**45,224**

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

	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme	
	2021/22 £000	2020/21 £000	2021/22 £000	2020/21 £000
Opening balance 1 April	**1,067,550**	**889,741**	**47,439**	**43,029**
Interest on assets	21,218	10,837	881	966
Remeasurement gain/ (loss):				
- Return on assets less interest	85,141	186,331	6,042	5,589
- Experience	51,665	-	-	-
Administration expenses	-	(7,812)	(62)	(56)
Contributions by employer including unfunded	22,485	22,367	90	98
Contributions by scheme participants	7,329	6,676	20	22
Estimated benefits paid plus unfunded net of transfers in	(41,691)	(41,193)	(2,283)	(2,209)
Settlement prices received/ (paid)	-	603	-	-
Closing balance at 31 March	**1,213,697**	**1,067,550**	**52,127**	**47,439**

Pension Assets and Liabilities Recognised in the Balance Sheet

	31 March 2022 £000	31 March 2021 £000
Present Value of Liabilities		
LBHF Local Government Pension Scheme (Funded)	1,669,349	1,696,419
LBHF Local Government Pension Scheme (Unfunded)	21,428	29,045
LPFA Local Government Pension Scheme (Funded)	42,853	45,072
LPFA Local Government Pension Scheme (Unfunded)	125	152
Fair Value of Assets		
LBHF Local Government Pension Scheme	(1,213,697)	(1,067,550)
LPFA Local Government Pension Scheme	(52,127)	(47,439)
Impact of Asset Ceiling		
LBHF Local Government Pension Scheme		
LPFA Local Government Pension Scheme	9,147	2,154
Net liability arising from defined benefit obligation		
LBHF Local Government Pension Scheme	477,080	657,914
LPFA Local Government Pension Scheme	(2)	(61)
Total	**477,078**	**657,853**

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 £477.1m 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 2022 is estimated to be 10.0% for LBHF Local Government Pension Scheme and 14.92% 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 2022		31 March 2021	
	£000	%	£000	%
Equities	88,493	7%	488,433	46%
Investment Funds and Unit Trusts	1,012,252	83%	-	-
Cash Plus Funds	-	-	410,690	38%
Cash	32,202	3%	64,304	6%
Property	80,750	7%	104,123	10%
Total	**1,213,697**	**100%**	**1,067,550**	**100%**

	LPFA Local Government Pensions Scheme			
	31 March 2022		31 March 2021	
	£000	%	£000	%
Equities	28,942	56%	25,774	54%
Target Return Portfolio	11,453	22%	11,166	24%
Infrastructure	5,329	10%	4,020	8%
Property	4,668	9%	4,317	9%
Cash	1,735	3%	2,162	5%
Total	**52,127**	**100%**	**47,439**	**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 Hymans Robertson LLP and Barnett Waddingham respectively, independent firms of actuaries, with estimates being based on the latest full valuation of the schemes as at 31 March 2022. The principal assumptions used by the actuaries have been:

	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme	
	2021/22	2020/21	2021/22	2020/21
Mortality Assumptions				
Life expectancy from age 65 - retiring today				
Men	22.1	21.6	21.1	21.1
Women	24.7	24.3	24.0	24.0
Life expectancy from age 65 - retiring in 20 years				
Men	23.2	22.9	22.3	22.2
Women	26.1	25.7	25.9	25.8
Financial Assumptions				
Rate of Inflation - CPI	3.20%	2.80%	3.40%	2.85%
Rate of Increase in Salaries	4.20%	3.80%	4.40%	3.85%
Rate of Increase in Pensions*	3.20%	2.80%	3.40%	2.85%
Discount Rate	2.70%	2.00%	2.6%	1.90%

*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 2022.

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 when each assumption analysed changes, all the other assumptions remain constant. The projected service costs for 2022/23 are £47.3m (LBHF) and £0.116m (LPFA).

	Impact on the Defined Benefit Obligation 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%)		27,917		529
Long term salary increase (+/-0.1%)	2,120		9	
Pension increases & deferred revaluation* (+/-0.1%)	25,591		515	
Mortality age rating assumption (+/- 1 year)	67,631		3,091	

*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 last actuarial valuation of the Fund was carried out as at 31 March 2022 and will set contributions for the period from 1 April 2023 to 31 March 2026. 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 19-year period.

The total contributions expected to be made by the Council in the year to 31 March 2023 are £24.145m 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:

	2021/22	**2020/21 (restated)**
	£000	**£000**
Fees payable to the External Auditor with regard to external audit services carried out by the appointed auditor for the year	213	221
Fees payable to External Audit for the certification of grant claims and returns for the year	51	58
Non-Audit Services	13	13
Total	**277**	**292**

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 deployment of DSG receivable for 2021/22 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2021/22 before academy and high needs recoupment			157,150
Less: Academy and high needs figure recouped for 2021/22			74,967
Total DSG after academy and high needs recoupment for 2021/22			82,183
Plus: Brought forward from 2020/21			-
Less: Carry-forward to 2022/23 agreed in advance			-
Agreed initial budgeted distribution in 2021/22	8,447	73,736	82,183
In year adjustments	4,556	(501)	4,055
Final budget distribution for 2021/22	13,003	73,235	86,238
Less: Actual central expenditure	7,396		7,396
Less: Actual ISB deployed to schools		76,227	76,227
Plus: Local authority contribution for 2021/22		370	370
In Year Carry-forward to 2022/23	5,607	(2,622)	2,985
Plus/Minus: Carry-forward to 2022/23 agreed in advance			-
Carry-forward to 2022/23			2,985
DSG unusable reserve at the end of 2020/21			(14,505)
Addition to DSG unusable reserve at the end of 2021/22			-
Total of DSG unusable reserve at the end of 2021/22			(14,505)
Net DSG position at the end of 2021/22			(11,520)

The DSG has a cumulative deficit of £11.5 million. The Schools & Early years Block of £0.3m has been accounted for as a reserve and the cumulative DSG deficit of £11.8m 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 2021/22:

	2021/22 £000	2020/21 £000
Credited to Taxation and Non Specific Grant Income		
S31 Grant - Business Rates Retention Scheme Relief	(26,004)	(43,212)
Revenue Support Grant	(17,506)	(17,410)
Adult Social Care Support Grant	(7,994)	(5,956)
New Homes Bonus	(5,274)	(6,864)
Other Non-ringfenced grants	(4,464)	(3,357)
Capital grants - S106	(8,743)	(37,351)
Capital grants - Affordable Homes Programme	(2,069)	-
Capital grants - Schools Condition Allocations	(1,473)	(1,234)
Capital grants - Right to Buy Ringfenced	(1,273)	-
Capital grants - Transport for London	(1,038)	(1,294)
Capital grants - Other	(2,342)	(4,431)
COVID-19 - Support grant	(6,188)	(11,744)
COVID-19 - Sales, Fees & Charges Support grant	(1,511)	(13,108)
COVID-19 - Council Tax Hardship grant	(1,355)	(1,037)
COVID-19 - Other grants	(644)	(3,375)
Total	**(87,878)**	**(150,373)**
Credited to Services		
Housing & Council Tax Benefit Subsidy	(92,491)	(97,143)
Dedicated Schools Grant	(86,238)	(89,704)
Public Health Grant	(22,139)	(21,879)
Developer Contributions (inc Section 106)	(15,101)	(32,718)
Improved Better Care Fund	(9,183)	(8,814)
Post 16 (EFA 16-19 Grant)	(4,844)	(5,388)
Homelessness Prevention-Flexible Homelessness Support Grant	(3,774)	(2,660)
Pupil Premium Grant	(3,458)	(3,716)
Adult Learning	(2,684)	(2,546)
Unaccompanied Asylum Seeking Children (U18)	(2,392)	(2,121)
Disabled Facilities Grant	(1,445)	(1,555)
PFI Grants	(1,429)	(1,429)
Unaccompanied Asylum Seeking Children Leaving Care	(1,218)	(913)
TFL Funding-Revenue	(1,120)	(263)
Rough Sleeping Initiatives Grant	(1,035)	(771)
Other grants and contributions	(12,830)	(11,577)
COVID-19 - Restart Grant-Non Essential Retail	(15,833)	-
COVID-19 - Additional Restrictions Grant (Top-Up funding)	(2,213)	-
COVID-19 - Omicron Leisure and Hospitality Grant	(1,863)	-
COVID-19 - Adult Social Care Workforce Capacity Fund	(1,770)	(456)
COVID-19 - Contain Outbreak Management Fund grant	(1,561)	(4,318)
COVID-19 - Demand Led for Community testing grant	(1,313)	(1,180)
COVID-19 - Household Support Fund	(1,306)	-
COVID-19 - Other grants	(6,613)	(13,562)
Total	**(293,853)**	**(302,713)**

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:

	2021/22 £000	2020/21 £000
Grants and Contributions Receipts in Advance (Current)		
COVID-19 - Restart Grant	(2,702)	-
Mental Health Hospital Discharge and Admission Avoidance Grant	(1,399)	-
COVID-19 - Omicron Leisure and Hospitality Grant	(639)	-
Improved Better Care Fund Grant	(550)	-
COVID-19 - Other grants	(683)	(2,809)
Other revenue grants	(4,401)	(3,716)
Total	**(10,374)**	**(6,525)**

	2021/22 £000	2020/21 £000
Grants and Contributions Receipts in Advance (Non-Current)		
Developer contributions (inc. Section 106)	(7,994)	(13,008)
Right to Buy Ringfenced Grant	(7,204)	-
High Needs Provision Grant	(2,330)	-
Electric Vehicle Charging Points Grant	(2,214)	-
TfL	(1,117)	(1,354)
COVID-19 - Other grants	-	(91)
Other capital grants	(2,353)	(2,846)
Total	**(23,212)**	**(17,299)**

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 2021/22 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 2021/22 are set out below.

31. Related Parties (cont'd)

Name of body	2021/22				
	Loan	Expenditure	Income	Income outstanding to LBHF (LBHF debtor balance)	Balance outstanding (LBHF creditor balance)
	£000	£000	£000	£000	£000
Action on Disability	-	422	-	-	-
Flora Gardens Primary School	-	1,589	(9)	-	-
Groundwork London	-	45	-	-	-
Hammersmith and Fulham Citizen Advice Bureau	-	614	-	-	-
Hammersmith and Fulham Community Law Centre	-	102	(20)	5	-
Hammersmith and Fulham Volunteer Centre	-	142	-	1	-
London Councils	-	1,296	(60)	5	-
Lyric Hammersmith	-	217	-	14	-
LBHF Family Support Services Ltd	-	239	-	-	-
Old Oak and Park Royal Development Corporation	-	-	-	-	-
Sands End Arts and Community Centre	-	99	(27)	19	-
United in Hammersmith & Fulham	-	340	-	-	-
Western Riverside Waste Authority	-	10,297	-	-	-
West King Street Renewal LLP	15,484	-	(4,252)	13,172	-
Total	**15,484**	**15,402**	**(4,368)**	**13,216**	**-**

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	-	343	(1)	-	-
Hammersmith and Fulham Citizen Advice Bureau	-	656	-	-	-
Hammersmith and Fulham Community Law Centre	-	115	-	-	-
Hammersmith and Fulham Volunteer Centre	-	142	(1)	2	-
Lyric Hammersmith	-	230	-	-	-
LBHF Family Support Services Ltd	-	2,221	-	-	-
Western Riverside Waste Authority	-	9,943	-	-	-
West King Street Renewal LLP	-	-	-	7,193	-
Total	**-**	**13,651**	**(2)**	**7,195**	**-**

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 schools.

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

Pension Fund

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

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 36.

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, H&F Housing Developments Ltd and West King Street Renewal LLP. Full details are disclosed in Note 33.

32. Better Care Fund Pooled Budget

The Authority has entered into a pooled budget arrangement with The Hammersmith and Fulham Clinical Commissioning Group for the provision of Adult Social Care services to older people, people with physical or learning disabilities, people with mental health problems and services to safeguard adults.

The aim is to meet the needs of people living in the area of the London Borough of Hammersmith & Fulham. Expenditure funded from this budget includes the provision of care in residential settings, community services enabling people to remain in their own homes and a community independence service which supports the reablement of residents.

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

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

It is hosted by the London Borough of Hammersmith and Fulham, however, not all transactions pass through the Borough's accounting system.

The pooled budget for Joint Equipment has been absorbed within the Better Care Fund.

The following table summarises the position for 2021/22:

	2021/22 £000	2020/21 £000
Contributions to the Pooled Budget:		
London Borough of Hammersmith & Fulham	(18,150)	(17,875)
Hammersmith and Fulham Clinical Commissioning Group	(32,259)	(31,135)
Total Contributions	**(50,409)**	**(49,010)**
Expenditure Met by the Pooled Budget:		
Costs relating to the reablement of residents	5,758	5,706
Costs relating to care provided in residential settings or in community settings	42,960	41,595
Support Services and programme management relating to the BCF	2,108	2,088
Total Expenditure	**50,826**	**49,389**
Net (surplus)/deficit arising on the pooled budget in the year	417	379
Net (surplus)/deficit split by:		
Share of the net (surplus)/deficit due to the London Borough of Hammersmith & Fulham (Includes capital resources)	191	81
Share of the net (surplus)/deficit due to the Hammersmith & Fulham Clinical Commissioning Group	225	298

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 £217k in 2021/22. The latest audited accounts available, those relating to 2020/21, show net assets of £10,948k (£10,204k in 2019/20) and net income on its activities in that year of £744k (net loss of £603k in 2019/20). 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.

33. Interest in Companies (cont'd)

(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 2020/21 show loss for the period amounted to £155k (loss £119 in 2019/20).

(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 revenue contributions by the Council were £239k in 2021/22 The latest full year Accounts available, those relating to 2020/21, show net liability worth £82.1k and a net gain for the period of £82.1k.

(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. As at 31st March 2022, the Council has £15,484k invested in the company and has a long-term debtor with the LLP of £13,172k relating to the Council's purchase of the Civic Campus commercial units, currently under development.

(vii) H&F Housing Developments Limited

H&F Housing Developments Limited is a limited company wholly owned by the Council. The company acts as 'nominee' company holding certain leases for the Council in trust (with the Council remaining ultimate beneficial owner via a trust deed).

34. Contingent Assets and Contingent Liabilities

The council does not have any material contingent assets or liabilities.

35. 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 2022 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 2022/23 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 £1.474 billion) would result in a reduction of £147.4 million (Revaluation Reserve of £37.5 million and a £109.9 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 £1.93 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 2022 is £528m. 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 2022, the assets invested with Partners Group were valued at £53.5m (£45.9m in 2020/21). The same applies to the Aviva Infrastructure which has a quarterly valuation cycle. As at 31 March 2022, the value of the investment was £26.6m (£25.5m in 2020/21). 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 £28m • 0.1% increase in assumed earnings would increase the value of the liabilities by approximately £4m • 0.1% increase in pension increases would increase the liability by about £23m • A one-year increase in life expectancy would increase the liability by about £68m

36. 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:

	2021/22 £000	2020/21 (restated) £000
Balance at 1st April	**(5,938)**	**(5,889)**
Income	(1,170)	(1,002)
Sub total	**(7,108)**	**(6,891)**
Less:		
Expenditure and Transfers	1,077	953
Balance at 31 March	**(6,031)**	**(5,938)**

37. Events after the Reporting Period

The Statement of Accounts have been prepared up to 31 March 2022. 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 2021/22 (the Code) supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts summarises the Council's transactions for the 2021/22 financial year and its position at the year-end of 31 March 2022.

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 (see separate section below), 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.

Highways infrastructure assets

Highways infrastructure assets include carriageways, footways and cycle tracks, structures (eg bridges), street lighting, street furniture (eg illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network.

Recognition

Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, provided that it is probable that the future economic benefits associated with the item will flow to the authority and the cost of the item can be measured reliably.

Measurement

Highways infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which was deemed at that time to be historical cost.
Where impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

Depreciation

Depreciation is provided on the parts of the highways network infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives. Depreciation is charged on a straight-line basis. Annual depreciation is the depreciation amount allocated each year and varies by type of infrastructure between 3 and 40 years.

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.

38. Statement of Accounting Policies (cont'd)

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.

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.

38. Statement of Accounting Policies (cont'd)

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).

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.

38. Statement of Accounting Policies (cont'd)

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
- 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

38. Statement of Accounting Policies (cont'd)

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.

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.

38. Statement of Accounting Policies (cont'd)

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.

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.

38. Statement of Accounting Policies (cont'd)

Liabilities are discounted to their value at current prices, using a discount rate of 2.70% (2.00% in 2020/21). Both FRS102 and IAS19 state that the discount rate used to place a value on the obligations should be determined by reference to market yields on high quality corporate bonds at the reporting date. Our actuaries have adopted an approach to setting the discount rate whereby a corporate bond yield curve is constructed based on the constituents of the iBoxx AA corporate bond index.

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.

38. Statement of Accounting Policies (cont'd)

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

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

Contingent Liabilities

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

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

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 2021/22. Companies in which the Council has an interest are detailed in Note 33 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.

38. Statement of Accounting Policies (cont'd)

xxiii. FOREIGN CURRENCY TRANSLATION

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

xxiv. VAT

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

xxv. EXCEPTIONAL ITEMS

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

- Annual Improvements to IFRS Standards 2018–2020. The annual IFRS improvement programme notes 4 changed standards:

    - IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS

    - IAS 37 (Onerous contracts) – clarifies the intention of the standard

    - IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material

    - IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.

    None of the matters covered in the annual improvements are dealt with in detail in the 2022/23 Code. These are minor amendments and are not likely to have a significant effect on the Council's financial statements.

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16). This is unlikely to have any impact on the Council's accounts.

- 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 2023. 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

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.

	2021/22			2020/21		
	Business Rates	**Council Tax**	**Total**	**Business Rates**	**Council Tax**	**Total**
	£000	£000	£000	£000	£000	£000
Income						
Council Tax	-	(102,047)	(102,047)	-	(94,066)	(94,066)
Council Tax Hardship Fund	-			-		
Business Rates	(177,529)	-	(177,529)	(143,635)	-	(143,635)
Business Rate Supplement	(5,009)	-	(5,009)	(3,830)	-	(3,830)
Transitional Protection Payment	597	-	597	1,249	-	1,249
Total Income	**(181,941)**	**(102,047)**	**(283,988)**	**(146,216)**	**(94,066)**	**(240,282)**
Expenditure						
Precepts and Demands:						
Central Government (CLG)	74,956	-	74,956	77,195	-	77,195
LB Hammersmith & Fulham	68,142	67,331	135,473	70,177	63,768	133,945
Greater London Authority	84,042	29,431	113,474	86,551	26,730	113,282
Business Rate Supplement						
Payment to the Greater London Authority	4,997	-	4,997	3,817	-	3,817
Cost of collection	12	-	12	13	-	13
Charges to Collection Fund						
Write-offs of uncollectable amounts	265	852	1,116	(14)	674	660
Increase/ (Decrease) in Allowance for Doubtful Debts	-	4,074	4,074	28,500	4,800	33,299
Increase/ (Decrease) in Provision for Appeals	(12,324)	-	(12,324)	8,924	-	8,924
Distribution/(Recovery) of prior year surplus/(deficit)	(129,437)	(1,533)	(130,969)	7,665	7,505	15,171
Cost of collection	589	-	589	585	-	585
Total Expenditure	**91,240**	**100,155**	**191,397**	**283,413**	**103,477**	**386,891**
Movement on Fund balance	**(90,701)**	**(1,891)**	**(92,592)**	**137,196**	**9,411**	**146,608**
(Surplus)/Deficit as at 1 April	130,587	1,472	132,058	(6,611)	(7,939)	(14,550)
(Surplus)/Deficit as at 31 March	**39,887**	**(419)**	**39,466**	**130,587**	**1,472**	**132,058**

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 2021/22 it was calculated as follows:

Band	Number of Dwellings 2021/22	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 2021/22	Band D equivalents 2020/21
A	4,098	2,976	6/9	1,984	(34)	(791)	1,159	1,198
B	6,648	4,985	7/9	3,877	(63)	(1,508)	2,306	2,631
C	14,337	12,501	8/9	11,112	(173)	(2,936)	8,003	8,209
D	25,120	22,597	1	22,597	(203)	(3,486)	18,908	19,077
E	16,427	15,057	11/9	18,403	(88)	(1,760)	16,555	16,264
F	10,243	9,505	13/9	13,730	(8)	(644)	13,078	12,568
G	11,662	10,987	15/9	18,312	10	(342)	17,980	17,544
H	2,731	2,646	18/9	5,292	(4)	(9)	5,279	5,068
Total	**91,266**	**81,253**		**95,307**	**(563)**	**(11,476)**	**83,268**	**82,559**

The 2021/22 Council Tax Base after allowing for adjustments for non collection was 80,930.

The Council set a 2021/22 Band D charge of £831.96 (£792.42 in 2020/21), inclusive of the Adult Social Care Precept set at 3%. The GLA's Band D charge for 2021/22 was £363.66 (£326.92 in 2020/21) making a total Band D Council Tax charge for 2021/22 of £1,195.62 (2020/21 of £1,119.34).

2. National Non-Domestic Rates

NNDR is organised and administered on a national basis. 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 2022 was £574.9m (£591.6m as at 31 March 2021). The standard NNDR multiplier for 2021/22 was 51.2 pence (51.2 pence in 2020/21). The Small Business Rate Relief multiplier for 2021/22 was 49.9 pence (49.9 pence in 2020/21).

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 DLUHC 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.

	2021/22			2020/21		
	Business Rates	Council Tax	Total	Business Rates	Council Tax	Total
	£000	£000	£000	£000	£000	£000
London Borough of Hammersmith and Fulham	11,966	(279)	11,688	39,176	1,073	40,250
Greater London Authority	14,758	(141)	14,617	48,317	399	48,716
Central Government (DLUHC)	13,163	-	13,163	43,094	-	43,094
	39,887	**(420)**	**39,468**	**130,587**	**1,472**	**132,060**

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	2021/22 £000	2020/21 £000
Income			
Dwelling Rents		(68,740)	(67,601)
Non-dwelling rents		(24)	-
Charges for services and facilities		(13,870)	(11,420)
Contributions towards expenditure		(1,063)	(1,713)
		(83,697)	**(80,734)**
Expenditure			
Repairs and maintenance and management			
Repairs and maintenance		18,984	16,494
Supervision and management		44,376	45,616
Rents, rates, taxes and other charges		605	621
Depreciation and impairment of non-current assets	6	17,012	15,712
Depreciation and impairment of non-current assets - dwelling revaluation	6	(13,996)	(46,572)
Debt management costs		151	138
Movement in the allowance for bad debts		1,746	833
		68,878	**32,842**
Net Cost of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement		**(14,819)**	**(47,892)**
HRA services' share of Non Distributed Costs		4,482	85
Net (Income)/Cost for HRA Services		**(10,337)**	**(47,807)**
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		(11,276)	(2,645)
Net (gains)/losses from fair value adjustments on investment properties		2,157	1,829
Income and expenditure in relation to investment properties		(3,464)	(3,305)
Interest payable and similar charges		8,262	8,567
Interest and investment income		-	(2)
Net interest on the net defined benefit liability (asset)		1,925	886
Capital grants and contributions		(4,010)	(1,689)
(Surplus)/deficit for the year on HRA services		**(16,743)**	**(44,166)**
Movement on the HRA Statement			
Balance on the HRA at the end of the previous year		**(17,562)**	**(24,580)**
(Surplus)/deficit for the year on the HRA Income and Expenditure Statement		(16,743)	(44,166)
Adjustments between accounting basis and funding basis under statute	1	20,788	47,666
Net (increase)/decrease before transfers to/(from) reserves		4,045	3,500
Transfers to/(from) reserves			
Earmarked Reserves*		(2,047)	3,518
(Increase)/decrease in year on the HRA		**1,998**	**7,018**
Balance on the HRA at the end of the current year		**(15,564)**	**(17,562)**

* 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

	2021/22 £000	2020/21 £000
Charges for depreciation of non-dwellings	(238)	(223)
Charges for depreciation of dwellings	16,774	15,489
Reversal of Major Repairs Allowance credited to the HRA	(15,981)	(15,265)
Impairment/Revaluation gains, losses (charged to the I&E)	13,996	46,572
Revenue expenditure funded from capital under statute (REFCUS)	(1,065)	(1,271)
Capital Funding	7,319	1,476
Gain or loss on sale of HRA non-current assets	10,639	2,645
HRA share of contributions (to)/from the Pensions Reserve	(10,656)	(1,757)
	20,788	**47,666**

2. Housing Stock

The Council has overall responsibility for managing the housing stock. The average number of dwellings during 2021/22 was 12,003. 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 2021	12,016	67	13	12,096
Additions	6	-	-	6
Disposals	(32)	-	(2)	(34)
Number at 31 March 2022	**11,990**	**67**	**11**	**12,068**

3. Stock Valuation

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

	2021/22 £000	2020/21 £000
Operational Assets		
Housing Dwellings	1,474,362	1,412,221
Other Land and Buildings	10,772	9,589
Vehicles, Plant, Equipment	191	269
Intangible Assets	15	22
Non Operational Assets		
Surplus Assets	8,968	8,360
Investment Properties	51,482	53,080
	1,545,790	**1,483,541**

The open market, vacant possession fair value of houses and flats within the HRA as at 31 March 2022 was £5.87 billion. This compares to the balance sheet value of £1.47 billion for the Council’s dwelling stock and hostels as at 31 March 2022. This is an indication of the economic and social cost of providing Council housing at less than full market rents.

4. Capital Expenditure Financing

	2021/22 £000	2020/21 £000
Borrowing	23,921	17,288
Major Repairs Reserve	17,012	26,287
Other Grants and Contributions	7,775	4,251
Capital Receipts	6,744	3,258
Total	**55,452**	**51,084**

5. Capital Receipts

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

	2021/22 £000	2020/21 £000
Dwelling & Hostels	(7,966)	(1,981)
Non-Dwellings	(6,185)	(1,442)
Total	**(14,151)**	**(3,423)**

6. Depreciation and Impairment

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

	2021/22 £000	2020/21 £000
Operational Assets		
Depreciation		
Dwellings	16,774	15,489
Other Land and Buildings	153	145
Vehicles, Plant, Equipment and Intangible Assets	85	78
Sub-total depreciation and impairment of non-current assets	17,012	15,712
Revaluation (Gain) / Loss - dwellings	(13,996)	(46,572)
Total	**3,016**	**(30,860)**

7. Rent Arrears and Allowance for Doubtful Debts

Gross rent arrears were as follows:

	2021/22 £000	2020/21 £000
Main Council Stock	7,031	6,683
Hostels	202	678
Total	**7,233**	**7,361**

Allowances for Doubtful Debts at 31 March were:

	2021/22 £000	2020/21 £000
Main Council Stock	(5,987)	(5,635)
Hostels	(207)	(678)
Total	**(6,194)**	**(6,313)**

Pension Fund Accounts

FUND ACCOUNT

	Notes	2021/22		2020/21	
		£000	**£000**	**£000**	**£000**
Dealings with members, employers and others directly involved in the scheme					
Contributions					
From Employers	7	25,568		24,180	
From Members	7	8,735	34,303	8,004	32,184
Transfers In from other Pension Funds			8,617		9,350
Benefits					
Pensions	8	(37,839)		(36,363)	
Commutation & Lump Sum Retirement Benefits	8	(10,097)		(8,164)	
Payment in respect of tax		(271)	(48,207)	(508)	(45,035)
Payments to and on account of leavers					
Transfers Out to other Pension Funds			(5,737)		(7,013)
Refunds to members leaving service			(152)		(40)
Net Additions (Withdrawals) from dealings with members			**(11,176)**		**(10,554)**
Management expenses	9		**(9,915)**		**(8,903)**
Returns on Investments					
Investment Income	10		11,170		12,327
Other Income	10		26		23
Profit and losses on disposal of investments and changes in value of investments	12		115,585		215,444
Net Return on Investments			**126,781**		**227,794**
Net Increase (Decrease) in the net assets available for benefits during the year			**105,690**		**208,337**
Opening Net Assets of the Scheme			**1,219,223**		**1,010,886**
Closing Net Assets of the Scheme			**1,324,913**		**1,219,223**

NET ASSET STATEMENT

	Notes	31 March 2022 £000	31 March 2021 £000
Investment Assets			
Equities	11	150	150
Pooled Property Vehicles	11	87,987	61,161
Pooled Investment Vehicles	11	1,127,189	1,081,786
Private Equity / Infrastructure	11	72,202	71,863
Cash Deposits	11	32,104	8
Other Investment Balances			
Investment Income Due	11	7	13
Net Investment Assets	11	**1,319,639**	**1,214,981**
Current Assets	19	4,525	3,664
Current Liabilities	20	(2,118)	(1,100)
Cash Balances (held directly by Fund)		2,867	1,678
Net assets of the Fund available to fund benefits at the period end		**1,324,913**	**1,219,223**

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 2022. Employer contributions are set based on the triennial actuarial funding valuation, as detailed in Note 18.

b) Pension Fund Committee

The Council has delegated the investment arrangements of the scheme to the Audit and Pensions Committee, which in December 2014 formed a Pension Fund Committee (the Committee) and delegated all pensions responsibilities to it. The Committee decides on the investment strategy most suitable to meet the liabilities of the Fund and has responsibility for the investment strategy. The 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 Committee meetings but have no voting rights.

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

c) Pensions Board

In line with the provisions of the Public Service Pensions Act 2013, the Council has set up a Local Pensions 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 Pension Fund Committee.

d) Investment Principles

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the 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 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 2022	31 March 2021
Number of Active Employers	55	58
Contributing employees	3,859	4,467
Pensioners receiving benefit	5,579	5,425
Deferred members	7,765	6,784
Total members	**17,203**	**16,676**

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 2021/22 and its position at year end as at 31 March 2022. 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 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, 31 December 2020 and 31 December 2021, 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 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. Hymans Robertson are engaged to provide the fund with expert advice about the assumptions to be applied.	For instance: • 0.1% decrease in the discount rate assumption would result in an increase in promised retirement benefits of £31m • 0.1% increase in assumed earnings would increase the value of the liabilities by approximately £3m • 0.1% increase in pension increases would increase the liability by approximately £28m • A one-year increase in life expectancy would increase the liability by approximately £75m

Management has agreed a reasonable set of actuarial assumptions in consultation with the actuary which derives the total pension fund liability.

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) 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 2022, the assets invested with Partners Group were valued at £53.5m (£45.9m in 2020/21).

The same applies to the Aviva Infrastructure which has a quarterly valuation cycle. As at 31 March 2022, the value of the investment was £26.6m (£25.5m in 2020/21). 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

There are no events after the balance sheet date.

NOTE 7. CONTRIBUTIONS RECEIVABLE

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

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

	Employers' Contributions				Employees'	
	Normal		Deficit Recovery		Contributions	
	2021/22 £000	2020/21 £000	2021/22 £000	2020/21 £000	2021/22 £000	2020/21 £000
Administering Authority	17,061	15,614	3,792	3,885	7,329	6,671
Scheduled Bodies	3,478	2,933	-	-	1,006	856
Admitted Bodies	1,253	1,503	(16)	245	400	477
Total	**21,792**	**20,050**	**3,776**	**4,130**	**8,735**	**8,004**
Total Contributions			**25,568**	**24,180**	**8,735**	**8,004**

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	
	2021/22	**2020/21**	**2021/22**	**2020/21**	**2021/22**	**2020/21**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Administering Authority	(34,701)	(33,478)	(8,294)	(6,075)	(792)	(1,071)
Scheduled Bodies	(502)	(443)	(74)	(128)	(96)	(144)
Admitted Bodies	(2,636)	(2,442)	(712)	(716)	(130)	(30)
Total	**(37,839)**	**(36,363)**	**(9,080)**	**(6,919)**	**(1,017)**	**(1,245)**
Total Lump Sum Benefits					**(10,097)**	**(8,164)**

NOTE 9. MANAGEMENT EXPENSES

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

	2021/22	**2020/21**
	£000	**£000**
Administrative costs	(1,225)	(536)
Investment management expenses	(8,406)	(7,533)
Oversight and governance costs	(284)	(834)
	(9,915)	**(8,903)**

*after bringing certain fund administration roles in-house the administrative costs have increased and the oversight and governance costs have decreased

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

	2021/22	**2020/21**
	£000	**£000**
Management fees	(6,431)	(5,446)
Performance fees	(79)	(257)
Transaction costs	(1,845)	(1,764)
Custody fees	(51)	(66)
	(8,406)	**(7,533)**

NOTE 10. INVESTMENT INCOME

The table below shows a breakdown of investment income.

	2021/22	**2020/21**
	£000	**£000**
Pooled investments - unit trusts and other managed funds	8,037	5,930
Income from Alternative Investments	3,129	6,387
Interest on Cash Deposits	4	10
Other Investment Income	26	23
Total	**11,196**	**12,350**

NOTE 11. INVESTMENT STRATEGY

During 2021/22 the Fund's investment strategy had the following developments:

- In July 2021, the Fund had its first capital call from Man Group and has since committed £9.7m of a total commitment of £30m.
- In January 2022, the Pension Fund fully funded its commitment of £32m in Darwin Alternatives.

In August 2015, the Fund made a commitment to the Partners Group Direct Infrastructure fund. As at 31 March 2021 €12.1m (£10.2m) 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 2022, the Fund had £965m invested with the London CIV, which accounts for 73.1% of the fund's total assets.

The market value and proportion of investments managed by each fund manager at 31 March 2022 was as follows:

	31 March 2022		31 March 2021	
	Market Value	**Total**	**Market Value**	**Total**
	£000	**%**	**£000**	**%**
Investments manager by the London CIV asset pool				
LGIM - MSCI Low Carbon (Passive)	405,364	30.7%	381,252	31.4%
Ruffer - Absolute Return (Active)	270,935	20.5%	280,677	23.1%
PIMCO - Global Bonds (Active)	99,766	7.6%	107,333	8.8%
Morgan Stanley - Global Sustain Fund	188,554	14.3%	174,776	14.4%
	964,619	**73.10%**	**944,038**	**77.71%**
Investments managed outside of the London CIV asset pool				
Darwin Alternatives - Leisure Fund	32,582	2.5%	-	0.0%
Man Group - Affordable Housing	18,231	1.4%	-	0.0%
Oak Hill Advisers - Secured Income (Active)	66,283	5.0%	80,034	6.6%
Abrdn - Long Lease Property	69,756	5.3%	61,161	5.0%
Aviva - Private Infrastructure	26,596	2.0%	25,546	2.1%
Partners Group - Infrastructure	45,468	3.4%	31,956	2.6%
Partners Group - Multi Asset Private Credit	7,986	0.6%	13,896	1.1%
Invesco - Private Equity	-	0.0%	47	0.0%
Unigestion - Private Equity	138	0.0%	418	0.0%
Inhouse Cash - Cash	32,111	2.4%	21	0.0%
London CIV Ltd	150	0.0%	150	0.0%
NT Ultra Short Bond Fund	1	0.0%	1,999	0.2%
Abrdn - MSPC	55,718	4.2%	55,715	4.6%
	355,020	**26.9%**	**270,943**	**22.3%**
	1,319,639	**100.0%**	**1,214,981**	**100.0%**

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

	31 March 2022		31 March 2021	
	Market Value £000	Total %	Market Value £000	Total %
LGIM - MSCI Low Carbon (Passive)	405,364	30.7%	381,252	31.4%
Ruffer - Absolute Return (Active)	270,935	20.5%	280,677	23.1%
PIMCO - Global Bonds (Active)	99,766	7.6%	107,333	8.8%
Oak Hill Advisers - Secured Income (Active)	66,283	5.0%	80,034	6.6%
Abrdn - Long Lease Property	69,756	5.3%	61,161	5.0%
Morgan Stanley - Global Sustain Fund	188,554	14.3%	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 2021/22.

Fund Manager	Value at 1 April 2021 £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 2022 £000
Equities	150	-	-	-	**150**
Pooled equity investments	1,081,786	32,000	(91,882)	97,299	**1,119,203**
Pooled property investments	61,162	55	(100)	8,640	**69,757**
Private equity/infrastructure	71,863	31,260	(14,347)	9,642	**98,418**
Sub-total	**1,214,961**	**63,315**	**(106,329)**	**115,581**	**1,287,528**
Cash Deposits	8			(1)	**32,104**
Investment income due	13			-	**7**
Spot FX contracts	-			5	**-**
Totals	**1,214,982**	**63,315**	**(106,329)**	**115,585**	**1,319,639**

*

The equivalent analysis for 2020/21 is provided below:

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**

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
Illiquid Alternatives	Level 3	Valued by Fund Managers at the lower of cost and fair value.	In house evaluation of market data	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

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 2022			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	Level 3	Level 1	Level 2	Level 3
	£000	£000	£000	£000	£000	£000
Financial Assets						
Designated at fair value through profit and loss	-	1,156,377	131,151	-	1,142,947	72,013
Total Financial Assets	**-**	**1,156,377**	**131,151**	**-**	**1,142,947**	**72,013**
Financial Liabilities						
Designated at fair value through profit and loss				-		
Total Financial Liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Net Financial Assets	**-**	**1,156,377**	**131,151**	**-**	**1,142,947**	**72,013**
			1,287,528			**1,214,960**

NOTE 14b. TRANSFERS BETWEEN LEVELS 1 AND 2

In 2021/22, 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 2021 £000	Purchases £000	Sales £000	Unrealised gains / (losses) £000	Realised gains / (losses) £000	Market Value as at 31 March 2022 £000
Overseas Infrastructure	32,421	6,717	(312)	6,615	165	45,606
UK Infrastructure	25,546	-	-	1,050	-	26,596
Private Credit	13,896	24,543	(14,035)	1,812	-	26,216
London LGPS CIV	150	-	-	-	-	150
Illiquid Alternatives	-	32,000	-	582	-	32,582
Total	**72,013**	**63,260**	**(14,347)**	**10,059**	**165**	**131,151**

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 2022 has been estimated to be accurate within the following ranges:

Description of assets	Assessed Valuation Range (+)	Assessed Valuation Range (-)	Value at 31 March 2022 £000	Value on increase £000	Value on decrease £000
Aviva - Private Infrastructure	8.20%	7.20%	26,596	28,777	24,681
Partners Group - Infrastructure	9.16%	9.16%	45,468	49,633	41,303
Partners Group - Multi Asset Private Crec	6.55%	6.55%	7,986	8,509	7,463
Darwin Alternatives - Leisure Fund	10.00%	8.80%	32,582	35,840	29,715
Man Group - Affordable Housing	10.30%	11.30%	18,231	20,109	16,171
Total			**130,863**	**142,868**	**119,333**

*Three assets (totalling £0.288m) 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 2022			31 March 2021		
	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						
Pooled Investment Vehicles:						
UK equity funds	864,853	-	-	836,705	-	-
UK fixed income fund	163,471	-	-	178,943	-	-
UK property fund	120,569	-	-	61,162	-	-
UK infrastructure	26,596	-	-	25,546	-	-
Overseas fixed income fund	66,283	-	-	80,034	-	-
Overseas infrastructure	45,468	-	-	31,956	-	-
Overseas venture capital	138	-	-	464	-	-
London LGPS CIV	150	-	-	150	-	-
Investment income due	-	6	-	-	13	
Cash deposits with managers	-	32,105	-	-	8	
Debtors	-	4,525	-	-	3,664	
Cash balances (held by fund)	-	2,867	-	-	1,678	
	1,287,528	39,503	-	1,214,960	5,363	-
FINANCIAL LIABILITIES						
Creditors	-	-	(2,118)	-	-	(1,100)
	-	-	(2,118)	-	-	(1,100)
GRAND TOTALS	**1,287,528**	**39,503**	**(2,118)**	**1,214,960**	**5,363**	**(1,100)**
			1,324,913			**1,219,223**

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 2022	31 March 2021
	£000	£000
Financial Assets		
Fair value through profit and loss	115,581	215,592
Loans and receivables	5	12
Financial Liabilities		
Fair value through profit and loss	(1)	(160)
	115,585	**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 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 the next 21 years, based on the 2019 actuarial valuation deficit recovery plan, the fund managers have been set differing targets appropriate to the types of assets they manage. 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 Pension Fund Committee and is reviewed on a regular basis.

On 24 February 2022, Russia invaded Ukraine, a severe escalation in the conflict which had been ongoing since 2014. Subsequently, numerous global powers implemented sanctions against major Russian banks and financial institutions, including freezing of overseas assets and removing access to SWIFT international payments. The Pension Fund can report that as at 31 March 2022, the value of investments in Russia or Ukraine is immaterial.

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 9.4% higher or 9.4% lower.

Assets exposed to price risk

	Value	Price Risk	Positive increase	Negative increase
	£000		£000	£000
At 31st March 2022	1,322,506	9.4%	1,447,181	1,197,831
At 31st March 2021	1,214,960	10.9%	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.

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 2022 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 2022	341,107	331,880	348,737
At 31st March 2021	363,074	348,918	377,231

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

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

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

Assets exposed to currency risk

	Value £000	Currency Risk	Positive increase £000	Negative increase £000
At 31st March 2022	739,360	6.8%	789,358	689,363
At 31st March 2021	869,126	5.2%	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 13.2% of the Fund's Net Assets at 31 March 2022 (8.85% at 31 March 2021). The remaining assets can all be liquidated within days.

Manager	Portfolio	31 March 2022 £000	31 March 2021 £000
Standard Life	Property	69,756	61,162
Partners Group	Infrastructure	45,468	31,956
Partners Group	Multi Asset Credit	7,986	13,896
Invesco	Private Equity	-	47
Unigestion	Private Equity	138	417
Darwin Alternatives	Illiquid Alternatives	32,582	-
Man Group	Property	18,231	-
		174,161	**107,478**

NOTE 17. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

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

	31 March 2022 £000	31 March 2021 £000
Alpha Real Capital	60,000	-
Man Group - Affordable Housing	9,969	-
Partners Group Direct Infrastructure Fund 2015	10,193	16,936
	80,162	**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	March 2019	March 2016
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 2022. The figures have been prepared by Hymans Robertson, 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 2022	31 March 2021
	£000	**£000**
Present Value of Promised Retirement Benefits*	(1,267,000)	(1,923,604)
Fair Value of Scheme Assets (bid value)	1,324,913	1,216,634
Net Liability	**57,913**	**(706,970)**

The assumptions applied by the actuary are set out below:

Financial Assumptions	**31 March 2022**	**31 March 2021**
Salary increases	4.20%	3.80%
Pension increases	3.20%	2.80%
Discount Rate	2.70%	2.00%

Demographic Assumptions

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 10% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

Life Expectancy from age 65		**31 March 2022**	**31 March 2021**
Retiring today	Males	22.1	21.6
	Females	24.7	24.3
Retiring in 20 years	Males	23.2	22.9
	Females	26.1	25.7

Other Assumptions:

- Members will exchange half of their commutable pension for cash at retirement.

NOTE 19. CURRENT ASSETS

Debtors	31 March 2022 £000	31 March 2021 £000
Contributions due - employers	1,620	1,370
Contributions due - employees	704	549
London Borough of Hammersmith and Fulham	96	941
Sundry debtors	2105	804
	4,525	**3,664**

Analysis of debtors	31 March 2022 £000	31 March 2021 £000
Local authorities	96	941
Other entities and individuals	4,087	2,560
Central Government	342	163
	4,525	**3,664**

NOTE 20. CURRENT LIABILITIES

Creditors	31 March 2022 £000	31 March 2021 £000
Unpaid Benefits	(562)	(589)
Management Expenses	(843)	(426)
Sundry creditors	(713)	(85)
	(2,118)	**(1,100)**

Analysis of creditors	31 March 2022 £000	31 March 2021 £000
Other entities and individuals	(2,118)	(1,100)
	(2,118)	**(1,100)**

NOTE 21. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

The Fund's AVC providers are Scottish Widows Workplace Savings and Utmost Life and Pensions. AVCs are invested separately from the Pension Fund and their valuations are shown in the table below.

Scottish Widows Workplace Savings	31 March 2022 £000	31 March 2021 £000
Market Value at 31st March	917	908
Contributions during the year	11	7
Utmost Life and Pensions		
Market Value at 31st March	176	191
Contributions during the year	-	-

Scottish Widows Workplace savings had 48 members in 2021/22 (51 in 2020/21). Utmost Life and Pensions had 21 members in 2021/22 (27 in 2020/21).

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 £0.637m in 2021/22 (£0.542m in 2020/21) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses. The Council made £20.9m of contributions in year (£19.5m in 2020/21).

The Pension Fund’s accounting and governance management is carried out through a shared service with Westminster City Council. Westminster City Council incurred costs of £0.174m in 2021/22 (£0.172m in 2020/21) in relation to the accounting and governance of the Fund and were reimbursed for the expense.

Key management personnel

The key management personnel of the Fund are the Members of the Pension Fund 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 2022	31 March 2021
	£000	£000
Short-term benefits	32	30
Post-employment benefits	(30)	95
	2	**125**

NOTE 23. EXTERNAL AUDIT COSTS

The external audit fee payable to Fund’s external auditors, Grant Thornton LLP, was £33,000 (£33,000 in 2020/21).

ANNUAL GOVERNANCE STATEMENT 2021/22

1.0 Introduction

Hammersmith & Fulham borough is a fantastic, thriving place to live, visit and do business. We have recovered well following the worst effects of the Coronavirus pandemic and, looking forward, the borough is on the up again with great promise on the horizon.

Residents of the borough deserve high-quality services they can rely on. The cost of living is hitting residents hard - and many are worried about growing unfairness and rising costs. This threatens what we want for the future. Hammersmith & Fulham Council (H&F) manage our finances responsibly and relentlessly challenge unfairness, waste and old-fashioned thinking. We are a different kind of council – pioneering and ceaselessly searching for better answers. We'll keep listening and working with residents and finding creative ways to take us forward, including in responding to national and international challenges.

Our vision is ambitious and it is therefore essential that our local residents, businesses, service users, suppliers and partners all have confidence in our governance arrangements and the way we fully account for the money we receive and how we spend it. Our ways of working enable us to provide the right services and responses effectively, efficiently and consistently – supporting us to take informed, transparent and lawful decisions.

To strengthen our vision, and inform how H&F operates, 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 Hammersmith & Fulham
- Rising to the challenge of the climate and ecological emergency.

We have a fantastic record of keeping council tax and charges to residents low – we are one of just two London councils to freeze council tax again for 2022/23 – while spending more on vital front-line services such as Children's Services and Adult Social Care (ASC). We are a modernising and innovative organisation that has developed more efficient practices, cut waste, and sought new ways to achieve savings during the pandemic. A state-of-the-art Civic Campus is under development in Hammersmith, which will be a hub for flourishing civic renewal, resident and community participation, young people, and entrepreneurs to generate opportunity and shared prosperity.

Our delivery is set in the context of major negative impacts of:

- Significant cut in government funding between 2010/11 to 2022/23 (reducing by £57m or 54% in real terms) and an increase in our costs due to the effects of inflation
- The Coronavirus global health emergency
- Global economic uncertainty with the war in Ukraine
- Climate change, global warming and extreme weather events
- Significant increases in fuel and energy costs leading to higher levels of fuel poverty.

Our Annual Governance Statement (AGS) demonstrates how we continually prioritise strong governance arrangements, ensuring robust and accountable delivery against the priorities of local residents, service users and businesses. 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. Proactive risk and assurance management arrangements are central to our governance approach and the efficient delivery of H&F's key objectives.

2.0 Hammersmith & Fulham's (H&F) corporate governance responsibilities

H&Fs corporate governance arrangements aim to ensure we uphold our values and do the right things for residents through effective processes and controls; being timely, inclusive, open, honest and accountable in the way we act. 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 used effectively.

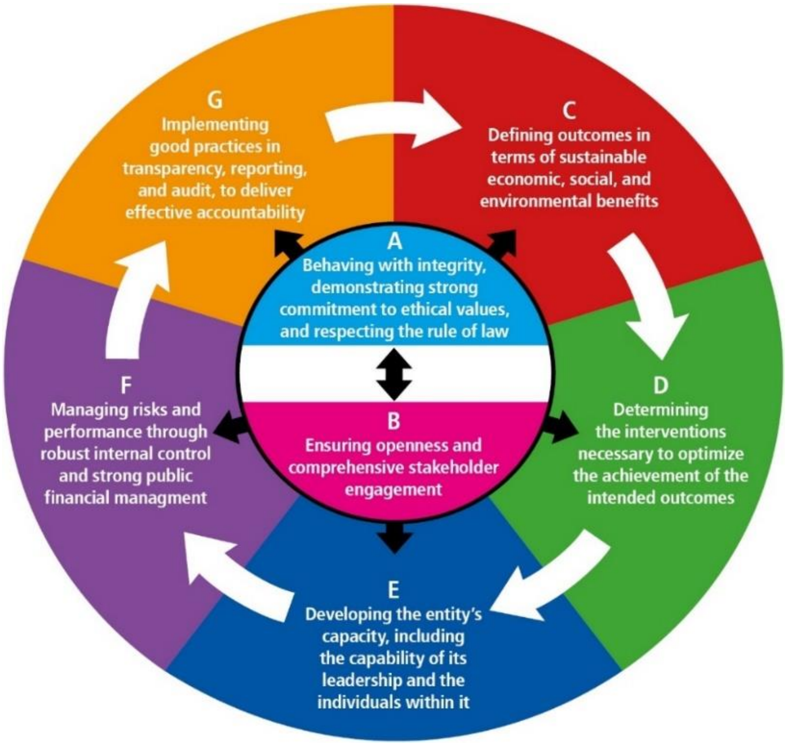
The AGS has been prepared in accordance with guidance and principles produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE), the 'Delivering Good Governance in Local Government Framework'. The main, underpinning principle of the framework is that local authorities must shape their own approach to governance, seeking to deliver sustainable economic, social and environmental outcomes. The framework is intended to assist authorities in reviewing and accounting for their own unique approach, incorporating agreed policy, accountability and decision-making which is sound and inclusive. It embraces the elements of internal control required by the 'Code of Practice on Local Authority Accounting in the United Kingdom'.

The CIPFA Financial Management Code (FM Code) was introduced in October 2019 as the first professional code for general financial management in local authorities. The FM Code provides guidance for good and sustainable financial management and compliance and also provides assurance that resources are being managed effectively. Compliance with the FM Code helps to strengthen the framework that surrounds financial decision making across the Council.

3.0 What this Statement tells you

The AGS describes how H&F has, for the year ended 31 March 2022, 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 2022/23.

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.



4.0 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 we improve the way we provide 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's Constitution** – This sets out how H&F operates, how decisions are made and the procedures for ensuring that we are efficient, transparent, and accountable to residents. It sets out the functions of statutory officers and explains their role in ensuring statutory obligations are met. The Constitution outlines the basic rules governing H&F's business, and a section on responsibility for functions including a list of functions which may be exercised by officers. It also contains the rules, protocols and codes of practice under which H&F, its Members and officers operate.

  The Member code of conduct has been reviewed recently. H&F has a Code of Conduct for employees and a whistleblowing policy, which are reviewed periodically. These policies and associated practices set out expectations for officers and Members to behave with integrity and H&Fs strong commitment to ethical values and rule of law. 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.

- **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 can be found within the H&F Constitution.

- **Policy and Accountability Committees (PACs)** – H&F's statutory overview and scrutiny function was provided in 2021/22 through PACs covering all of our major service areas. The PACs are part of our commitment to public engagement and working with residents in developing policy and strengthening H&F's decision-making process. In 2021/22, the PACs continued to meet via remote meetings.

- **Risk management framework** – This is fundamental to H&F's system of internal control and forms part of a sound business operating model. It involves an ongoing process to identify the risks to our policies, aims and objectives and to prioritise them according to likelihood and impact. It also requires the risks to be managed efficiently, effectively and economically. 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 2021/22, this included important areas of the Covid-19 vaccination programme, enhancing H&F's cyber security resilience and its preparedness for severe weather and terrorist incidents. The invasion of Ukraine towards the end of the financial year caused escalation in some risks, including economy/supply chain and cyber security.

- **Audit and external inspection assurances** – H&F is externally audited. 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 the latter half of 2021/22, some external inspections re-started with the lifting of restrictions from the Covid-19 pandemic. Throughout the year, including periods of no external inspections, H&F continued to meet its statutory duties.

- **Strategic leadership and assurance** - H&F's most senior management team is the Strategic Leadership Team (SLT), made up of the Chief Executive (who is the Head of the Paid Service and appointed by Full Council) and six departmental Directors. Each Director has key areas of responsibility, but together they are jointly responsible (under the Chief Executive) for turning priorities set by the Cabinet into operational policy. Over the past 12 months, the Chief Executive, SLT and elected members have continued to meet to build assurance capability of the council, providing leadership on standards, expectations and strengthening assurance regimes, ways of working and approaches. This has been done through management boards. SLT has regular weekly thematic meetings focussed on business decisions, assurance and finance. This is supported by the Statutory Accountabilities Board (SAB) made up of the statutory officers of the Council (Head of Paid Service, Section 151 Officer, Monitoring Officer, Director of Children's Services, Director 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 H&F's Constitution.

  H&F agreed at Cabinet, in 2021/22, to the West London Alliance joint approach to carbon-neutral procurement. The WLA is a partnership of seven West London councils committed to a programme of sharing best practice, collaboration, and innovation.

The boards, committees and structure set out above provide significant assurance and opportunities to audit, scrutinise and challenge H&F's operations.

5.0 Effectiveness of H&F's governance arrangements

The systems and processes that comprise H&F's governance arrangements have been evaluated for effectiveness for 2021/22 and are described in this section.

Covid-19 pandemic

H&F has put in place effective governance and control arrangements to deliver our response to, and recovery from, the Covid-19 pandemic over the last two years.

An internal technical assurance group provided robust, expert and real time advice in infection control, environmental health and health and safety, and harnessed this expertise to provide assurance through decision making. External organisations were also invited to bring their event planning and Covid-19 security proposals for scrutiny.

H&F continued to use its well-established emergency planning reporting structures – Gold, Silver and Bronze. Through rapid decision-making, delegation and matrix working, we continued to prioritise workforce safety and resilience. H&F also responded to accelerated hybrid working with the WoW (Ways of working) programme, which allowed the majority of staff to work remotely without compromising productivity.

Data and intelligence informed our planning and response, using Business Intelligence technology and insight to better understand impacts on residents and improve our support to residents. H&F commenced local contact tracing in September 2020 - one of the first councils in London to do so - and we were the first in North West London to establish testing centres for both Polymerase chain reaction (PCR) and lateral flow testing. We supported the NHSs vaccinations programme to rollout vaccinations - first, second and booster doses - to thousands of residents across the borough.

Our Covid-19 recovery and return to business as usual were realised in parallel with our Covid-19 outbreak response. We published our Local Outbreak Management Plan in case of a local outbreak requiring local lockdown enforcement, and continued the H&F economic recovery with our *shop local*, s*hop safe* campaign to assertively encourage residents to support the local economy in its recovery following the most recent lockdown.

Residents of the borough have risen to the challenges of Covid-19 with great fortitude, sacrifice and civic pride. H&F continued to work closely with the voluntary and community sector, including with neighbourhood and community groups under the Community Aid Network, offering support, advice and guidance and engendering resilience across H&F's residents. During the pandemic, our values came to the fore by doing things with residents, not to them, creating a compassionate council, building shared prosperity and taking pride in H&F, informing and framing local actions.

Financial management

There continues to be robust arrangements for effective financial control through our accounting procedures, key financial systems, the Financial Regulations, and audit arrangements. These include established budget planning procedures, which are subject to risk assessment, and periodic budget monitoring reports to members. Our Treasury Management arrangements, whereby H&F 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, dedicated monthly Finance SLT meetings provided oversight of financial planning, management and reporting against our major programmes.

In order to meet a year-on-year reduction in grants from central government and the impact of Covid-19, our value of being ruthlessly financially efficient is helping to drive 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 our 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 H&F'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 H&F's use of resources. This is commonly known as the value for money conclusion. Recommendations arising from these reviews are reported to the Audit Committee and implementation is monitored and reported on by external audit. During the year, the auditor concluded the audit of the 2019/20 financial statements having previously issued unqualified opinions for the authority and pension fund accounts, and Value for Money conclusion. The audit report for 2020/21 was presented to the Audit Committee in year with no significant issues identified. The audit opinion will be issued on completion of some minor outstanding items.

The Audit Committee

The Audit Committee has a standing brief to review the effectiveness of risk management arrangements, the internal control environment and associated anti-fraud and corruption arrangements. It does this through, amongst other things, overseeing the work of Internal Audit, the Corporate Anti-Fraud Service and External Audit and by reviewing our Corporate Risk Register. 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 2022/23.

Doings things with residents

H&F and its partners have comprehensive arrangements for identifying and prioritising residents' needs. Our annual budget and MTFS were robustly developed through a series of officer and councillor challenge events, including public scrutiny and review by the PACs.

Resident-led commissions have been central to our value to do things with residents, not to them. H&F has, in recent years, commissioned 17 resident-led commissions to put residents at the heart of policy development on a wide variety of topics, and many of their recommendations have been put into action.

2021/22 has seen the publication of two commissions. The final report of the resident-led Parks Commission was approved by Cabinet in December 2021. This followed a year of extensive research and engagement with residents and other park users and stakeholders. The commission's practical recommendations will enhance the vision, strategy and management of parks and open spaces across the borough in the years ahead, for example in protecting and improving biodiversity in line with H&F's climate and ecology strategy. Earlier in the year, the Arts Commission reported its work to members. The Commission arrived at a set of core principles and recommendations for priority actions to support the arts and culture, with a new Arts Strategy under development. An independent Teacher's Commission is also underway, to help shape the future of teaching in H&F.

Business and change planning and performance management

The 2018-22 Business Plan defined key outcomes and priorities for H&F in terms of sustainable economic, social and environmental benefits, with robust performance reporting to SLT and Cabinet members. The Business Plan has informed the production of department and service level plans. Key decisions consider alternative options for achieving the desired sustainable economic, social and environmental outcomes and the preferred option to meet the future needs of residents and the community within the funding available. Standard project, programme and service management practices inform the planning and delivery of activities.

The Council has established arrangements for the management of its objectives and optimising the achievement of intended outcomes. A corporate performance framework has been in place throughout 2021/22, with quarterly performance reports to SLT and Cabinet members. Beneath this there are departmental and service performance frameworks. These reports, plans and frameworks, together with associated management arrangements, enable the Council to review data on delivery progress against the agreed performance objectives and intended outcomes.

SLT and Cabinet members have continued to have close oversight of H&F's major change and transformation activities, supported through the work of a Corporate Programme Management Office (PMO). 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 that are delivering a significant pipeline of affordable housing. These arrangements are supported through regular monitoring of capital programmes and through project and programme level governance and management.

Children's Services

H&F has continued to build on the strong outcomes of the 2019 Ofsted inspection and the 2022 focused Ofsted visit across social care; seeking continuous development and improvement as reflected in our Self-Assessment which was discussed with Ofsted Her Majesty's Inspector's (HMI) leads, in January 2022. A focused visit is carried out by Ofsted between full inspections. Ofsted evaluates the effectiveness of the service, including the impact of leaders.

Performance reports show high practice standards being sustained, including the timeliness of assessments and supervision, with further reporting developments demonstrating increased oversight from child protection Chairs and Independent Reviewing Officers. We have a continued programme of quality assurance with internal and external audits and thematic reviews to support the continuous improvement agenda.

Inspectors noted that exemplary practice was seen and that children in need of help and protection continue to receive highly effective 'front door' services that ensure they get the right support at the right time. In March 2022, Ofsted also visited the Haven; a specialist children's home for up to seven children with disabilities. The Haven is now graded as 'good', with inspectors noting that staff worked hard to ensure that 'children are supported to make good progress and be successful.'

We have renamed the Youth Offending Service (YOS) as the Youth Justice Service (YJS) to support our approach of child first, offender second. In January 2016, the service was rated as 'Good' by Her Majesty's Inspectorate of Probation (HMIP). A new inspection framework has since been introduced on a 4-yearly cycle. This has been delayed due to the pandemic and H&F is yet to be inspected under this framework.

H&F continues to set and deliver high standards of practice in youth justice services and completed the YJS national standards self-assessment in April 2020. The self-assessment judgements and supporting evidence give a good indication of progress and good practice, including our strong partnership work and information sharing across services. It also highlighted some key areas needing focus which have been strengthened, such as consolidating quality assurance practice across our work, progress against which continues to be monitored.

Ninety-three percent of schools in the borough are rated 'good' or 'outstanding' as judged by Ofsted. The School Improvement team continues to support senior leaders with Ofsted preparation through the individual School Evaluation Card, ongoing discussions and by delivering training on key areas of focus.

H&F has made strong progress in implementing a SEND (special educational needs) transformation programme, including the launch and embedding of our new early intervention services, to support identifying and meeting needs earlier to reduce escalation to statutory processes. The Covid-19 backlog in relation to Education, Health and Care Needs Assessments has been addressed with performance back in line with national averages in quarterly three and four of 2021/22.

Performance has been monitored by the High Needs Block Board and reported into the Department for Education on a quarterly basis as part of the Safety Valve Agreement. The full 2021/22 Safety Valve Allocation has been received following satisfactory performance against the agreed programme and milestones.

In the context of the creation of the North West London Clinical Commissioning Group (CCG) and emergence of the local Integrated Care Partnership (ICP), H&F has established a new Children's Education, Health and Social Care Partnership Board bringing together strategic partners and stakeholders to ensure we have a cohesive approach to delivering services for children and young people across the borough.

The new sovereign Local Safeguarding Children Partnership (LSCP), established in April 2021, is embedded, and enabling improved collaborative working and a stronger focus on local issues. It oversees our responses to the learnings from recent Serious Case Reviews. This included the completion of a review of Social Emotional Mental Health, Autism, and Joint Accountability in the borough in response to the 'David' Serious Case Review which has now taken place between H&F and CCG. The findings have been developed into a report along with a series of recommendations, which have been taken to the ICP and an associated action plan has been developed. Actions from the review will be ongoing into 2022/23.

H&F has continued to develop a partnership approach to early intervention with health and voluntary and community partners. This approach is outlined in our Early Intervention Strategy which we will publish later in 2022. The Strategy will inform how we will reshape the way in which we plan, implement, and deliver services to improve support to children, young people and families at the earliest opportunity through effective and coordinated responses.

Following the pandemic and ongoing cost of living pressures, H&F is seeing increased need in the community and increased complexity in the issues faced by families presenting to social care services. We are working hard to manage the increased demand and additional pressures on services to ensure that vulnerable families continue to receive timely and effective intervention.

Adult social care and public health

In 2021/22 the Care Quality Commission (CQC) inspections of adult service providers recommenced. The in-house Reablement Service and Rivercourt respite services both continue to achieve an outstanding rating. Planning has commenced for a CQC inspection of Adult Social Care in 2023, which will include all stakeholders in the inspection. It is also likely to link to CQC inspections of partners in our borough-based partnership across Health and Social Care.

Adult Social Care and Public Health continue to respond strongly to the pandemic and have safeguarded our residents well. Strong governance was put in place throughout the pandemic which 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 guidance. Care homes remain subject to strict guidelines to help stop the spread of the virus. A specialist infection control advisor was recruited and started in January 2021, providing extensive training (including outbreak response training) across the whole council, schools, care settings in adults and children's services, housing and homelessness.

In Home Care, we have recruited quality assurance staff working alongside the providers and residents to improve standards and increase resident satisfaction. The department has also invested in maintaining close contact with adults and putting systems in place to measure the impact and the outcomes of advice and early intervention. 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 also been a focus on the vaccination of care workers.

H&F continued to embed co-production across services as part of ensuring resident involvement in policy development and decisions. This has involved working 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. 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.

Workforce resilience

H&F's people strategy supports our vision to have the best workforce in local government, and to have a reputation as the best council to work for. The workforce is one of our greatest assets and 'Our People' is a strategy setting out a clear commitment to create an inclusive, confident, capable, and creative workforce to deliver our Vision. The Strategy invests in initiatives and practices which will attract, grow and retain talent 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, H&F placed the health, safety and wellbeing of staff and residents at the forefront the Covid-19 Response and Recovery programmes. We acted to support workers either remaining at home or taking necessary precautions in the workplace, taking account of legal obligations, government and industry guidance for bringing staff back to work.

H&F has maintained a focus on workforce planning, workforce effectiveness and staff wellbeing and resilience, taking steps to protect staff whilst building in workplace flexibility. Through strategic and operational group meetings, senior managers were kept updated regarding local outbreaks and the evolving restrictions. Workforce resilience throughout the year remained strong and most of the workforce worked remotely.

H&F is now working to a new Workforce Transformation Strategy as part of Covid-19 Recovery to transition our workforce into new ways of working and in preparation for the re-opening of the Civic Campus.

H&F has worked closely with Trade Unions and has established regular forums to develop partnership working and a collaborative approach to resolving workforce matters resulting in a highly commended award during 2021.

Control systems and environment

H&F'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 H&F and includes significant work on the main financial and information management systems, corporate programmes and partnerships.

Based upon the programme of work for 2021/22, the Director of Audit, Fraud, Risk and Insurance's opinion on H&F's control environment, governance arrangements and risk management arrangements are that they are satisfactory. Whilst some areas of improvement have been identified and reported to the Audit Committee, good progress has been made to implement recommendations in a timely manner, with no significant issues outstanding.

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, reviews of risk registers, and scanning the external risk environment has enabled audit work to keep pace with the organisation.

H&F 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 our anti-fraud and corruption arrangements, including how it is responding to emerging fraud risks.

Managing information

H&F has continued to meet the requirements of the General Data Protection Regulations (GDPR) and the Data Protection Act 2018 at each stage of the Covid-19 pandemic response. Formal assessments of data privacy and security risk have been completed on staff vaccination data collections, to offer vaccinations to priority groups and to support decisions relating to a safe return to office buildings, through the collection of anonymised data.

H&F's updated GDPR training programme is mandatory for all staff to ensure they are fully aware of legal responsibilities when handling personal data. Training is extended to Councillors to support their handling of personal data held by both the Council and its residents. All employees and Councillors sign an updated Personal Commitment Statement outlining our expectations when using corporate devices or connecting to the corporate network.

H&F's Information Asset Register was updated in 2021 to provide greater transparency of information processes and satisfy the requirement for a Record of Processing Activity under the UK GDPR. In early 2022, a software solution to manage the information assets was procured which will provide greater oversight of the information held, further increasing the council's resilience to cyber security threats through enhanced risks assessments, data mapping and incident response. H&F has bolstered its capacity to identify and manage cyber incidents through the recruitment of additional resource in line with the approved Target Operating Model. We have implemented a Security Information and Event Management (SIEM) system, providing enhanced analytics to improve threat visibility and response.

Information governance policies and standards are in place which provide assurance about the security of our information assets and data handling procedures. Information Management requirements are considered as part of H&F's Key Decisions. The Senior Information Risk Owner is ultimately accountable for the assurance of information security at H&F. The Head of Information and Data Protection Officer monitors internal compliance and advises 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 Head of Paid Service is the Chief Executive. They have overall corporate management and operational responsibility for the Council. They are supported in this responsibility through the operation and business of SLT, which meets weekly. They also provide professional advice to members in the decision-making process in line with the Constitution. The Head of Paid Service and Monitoring Officer have ensured in 2021/22 that records of the Council's decisions are kept and published. The Head of Paid Service has had an active role in this year representing the Council interests on various local, sub-regional and regional partnerships and external bodies. The Head of Paid Service oversees the Chief Executive's Office, which provides day to day support for the effective discharge of their function.

The Director of Finance is responsible for the proper administration of H&F's financial affairs, as required by Section 151 of the Local Government Act 1972, and H&F'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).

H&F 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 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 is a member of SLT. They maintained the Constitution in this year, which was agreed at Full Council and oversaw the receiving and registering of Members' interests. The Monitoring Officer was supported in the discharge of their responsibilities through the work and responsibilities of H&Fs Legal Services and Democratic Services. Legal Services provide legal implications on all Executive decisions. The Monitoring Officer and Legal Services are regularly consulted for advice as part of the Council's day to day business and are represented on key governance groups. Legal Services has advised on all H&F's legal matters during the year unless the Assistant Director for Legal Services has commissioned external legal advice.

The Monitoring Officer has a 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.

Progress against significant issues identified in the 2020/21 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 2020/21 AGS. Overall, this shows good progress in addressing issues, with mitigation actions in place.

Table 1: Progress in 2021/22 against significant issues

Response to Covid-19 pandemic Continuing close management and control of infection
As described in section four, H&F has put in place effective governance and control arrangements to deliver our response to, and recovery from, the Covid-19 pandemic over the last two years. Over 2021/22, data collection and analysis continued to inform a targeted approach to vaccination pop-up sites. Monitoring of outbreaks was completed by the Senior Infection Prevention Control Nurse, alongside commissioners. Vaccinations continued to be offered through pharmacist's and pop-up clinics around the borough. As at March 2022, 85% of eligible residents had received two doses of the vaccine, with some now having received the third booster dose. Recovery planning has been rolled out across the H&F and, where possible, with NHS partners to reduce delayed discharges and reduce the waiting lists for treatment which have built up over the pandemic. During the year, the final rounds of Covid-19 grant funding was allocated to social care providers and distributed amongst local businesses, as appropriate. H&F has continued to prioritise workforce safety and resilience with staff provided Personal Protective Equipment (PPE) and increased levels of staff engagement and support. H&F also responded to accelerated hybrid working with the WoW (Ways of working) programme.
Hammersmith Bridge Working towards securing a fair, affordable funding solution to enable the re-opening and refurbishment of this important national heritage infrastructure asset
Following a comprehensive structural integrity assessment, Hammersmith Bridge was closed to traffic in April 2019. On 13 August 2020, the bridge was closed to pedestrians, cyclists and river traffic for safety reasons. 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. On 6 December 2021, Cabinet approved the stabilisation works which are estimated to cost £8.9m. The stabilisation works are currently in progress and are expected to be completed by the end of 2022. The Stabilisation Works Project Board meets weekly to monitor progress and provide the necessary governance and assurance. Following submission of an Outline Business Case for Stabilisation Works, both DfT and TfL have confirmed their third of the funding for the stabilisation works. In 2022/23, we hope to submit the Outline Business Case – Stage 2 for Strengthening and Restoration Works. On 7 March 2022, Cabinet approved £3.5m to fund further essential and development works to progress the full Strengthening and Restoration Works. This will also enable the Outline Business Case for Strengthening and Restoration to be developed further.
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[1] 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. During 2020/21, H&F entered into a £20m Safety Valve Agreement with the Department for Education (DfE) to bring in year expenditure within the annual grant allocation and to eliminate H&F's historic deficit over a 5-year period. As at the end of 2021/22, H&F has received £10m in line with the agreed payment profile, to support eliminating the culminative deficit, following sufficient progress of the High Needs Block programme that is overseeing improvements and transformation of services to children with special educational needs.
Securing assurance for residents on the quality and value for money of housing repairs
The new contract delivery arrangements for the long-term housing repairs service for residents of council homes commenced in August 2020 and now is in its second year.

[1] 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.

The repairs contracts are split into three geographical Lots. In November 2021, the contractor for Lot 2, United Living, exited following mutual agreement and were replaced by the reserve contractor Morgan Sindall. The performance of all three Lots are improving but below targets for Key Performance Indicators (KPIs) in some areas. A dedicated weekly Task Force chaired by the Chief Housing Officer has been established (March 2022) to deliver a wide-ranging action plan to support full recovery of the service across a number of themes including: acceleration of planned maintenance works, delivering contractors' improvement plans, improving communication with residents, and clearing the works backlog. Progress is tracked through weekly pulse check reporting and delivery of clearly defined outcomes and targets. Additional resource has been agreed (May 2022) for both business as usual repairs and separate dedicated teams for legal disrepair cases. Further oversight is currently being provided in the form of weekly SLT reports and fortnightly reports to the Cabinet Member for Housing and Homelessness.

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 2022/23

Response to Covid-19 pandemic Continuing close management and control of infection
H&F will continue to put in place effective governance and control arrangements to ensure it can react to the changing Covid-19 related context, in terms to infections rates and effectiveness of our vaccination programme. This will include continuing to make use of well-established emergency planning and reporting structures. We will continue to review how hybrid and remote working can be deployed as a means of driving up productivity, whilst also minimising any public health risks that may re-emerge linked to Covid-19. Our Local Outbreak Management Plan will remain relevant, and we will continue to support local businesses in tackling the economic impacts of the pandemic. H&F will continue to work closely with the voluntary and community sector, including with neighbourhood and community groups under the Community Aid Network, offering support, advice and guidance. We will continue to provide vulnerable residents with specialist infection protections support. We will also maintain our data monitoring in case of a need to step up services in an emergency response. There remains a threat through other infections, such as Novo-virus, Flu variants and Monkeypox, on which we need to ensure good communications and engagement with both H&F workforce and residents. We will continue to work closely with and build the trust of black and ethnic minority communities, to encourage take-up of vaccinations and support individuals to self-care.
Hammersmith Bridge Working towards securing a fair, affordable funding solution to enable the re-opening and refurbishment of this important national heritage infrastructure asset
H&F will 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. In 2022/23, we hope to submit the Outline Business Case – Stage 2 for full Strengthening and Restoration Works. Hammersmith Bridge Programme Board (council officers and key external advisors) will continue to meet regularly, and review and provide the necessary governance arrangements for this major project as well as seeking to secure 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 will continue to meet regularly to assess all safety related matters and the stability of the bridge. The CCSO will also be responsible for making recommendations to H&F 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. H&F will continue to work with the Department for Transport on taking the bridge work forward, but we will remain clear that a contribution from the council will need to be funded through a toll/ road charging to ensure that an unfair burden is not placed on our residents and is instead funded by those who use the bridge.
Securing assurance for residents on the quality and value for money of housing repairs
Several supporting specialist contractors have been engaged to undertake planned preventative maintenance to drainage and infrastructure across the housing portfolio. Works are initially targeted on White City, West Kensington, Edward Woods and Clem Atlee estates. The rise of disrepair claims from 'no win, no fee' solicitors door knocking and promoting their services remains a high risk. Currently, around 30 new cases are received a month which incur significant legal costs. A dedicated team is in place, with additional resourcing both internally and with contractors to address this.

A stock condition survey of every property over a 2-year programme commenced in Summer 2021. Over £600 million has been agreed to invest in the existing stock over the next 12 years as part of the capital strategy led by the Asset Management Team. The feedback and recommendations emerging from a recent independent audit will inform the direction of travel and approach to monitoring.

The cost of repairs is a significant pressure impacting the Housing Revenue Account (HRA). There are risks of further increases in the cost and availability of materials and labour affecting the construction industry as a result of inflationary and supply chain pressures in the wider economy. This will need to be managed carefully to ensure the future financial sustainability of the HRA.

Securing assurance on delivery of the Civic Campus Programme

The Civic Campus programme is overseeing the renovation and extension of the former Town Hall and delivery of genuinely affordable homes, a new cinema, commercial offices and new public spaces. The scheme includes start-up space for local entrepreneurs, homework space for local schoolchildren, and community art and event spaces. The regenerated Town Hall will be our main hub for hybrid working once re-opened and will regenerate the western end of King Street.

Robust governance is in place for the programme and is delivered in accordance with H&F's Programme Management Office standards. Clear governance arrangements are also in place for the Joint Venture company - between H&F and A2Dominion - that is delivering the works.

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 our website, with others available upon request. All 68 High-Rise Residential Buildings, six storeys and above, have Premise Information Boxes (for the 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 H&F staff, called the H&F Direct Labour Organisation (DLO). Over 13,000 actions have been completed, with further planned actions via commissioned works outlined below. Higher priority actions, P1s, are monitored weekly, with interim mitigation measures in place as required.

Commissioned programmes of works currently include:

- The installation of 4,000+ fire doors.
- The removal of vertical photovoltaic arrays and upgrade of rainscreen cladding at Edward Woods (three tower blocks).
- The removal of window infill panels at Charecroft (four tower blocks).
- The removal of small combustible infill panels to the external façade of 20 towers.
- The upgrading of emergency lighting, the installation of sprinklers (at 5 towers initially) and upgrade of hardwiring, consumer units and fire detection to tenanted properties as necessary.

Funding for Schools
Funding for pupils with high needs is provided through Dedicated Schools Grant (DSG) from government

The High Needs Block element will continue to be under pressure in supporting children with special educational needs as spend is significantly higher than the funding provided by central government, and there are further uncertainties around the future legislative changes.

The High Needs Block programme seeks to reduce the underlying overspend in this area. A programme of work is underway to reduce the overspend which will be overseen by H&F's High Needs Block Board and reported into the Department for Education on a quarterly basis as part of the Safety Valve Agreement. The full 2021/22 Safety Valve Allocation has been received following satisfactory performance against the agreed programme and milestones.

6.0 Review conclusion

H&F is satisfied that the governance arrangements continue to be regarded as fit for purpose. A satisfactory level of assurance has been achieved following the conclusion of the review. Corporate governance arrangements have operated effectively in supporting H&F in meeting its challenges and responsibilities, not least the response to the Covid-19 pandemic. These will continue to be monitored to ensure that they remain effective throughout 2022/23 and into the future.

Signed:

Leader of the Council, Councillor Stephen Cowan

Signed:

Chief Executive, Sharon Lea

Date:

On behalf of the London Borough of Hammersmith & Fulham Borough Council

Appendix A – Hammersmith & Fulham's Governance Framework

Our Constitution

The H&F Constitution sets out the functions of key governance officers, including the statutory posts of 'Head of Paid Service' (fulfilled by the Chief Executive), 'Monitoring Officer', 'Director of Children's Services' (DCS) (Director of Children's Services), 'Director of Adult Social Services' (DASS) (Strategic Director of Social Care) and 'Section 151 Officer' (Director of Finance) and explains the role of these officers for ensuring that processes are in place for enabling H&F to meet its statutory obligations and also for providing advice to Members, officers and committees on staff management, financial, legal and ethical governance issues.

Local Code of Corporate Governance

H&F has in place a Local Code of Corporate Governance. The Code identifies the principles of good governance and transparency to which H&F subscribes and identifies the structures, systems and processes that it has established to ensure that good governance in practice is achieved. This can be found within the H&F Constitution.

Policy and Accountability Committees (PACs)

In 2021/22, the overview and scrutiny function was provided through six PACs. The PACs, listed below, are broadly aligned to Cabinet Portfolios:

- Children and Education Policy and Accountability Committee
- Community Safety and Environment Policy and Accountability Committee
- The Economy, Housing and the Arts Policy and Accountability Committee
- Finance, Commercial Revenue and Contracts Policy and Accountability Committee
- Health, Inclusion and Social Care Policy and Accountability Committee
- Public Services Reform Policy and Accountability Committee.

Committees continued to have cross cutting remits designed to reflect H&F's key priorities and objectives. They each comprised five elected non-executive Members. Committees were also able to co-opt members who had a particular expertise or direct knowledge of the service user perspective to assist with their work. Co-optees were usually non-voting although the parent governor and diocesan representatives on the Children and Education PAC are entitled to vote on education matters.

Each Committee received the list of Key Decisions (a rolling list of Key Decisions which the Cabinet planned to take in the coming months), which assists in the development of work programmes and the identification of forthcoming key executive decisions deserving closer scrutiny and input.

PACs also have a wider role in policy development, originating topics of interest. They feedback their views to the Cabinet and individual Cabinet Members, officers, external partners and service providers. A large number of non-executive Members participate in scrutinising Cabinet business, external organisations such as the NHS, the Police and other statutory bodies.

Managing risk

All Members and managers are responsible for ensuring that risk implications are considered in the decisions they take. This is especially important as H&F reshapes its services to meet its financial challenges. Members and senior management identify the principal risks to H&F achieving its objectives. These, together with the significant risks to planning and delivering services are recorded in a corporate risk register, which also record the controls necessary to manage the risks.

Specific assurance is sought concerning those risks associated with the key elements of the governance framework and that any necessary improvements to controls have been implemented. The governance framework cannot eliminate all risk of failure to meet the targets in our policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

Audit and external inspection assurances

In accordance with statutory requirements, the annual external audit includes examining and certifying whether the financial statements are 'true and fair', and assessing our arrangements for securing economy, efficiency and effectiveness in the use of resources.

The Internal Audit service is a key means of assurance. It is responsible for reviewing the adequacy of the controls throughout all areas of the council and is managed and delivered in accordance with the Public Sector Internal Audit Standards (PSIAS). The Audit Committee receive update reports at each of their meetings, along with the Head of Internal Audit's Annual Opinion.

The Audit Committee approve the Internal Audit Charter, which sets out the Internal Audit role and its responsibilities and clarifies its independence, and the planned audit coverage.

Council services are also subject to statutory external inspections, through various regulatory bodies including Ofsted and Care Quality Commission (CQC)[2].

SLT and management assurance

The SLT is chaired by the Chief Executive and includes six directors. It is responsible for the forward-looking approach to delivering services and H&F's transformation programmes - ensuring we are best placed to meet the future needs of residents and the community within the funding available. This involves working in new ways with public and voluntary sectors and ensuring services innovate to meet the continuing needs of residents and the demands of new legislation. A Statutory Accountabilities Board, chaired by the Chief Executive, meets to ensure there are appropriate and coordinated governance arrangements in place for the effective delivery of our statutory functions.

Commissioning and procurement of goods and services

H&F recognises the value of considering different service delivery options in delivering our objectives. The effective commissioning and procurement of goods, works and services is, therefore, of strategic importance to our operations, while robust contract management helps to provide value for money and ensure that outcomes and outputs are delivered.

Operational procedures for tendering, the use of H&F's e-tendering system, contract letting, contract management and the use of consultants are included in the Contract Standing Orders which form part of H&F's Constitution.

Pillars of governance framework

The three pillars of H&F's governance framework are set out in the table overleaf

Table 3: Pillars of H&Fs governance framework in 2021/22

Corporate Governance	Management Team	Services are delivered economically, efficiently & effectively
• Constitution (including statutory officers, scheme of delegation, financial management and contract standing orders) • Audit Committee • Standards Committee • Pension Fund Committee • Internal Audit and External Audit • Independent external sources (e.g. inspections) • Council, Cabinet and Policy and Accountability Committees • Medium Term Financial Strategy • Complaints system • People and Talent (HR) policies and procedures • Whistleblowing and other countering fraud arrangements • Risk management framework • Performance management frameworks • Codes of conduct	• The role of Chief Officers • Delivery of H&F's aims and objectives • Corporate planning • Delivery, Financial, Service Improvement and Commissioning Plans • Officer codes of conduct • Performance appraisal • The role of the Chief Financial Officer • The role of the Head of Internal Audit • Roles and responsibilities of Members and Officers • Timely production of the Statement of Accounts • Completion of External and Internal reports recommendations • SLT review of Corporate Governance	• Management of risk • Effectiveness of internal controls • Democratic engagement and public accountability • Budget and financial management arrangements • Standards of conduct and behaviour • Compliance with laws and regulations, internal policies and procedures • Action plans dealing with significant issues are approved, actioned and reported on • Local Government Ombudsman reports • Electoral Commission reports • Policy and accountability reviews • Effectiveness reviews of Audit Committee, Policy and Accountability Committees and Internal Audit • Employee performance • Compliance with procurement regulations • Stakeholder engagement • Evaluation of benefits gained from investments and projects

[2] CQC are the independent regulator of health and ACS in England.

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: Department for Levelling Up, Housing and Communities (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 2021/22 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 DLUHC under pooling arrangements.

STOCKS
The amount of unused or unconsumed stocks held in expectation of future use.

SUPPORTED CAPITAL EXPENDITURE
This is capital expenditure funded by government, either as a one-off capital grant or as part of the annual RSG settlement to cover the financing costs of monies borrowed.

TRANSFER PAYMENTS
A payment to a person or organisation that does not result in a reciprocal benefit or service being provided to the council. The main examples are housing and council tax benefit. In most cases the cost of transfer payments is either fully or partially reimbursed by Central Government.

USEFUL LIFE
The period over which the Council will benefit from the use of a fixed asset.

WRITE-OFFS
Elimination of an asset or liability over a defined period, usually by means of charging or crediting the CIES.

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

Year ended 31 March 2022

September 2023

Contents

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

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of 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 2022 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 2022. Our findings are summarised on pages 5 to 23. We have not identified any adjustments to the financial statements that have resulted in adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C.

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.

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.

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.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion for the Council financial statements (Appendix E) or material changes to the financial statements, subject to the following outstanding matters;

Council financial statements

- Completion of audit work on the updated net pension liability in the balance sheet and related disclosures subsequent to the triennial review in the Pension Fund which demonstrated that the valuation of the liability had changed materially. This included testing of a sample of the member data provided to the actuary, alongside testing of assumptions used in the valuation which have changed (**Note; this has arisen as an audit issue across all open 2021/22 Local Government accounts audit since triennial valuations were completed in March/April 2023**);
- Completion by audit team of testing of a small number of sampled journals;
- Completion by audit team of our work in provisions;
- Receipt of a small number of independent confirmations of investment balances from third party investment institutions;
- Completion of senior management review of the completed audit work which could potentially raise further audit queries;
- receipt of management representation letter; and
- review of the final set of financial statements to agree that all amendments agreed during the audit have been made.

Pension Fund financial statements

- Completion of testing of our sample of member data;
- Completion of our work testing contributions and benefits paid;
- Completion of senior management review of the completed audit work which could potentially raise further audit queries;
- receipt of management representation letter; and
- review of the final set of financial statements to agree that all amendments agreed during the audit have been made.

1. Headlines

	In our review of bank reconciliations to gain assurance over cash and cash equivalents we identified some issues related to the bank reconciliation processes. We have made a control recommendation to address this – refer to Appendix A. We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your 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.
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 VFM work is in progress currently, and we are close to completing our Auditor's Annual report. We are currently meeting with management to discuss findings and recommendations, and we anticipate bringing this report to the Full Council meeting on 1 November 2023 and to Audit Committee at the November meeting. The Redmond Review recommended that auditors attend Full Council to provide their overall summary of work each year.
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 expect to certify the completion of the audit work on: • the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in November 2023; and • the completion of the procedures required in ensuring the consistency of the financial statements with the pension fund annual report
Significant Matters	We did not encounter any significant difficulties or identify 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 23 November 2022.

Conclusion

Our audit of the Council and Pension Fund's financial statements is substantially complete. Subject to outstanding items on page 3-4 being resolved, we anticipate issuing unqualified audit opinions in late September 2023, following finalisation of the financial statements and approval by the Audit Committee.

Acknowledgements

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

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan on 23 November 2022.

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	10,200,000	12,500,000	
Performance materiality	7,140,000	9,375,000	
Trivial matters	510,000	625,000	
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.

<table>
<tr><th>Risks identified in our Audit Plan</th><th>Risk relates to</th><th>Commentary</th></tr>
<tr><td colspan="3">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.</td></tr>
<tr><td>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 and Pension Fund face external scrutiny of their spending and funding positions 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.</td><td>Council and Pension Fund</td><td>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 with a special focus on accounting provisions in the General Fund and Collection Fund; and
• Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.
We identified in the 2020-21 year audit that there is no two-stage authorisation process for journal entry postings in place, and we made a recommendation related to this in our Audit Findings Report 2020-21 issued in May 2023. We have in our audit to date 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 retained the control recommendation for improvement related to two-stage authorisation in the Action Plan at Appendix A. We note that the Council has designed compensatory local controls (the general ledger system being managed by Hampshire Council as service provider) to effect a stage authorisation which is outside the general ledger IT system. We have retained this recommendation as a best practice IT control to evidence segregation of duties.
We are completing testing of a small number of further samples. 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.</td></tr>
</table>

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 expenditure recognition; • Tested samples of expenditure recognised in the accounts to gain assurance over the occurrence and classification; • Obtained and tested a listing of non-pay payments made and invoices processed in April and May 2022 to ensure that they had been charged to the appropriate year. In our work to date we have not identified which are required to be reported to the Audit Committee as those charged with governance, subject to clearance of outstanding issues as reported on pages 3-4.

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 land and buildings, and £81m investment property at 31 March 2022) 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 2022. We therefore identified valuation of Land and Buildings, Council Dwellings, Surplus Assets and Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement. This significant risk is particularly focused on the valuers' key assumptions and inputs to the valuations as these are the greatest sources of estimation uncertainty/sensitivity.	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 of Land and Buildings (including council dwellings); • 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. We identified one issue in our testing of investment properties; 1 property tested was in fact leased out for 250 years as part of a contractual agreement with a housing association so was not therefore under the control of the Council. This property therefore did not meet the relevant criteria of an investment property as per the CIPFA Code section 4.4.2.4 and should have been derecognised from the balance sheet. We were able to establish that this was an isolated issue which could not result in material error in the balance sheet at 31 March 2022, but we have made a control recommendation in Appendix A for the Council to carry out a review of leased properties to ensure that they are all being correctly treated under the Code. The value of the property was not material and this would also not require a prior period adjustment. We have not identified any further issues in our audit work which is substantially completed in this area, subject to clearance of outstanding issues as reported on pages 3-4.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of the pension fund net liability - assumptions applied by the professional actuary in their calculation The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (approximately £477 million in the Authority's balance sheet at the 31 March 2022) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their calculation of the net liability. We have concluded that there is not a significant risk of material misstatement due to the source data used by the actuary in their calculation (we would reconsider this if it becomes apparent at the year-end that there significant special events relating to the source data (such as bulk transfers, redundancies or other significant movements of staff) which would need to be given special consideration during the audit. Despite not being considered a significant risk we still carry out testing and consideration of the source data to obtain sufficient and appropriate audit evidence that there is no material misstatement.	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. The latest triennial valuation for the London Borough of Hammersmith and Fulham Pension Fund has recently been published. This valuation, which is at 31 March 2022, provides updated information for the net pension liability on the Council's balance sheet, particularly in respect of membership data and demographic assumptions. As a result, we requested that management obtain a revised report from their actuary, detailing what impact this updated information had on its net pension liability disclosures at 31 March 2022. This revised report showed that the impact was material and so management have adjusted the financial statements accordingly. Additional audit work has been required in respect of this issue, resulting in an increase to the audit fee (see Appendix D). This included obtaining assurance in respect of updated membership data, considering the reasonableness of revised assumptions and estimates and checking the accuracy of management's adjustments to the financial statements. We have not identified any further issues in our audit work which is substantially completed in this area, subject to clearance of outstanding issues as reported on pages 3-4.

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 (£131 million at 31 March 2022) and the sensitivity of this estimate to changes in key assumptions Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2022.	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 and triangulated year-end confirmations from investment managers and the custodian; • We discussed and considered the role of the custodian, including making inquiries to their role in valuing/reviewing the valuation of investments; • 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. Where the dates of audited accounts are not at the accounts year end (often they would be to December 2021) we reconciled those values to the values at 31 March 2022 with reference to known cash movements in the intervening period. We also reviewed the cash movements to June 2022 to understand any risk associated with those; • 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 2022, received a qualified audit opinion on their financial statements as at 31 December 2021. The Investment Fund's auditors qualified their audit opinion because they concluded they were unable to obtain sufficient appropriate audit evidence regarding claims made against a Limited Partnership 100% owned by the Investment Fund. Management's evaluation was that this issue did not lead to a material misstatement of the financial statements or result in an erroneous valuation of the Pension Fund's investment in the infrastructure fund. However disclosure of management's judgement in this regard was included in Note 4 to the Pension Fund financial statements. This disclosure will be highlighted in an emphasis of matter paragraph in the Pension Fund's audit opinion. This does not constitute a qualification of the audit opinion. Our audit procedures in this area are now complete. No further issues were identified which are required to be reported to the Audit Committee as those charged with governance.

2. Financial Statements – Other risk areas

This section provides commentary on the other audit risks which we communicated to you in the Audit Plan which we did not consider to be significant risks. Note that with regard to the other risks communicated around Minimum Revenue Provision and Breach of the HRA ringfence we have no findings or issues to report.

Risks identified in our Audit Plan	Risk relates to	Commentary
Completeness and accuracy of member data The administration of member data has transferred from Surrey County Council to the Local Pensions Partnership Administration. There is a risk that the completeness and accuracy of member data could be impacted in the transfer of data, or where changes in the systems and processes around member data administration have transferred to a new service provider. There could therefore be a risk around the completeness and accuracy of member data on the system and then as summarized in the financial statements. There could also be a risk around completeness and accuracy of benefit payments.	Pension Fund	We have: • Gained an understanding of how the Altair data transfer was undertaken and how the Pension Fund obtained their own assurances over the completeness and accuracy of the transfer. We set out to undertake substantive data testing of the completeness/accuracy of data through closing/opening balance reconciliation, and through detailed substantive testing. We were able to carry out work that gave us assurance over the reconciliation of the opening member data on the new system after the data transfer to the closing data on the Altair system by reviewing reports on data completeness produced by the Local Pensions Partnership Administration (LPPA). Surrey County Council (SCC) do not retain detailed membership data after the transfer out to another service provider and therefore we were unable to carry out detailed substantive testing from the old system to the new system as intended. We carried out alternative procedures through reviewing the completeness assurance reports which LPPA produce, and by tracing a number of members from data reports in the prior year audit file through to the closing data reports at the 31 March 2022 provided for the audit. This allowed us to conclude with sufficient assurance that the data transferred over from SCC to LPPA was complete and accurate.

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £335.1m	Other land and buildings comprises £257m 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 (£52.4m) 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 2022 on a five yearly cyclical basis. 92.3% of total land and buildings assets were revalued during 2021/22. Management have considered the year end value of properties which were not revalued as at 31 March 2022 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 2022. The total year end valuation of land and buildings was £335.1m, a net increase of £3.2m from 2020/21 (£331.9m).	• 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. • 92.3% of properties have been valued as at 31 March 2022. • 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. No 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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £477.1m	The Council's total net pension liability at 31 March 2022 is £477.1m (PY £657.9m) 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. As noted above, the triennial valuation was carried out as at 31 March 2022. This valuation which used a fully updated set of membership data as against the roll forward valuation method employed by the actuary between triennial valuations, provided more accurate information as to the valuation of the liability at 31 March 2022. As the impact on the valuation was material management have adjusted the financial statements based on the revised report.	See audit comments below	Light purple

Audit Comments:

- 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 2021/22 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:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.70%	2.70% - 2.75%	
Pension increase rate	3.20%	3.15% - 3.30%	
Salary growth	4.20%	1.00% above CPI	
Life expectancy – Males currently aged 45 / 65	22.1/2312	PWC state the actuary approach gives a reasonable best estimate life expectancy (by use of Club Vita table).	
Life expectancy – Females currently aged 45 / 65	24.7/26.1		

- 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 2021/22 to the valuation method.
- We have carried out testing of the updated membership data provided by the Pension Fund to the actuary for the triennial valuation, and we have carried out review/testing of assumptions which were revised. As noted on page 3, we are completing this additional work, but we have not identified any significant issues in the work to date.
- Our work confirms that the decrease in the IAS 19 estimate is reasonable.

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provision for NNDR appeals - £16.8m	The Council is responsible for repaying a proportion of successful rateable value appeals. In 2021/22, 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.	• 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 £1,474.4m, a net increase of £62.2m from 2020/21 (£1,412.2m).	• We have assessed management's expert, Wilks, Head and Eve, to be competent, capable and objective • We have assessed the methods and assumptions used by the valuer in the estimate. • We have selected a sample of the beacons to test the appropriateness of the beacon within the archetype property class and then to test the revalued amount to comparable property sales/marketed properties to assess whether the valuation movement was reasonable. • Reviewed those beacons/archetype groups which were not revalued in the year to assess whether the properties were still held at an appropriate/materially correct valuation. • Challenged the valuer assumptions employed. • 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 2022. 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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £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 £2m, a net increase of £1.2m from 2020/21 (£3.2m).	• 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 2021. • there have been no changes to the Council's MRP policy since 2020/21 • 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. • The Council has considerably lower General Fund borrowing than many comparable sized councils and its MRP reflects that context.	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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £131.2m	The Pension Fund has investments in unit trusts, specialised investment funds and infrastructure funds that in total are valued on the net assets statement as at 31 March 2022 at £131.2m. 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 investment managers, who based their valuation on unit prices which in turn are based on the fund net asset value. The trusts/funds produce accounts to 31 December 2021 which are audited. The value of the investment has increased by £49m in 2021/22, due to a combination of purchases, sales and changes in market value, but predominantly due to the purchase of a £32m valued investment in a unit trust leisure development fund.	• 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 trusts/funds as at 31 December 2021. • We have corroborated the cash flows associated with each fund from the date of the audited accounts to 31 March 2022. • 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 2022, received a qualified audit opinion on their financial statements as at 31 December 2021. 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.	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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £1,156.4m	The Pension Fund has investments in pooled equity and property funds that in total are valued on the balance sheet as at 31 March 2022 at £1,156.4m. 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 £13.5m in 2021/22, 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

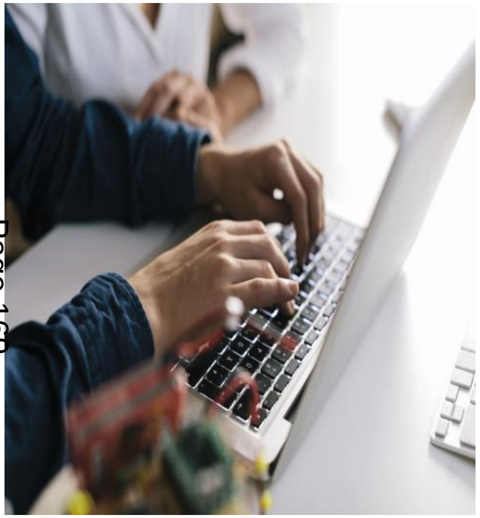
- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider 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	The audit team and Council officers have worked collaboratively to progress this audit in a shorter timeframe than the 2020/21 audit and we continue to meet regularly to debrief and retain learnings in order to improve the efficiency of the audit on both sides in the 2022/23 year.

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 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 the environment in which it operates • the Council's financial reporting framework • the Council'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 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

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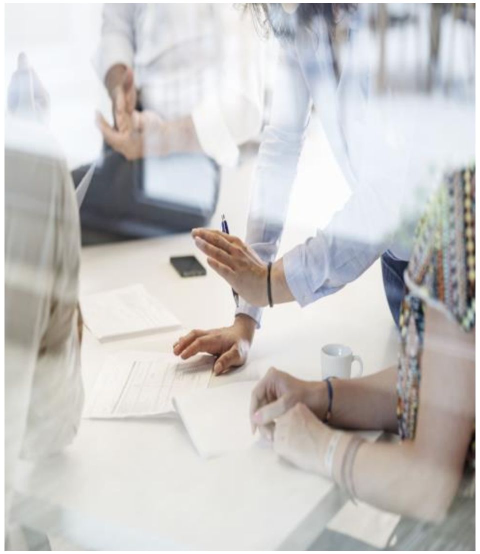
Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial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



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. • Note that work is not required as the Council does not exceed the threshold;
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 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 VFM work and issued our Auditor's Annual Report; • we have not yet undertaken the procedures required in ensuring the consistency of the financial statements with the pension fund annual report, as the opinion on the financial statements of the Pension Fund has not been issued. Once the opinion on the Pension Fund financial statements has been issued, we will be able to complete this work. Upon completion of all items on page 3-4, we will be in a position to complete the 2 steps above and certify closure of the 2021/22 audits.

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3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. 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.

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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to present our Auditor's Annual Report to Full Council on 1 November 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

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)

5. 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 £212,742 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. 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 £212,742 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. 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 £212,742 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports. Note that this fee is still TBC.

5. Independence and ethics

Service	Fees £	Threats identified	Safeguards
Audit related			
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 £212,742 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. 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 2 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
Medium	**Investment property not meeting the criteria for recognition** We identified one issue in our testing of investment properties; 1 property tested was in fact leased out for 250 years as part of a contractual agreement with a housing association so was not therefore under the control of the Council. This property therefore did not meet the relevant criteria of an investment property as per the CIPFA Code section 4.4.2.4 and should have been derecognised from the balance sheet.	We would recommend that the Council carry out a brief review of leased properties to ensure that they are all being correctly treated under the Code. **Management response** Agreed.
Medium	**Bank reconciliation issues** In our review of bank reconciliations to gain assurance over cash and cash equivalents we identified that for some school bank reconciliations the unreconciled figures incorrectly included April transactions.	We would recommend that the school bank reconciliation process is reviewed to ensure that they are accurate and reflect transactions from only the correct accounting period. **Management response** Agreed.

Controls

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

B. Follow up of prior year recommendations

We identified the following issues in the audit of the Council's 2020/21 financial statements, which resulted in 11 recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations the status on implementation is shown below:

Assessment	Issue and risk previously communicated	Recommendation made and response in 2020/21	Update on actions taken to address the issue
X	**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.	In addition to a notification via email, users are alerted via a Teams notification, informing them of the need to approve a journal. An automated two stage approach within the system will continue to be reviewed in partnership with our finance system provider.
✓	**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.	Complete
✓	**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.	This is reviewed with IBC shared service colleagues on a quarterly basis and specific monitoring is in place for retrospective purchase orders and approvers not clearing orders within 30 days.
✓	**Audit trail reports for the Reliefs and Reductions amounts in the Collection Fund** When listings of reliefs and reductions were requested, these could not be provided because the council had not run reports from the system at the year end date and retained these as audit trails. As the system is a "live" system, the reports run at a later date do note agree fully to the reliefs/reductions amounts in accounts working papers and therefore are not a reasonable supporting audit trail.	We would recommend that processes are reviewed to ensure that appropriate detailed listing reports are retained to support the amounts in the Collection Fund working papers, and to facilitate the audit testing of these amounts. **Management response**	Future closing timetables will include an action to address this, therefore ensuring these are run on time.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Recommendation made and response in 2020/21	Update on actions taken to address the issue
X	**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.	The Council's Grant Register is now under review and enhancements will be made as necessary to limit the risk of misclassification of grants.
✓	**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.	The first phase of the housekeeping exercise has been undertaken; this will now become a regular process as part of quarterly and year-end closing exercises.
X	**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.	A review of this recommendation is ongoing

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Recommendation made and response in 2020/21	Update on actions taken to address the issue
✓	**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.	Complete
X	**Process for capitalisation of employee salaries** Within our sample testing of capital expenditure, we selected a number of items relating to the capitalisation of employee salaries. The basis on which these had been calculated was on an annual basis, rather than a review of actual time spent on a capital project on an ongoing basis. We are satisfied from audit procedures undertaken that this issue has not led to a material misstatement within the 2020/21 financial statements. However, there is a risk that, where this process occurs only annually, inaccurate time is recorded leading to inaccurate charges to capital and the general fund.	Processes should be implemented to capture employee time to be capitalised on a more regular basis such as monthly. **Management response** Agreed – management will look into at more frequent capitalisation where practicable - this would most likely be quarterly to coincide with the quarterly monitoring process.	A review of this recommendation is ongoing.
X	**Impairment review for assets not revalued** During the performance of our procedures we noted that the Council did not carry out an assessment of whether there were impairment indicators for assets that were not subject to the external valuation exercise. Due to the volatility of the property market there is a risk that the assets not revalued may be misstated.	Management should ensure that they have implemented procedures or policies to assess the assets not revalued and ensure they are not materially misstated. **Management response** Agreed, management will build this into the overall valuation process with input from our external valuers.	A review of this recommendation is ongoing.
✓	**Collection Fund reliefs** We were unable at the date of the audit to obtain a listing of reliefs that reconciled to the Collection Fund working papers and year end system reconciliations.	We would recommend that in order to keep a full audit trail, that the underlying listings for the Collection Fund system including reliefs and exemptions, are retained as evidence for the system reconciliations and for sampling from the system at year end audit fieldwork.	Future closing timetables will include an action to address this, therefore ensuring these are run on time.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Mayoral CIL Balance Reclassification As highlighted in the prior year (and not adjusted during that year) this Mayoral CIL balance was funding amounts received in previous years which no longer had any repayment/clawback conditions attached and were therefore more appropriately classified within earmarked reserves.	-	£2.3m (Creditors) (£2.3m) (Earmarked Reserves)	Nil
Overall impact	£Nil	£Nil	£Nil

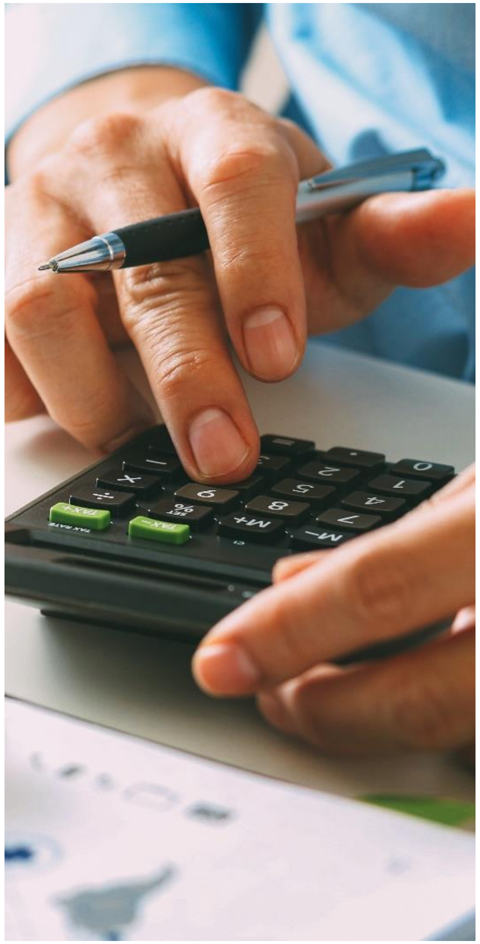
C. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Accounts amendment	Adjustment agreed?
Misclassification of the business rates tariff payable In our variance analysis of year on year movements income and expenditure in the Comprehensive Income and Expenditure Statement and Note 2 Expenditure and Income Analysed by Nature, it was highlighted that there were some unusual fluctuations by classification. When investigated with management it was agreed that £16.9m business rates tariff payable which should be classified as expenditure was instead netted off against income reducing the amount of expenditure and income disclosed though resulting in the same net surplus/deficit position. This has been corrected in the statements, and does not adjust the closing financial position reported.	✓
Audit fees The audit fees were accrued at the fee per the 2020/21 Audit Findings Report, where the fees should have been accrued in the accounts to agree to the 2021/22 Audit Plan proposed fees. This was adjusted for in the financial statements, resulting in an overall increase in accrued audit costs of £14k.	✓
Contingent assets We discussed with management the contingent assets related to affordable housing. The auditor challenged as to whether this still met the criteria for disclosure as a contingent asset. This contingent asset was removed from Note 34.	✓
Various minor disclosure amendments 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.	✓

C. Audit Adjustments



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Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 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.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Collection Fund – Safety Net During the budgeting process for the Collection Fund it was estimated that the outturn would result in the council being in the safety net position. At the year end the outturn position was different, requiring the repayment of grant monies. The credit required to repay this grant was held in the Collection Fund smoothing reserve and should, instead, have been held as a creditor. This would have no impact on the surplus/deficit or General Fund, as it is a balance sheet classification issue.	Nil	£3.9m (Collection Fund Smoothing Reserve) (£3.9m) (Creditors)	Nil	Management consider this to be a presentational issue with no net impact on the general fund balance. It has been corrected-for through the 2022/23 accounts.
Overall impact	£Nil	£3.9m	£Nil	

C. Audit Adjustments - Pension Fund

Impact of adjusted 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 Audit 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
Triangulation testing of investments In our triangulation testing of investments the Partners Group – Infrastructure investment was understated in value by £1.73m. This was due to timing differences in the availability of valuation information from the Fund Manager.	(£1.7m)	£1.7m	(£1.7m)	Management do not consider the difference to be material.
Triangulation testing of investments In our triangulation testing of investments the ABRDN MSPC and LGIM - MSCI Low Carbon (Passive) investment was overstated in value by £1.74m. This was due to timing differences in the availability of valuation information from the Fund Manager.	£1.7m	(£1.7m)	£1.7m	Management do not consider the difference to be material.
Overall impact	£Nil	£Nil	£Nil	

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	£212,742	£TBC
Pension Fund Audit	£38,000	£TBC
Total audit fees (excluding VAT)	£250,742	£TBC

Non-audit fees for other services	Proposed fee	Final fee
Agreed upon procedures relating to pooling of housing capital receipts	£5,000	£TBC
Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate	£7,700	£TBC
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

Our audit opinion is included below.

We anticipate we will provide the Council and Pension Fund 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 2023, 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 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2023 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 2022/23; 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 2022/23 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 2022) 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.

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.

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 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.

Our responsibilities and the responsibilities of the Director of Finance with respect to going concern are described in the relevant sections 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

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

As explained in the Statement of Responsibilities, 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. Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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 (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003).

In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to [include relevant details for your audit, e.g. health and safety, employee matters, and data protection].

We enquired of management 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 management, 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.

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, Local Government Act 1972, the Local Government Act 2003, Local Government and Housing Act 1989, Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992 and the Local Government Finance Act 2012.
- 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

- 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:
  - 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 DLUCH 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.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including [add details of risks]. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

E. Audit opinion

Our 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements – 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 2023.

We have nothing to report in respect of the above matter.

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.

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 January 2023. 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 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2023. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2023.

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 44 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:

Name Paul Dossett, Key Audit Partner

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

London

Date:

E. Audit opinion – Pension 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 on financial statements

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 2022 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 2021/22; 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 2022/23 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 2022) 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.

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.

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.

Our responsibilities and the responsibilities of the Director of Finance with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements and our auditor's report thereon, and our auditor's report on the Authority's financial statements. The Director of Finance is responsible for the other information. 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.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund 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 themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters 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, 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;
- 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 and the Director of Finance

As explained more fully in the Statement of Responsibilities, 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 2022/23, 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 they have been

E. Audit opinion – Pension Fund

informed by the relevant national body of the intention to dissolve the Pension Fund without the transfer of its services to another public sector entity.

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. Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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
  - 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.
  - 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.

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.

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 44 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:

Name Paul Dossett, Key Audit Partner

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

London

Date:

Grant Thornton

grantthornton.co.uk

London Borough of Hammersmith & Fulham
Town Hall
King Street
W6 9JU

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

12 September 2023

London Borough of Hammersmith and Fulham
Financial Statements for the year ended 31 March 2022

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 2022 for the purpose of expressing an opinion as to whether the Council financial statements give a true and fair view in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 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 2022/23 ("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 […]. 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. During the year we evaluated our estimation process for [add estimation] and the following change/s to estimation process was/were made[…] 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. 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

xv. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

xvi. The Council has complied with all aspects of ring-fenced grants that could have a material effect on the Council's financial statements in the event of non-compliance.

Information Provided

xvii. 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 from whom you determined it necessary to obtain audit evidence.

xviii. We have communicated to you all deficiencies in internal control of which management is aware.

xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xx. 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.

xxi. 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.

xxii. 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.

xxiii. 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.

xxiv. 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.

xxv. 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

xxvi. 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

xxvii. 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 administering authority's Audit Committee at its meeting on 12 September 2023.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Council

London Borough of Hammersmith & Fulham
Town Hall
King Street
W6 9JU

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

12 September 2023

Hammersmith and Fulham Pension Fund
Financial Statements for the year ended 31 March 2022

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 2022 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 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 2022/23 ("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 […]. 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. During the year we evaluated our estimation process for [add estimation] and the following change/s to estimation process was/were made[…] 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. 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.

Information Provided

xiv. 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 from whom you determined it necessary to obtain audit evidence.

xv. We have communicated to you all deficiencies in internal control of which management is aware.

xvi. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvii. 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.

xviii. 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.

xix. 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.

xx. 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.

xxi. 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.

xxii. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

xxiii. 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.

xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

xxv.

Approval

The approval of this letter of representation was minuted by the Fund’s Audit Committee at its meeting on 12 September 2023.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Fund

Annual Report

Hammersmith & Fulham Pension Fund 2021/22

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hammersmith & fulham

Contents

1. Preface

Report from Chair of the Pension Fund Committee

WELCOME TO THE ANNUAL REPORT OF HAMMERSMITH 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 2021/22.

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 continuing to show strong recovery to March 2022. 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. 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 77% since June 2018 (March 2022 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 Fund has since further improved its ESG reporting creating an interactive dashboard that members can interrogate, with the aim of improving transparency and accountability. 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 Ross Melton
Chair of the Pension Fund Committee

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:

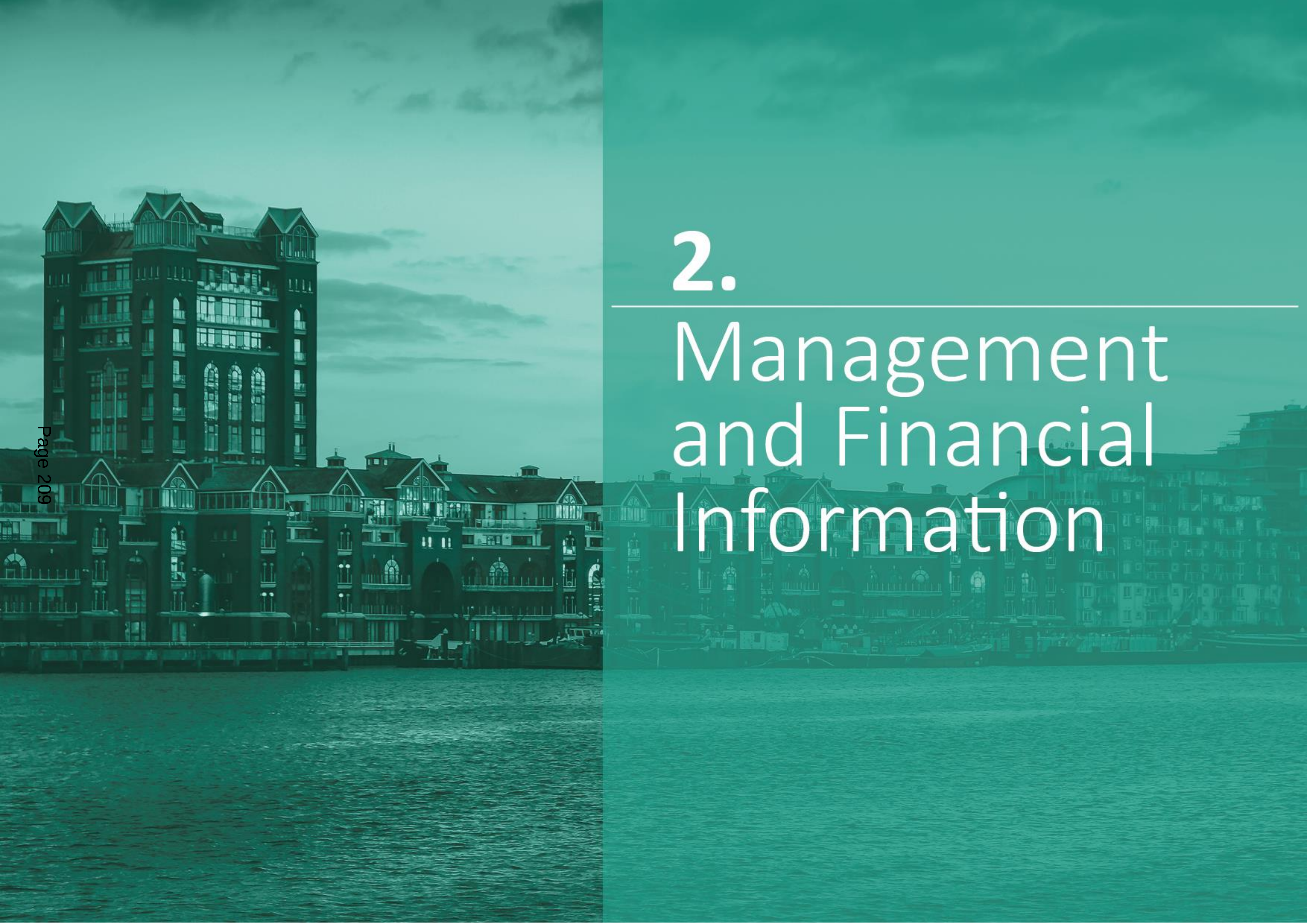
- **Management and Financial Performance** which explains the governance and management arrangements for the Fund, as well as summarising the financial position and the approach to risk management.
- **Investment Policy and Performance** which details the Fund's investment strategy, arrangements and 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 2022.

- **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 Pensions 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 – five from the administration and one opposition party representative. 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 Pension Fund Committee.

The 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 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 membership throughout 2021/22 of the Pension Fund Committee is set out below..

Councillor	Committee Attendance 2021/22
Iain Cassidy (Chair)	5/5
Matt Thorley (Vice Chair)	5/5
Jonathan Caleb-Landy	3/5
Rowan Ree	5/5
Helen Rowbottom	4/5
Guy Vincent	3/5

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

PENSIONS BOARD

The Council has also established a Pensions Board (the Board) to assist the Pension Fund Committee as required by the Public Services Pensions 2013. The purpose of the Pensions Board is to provide oversight of the Pension Fund 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 Pension Fund Committee. It meets at least twice a year.

Terms of reference for the Pensions 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 membership of the Pensions Board throughout 2021/22 is set out below.

Board Member	Employer/Employee	Attendance 2021/22
Cllr Rory Vaughn (Chair)	Employer	2/2
Cllr Bora Kwon	Employer	1/2
William OConnell	Employee	2/2
Khadija Sekhon	Employee	0/2
Neil Newton	Employee	0/2

MEMBER AND OFFICER TRAINING

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

During 2021/22 knowledge was gained at various meetings with investment managers in addition to individual attendance at conferences and seminars.

Further relevant training is planned for 2022/23 based on self-assessments completed by 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 during 2021/22

EXTERNAL PARTIES

Investment Advisor	Deloitte		
Investment Managers	**Global Equities (Passive)**	**Absolute Return**	**Ground Rents**
	Legal & General Investment Management	Ruffer	Alpha Real
	Morgan Stanley Investment Management	**Fixed Income**	**Illiquid Alternatives**
	Private Multi-Asset Credit	Oakhill Advisors	Darwin
	Partners Group	**Long Lease Property**	**Affordable Housing**
	Aberdeen Standard	Aberdeen Standard	Man Group
	Infrastructure	**Private Equity**	
	Aviva Investors	Invesco	
	Partners Group	Unigestion	
Custodian	Northern Trust		
Banker	NatWest Bank		
Actuary	Hymans Robertson LLP		
Auditor	Grant Thornton LLP		
Legal adviser	Eversheds Sutherland		
Scheme Administrators	LPPA		
AVC Providers	Scottish Widows Workplace Pensions	Utmost Life and Pensions	

OFFICERS

Strategic Director of Finance and Governance (S151 Officer)	Emily Hill		
Tri-Borough Pensions Team	Phil Triggs	Patrick Rowe	Alastair Paton
	Matt Hopson	Julia Stevens	Ruby Vuong
	Mat Dawson	Billie Emery	
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 Pension Fund 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	Significant volatility and negative sentiment in global investment markets following disruptive geopolitical and economic uncertainty, including with Russia and Ukraine.	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	Changing the fund's pensions administration provider at the same time as bringing back the retained pensions team in house poses significant 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
Administration	Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	Medium	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 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.

Risk Management (continued)

THIRD PARTY RISKS

The Council has outsourced the following functions of the Fund:

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

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

To mitigate the risks regarding investment management and custodianship of assets, the Council obtains independent internal controls assurance reports from the reporting accountants to the relevant service providers. These independent reports are prepared in accordance with international standards. Any weaknesses in internal 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 2022.

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
Darwin	ISAE 3402	Reasonable assurance	Reasonable assurance	BDO Limited
Man Group	ISAE 3402	Reasonable assurance	Reasonable assurance	Ernst Young LLP
Custodian				
Northern Trust	ISAE 3402	Reasonable assurance	Reasonable assurance	KPMG LLP

Financial Performance

The Fund asset value increased by £105m during 2021/22, to £1,325m as at 31 March 2022, continuing the previous year's strong recovery after increasing confidence in the global economic outlook as concerns about the COVID-19 disease reduced.

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

	2017/18	2018/19	2019/20	2020/21	2021/22
Fund account	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Dealings with members					
Contributions	(33,454)	(36,386)	(37,869)	(41,534)	(42,920)
Pensions	42,827	48,846	52,660	52,088	54,096
Net (additions)/withdrawals from dealings with members	9,373	12,460	14,791	10,554	11,176
Management expenses	4,503	6,199	5,866	8,903	9,915
Investment Income	(10,283)	(11,967)	(14,642)	(12,327)	(11,170)
Change in market value	(10,384)	(49,142)	36,172	(215,444)	115,585
Net (increase)/decrease in the Fund	**(6,791)**	**(42,450)**	**41,187**	**(208,337)**	**(105,690)**

Over the five-year period, pensions paid have exceeded contributions received by £58m in total. This reflects the maturity of the Fund membership in that there are fewer contributors than beneficiaries.

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

Due to greater improvements and uptake in the cost transparency initiative, the Fund was able to better ascertain its transaction costs.

Financial Performance (continued)

ANALYTICAL REVIEW – NET ASSET STATEMENT

	2017/18	2018/19	2019/20	2020/21	2021/22
Net Asset Statement	£'000	£'000	£'000	£'000	£'000
Bonds	-	-	-	-	-
Equities	150	150	150	150	150
Pooled investment vehicles	998,141	1,034,851	946,792	1,214,810	1,287,378
Commodities	-	-	-	-	-
Derivatives	-	-	-	-	-
Cash deposits	6,168	12,843	59,524	8	32,104
Other	35	34	26	13	7
Total Investment Assets	1,004,494	1,047,878	1,006,492	1,214,981	1,319,639
Current assets	6,420	5,396	5,572	3,664	4,525
Current Liabilities	(1,291)	(1,201)	(1,178)	(1,100)	(2,118)
Net (increase)/decrease in the Fund	**1,009,623**	**1,052,073**	**1,010,886**	**1,219,223**	**1,324,913**

The points to note are:

- 93% of pooled investment vehicles comprise equity shareholdings both domestic and overseas, while the remaining 7% is in property pooled funds.
- The overall value of pooled investment vehicles increased by £76m (6%) during the year.

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

Financial Performance (continued)

ANALYSIS OF DEALINGS WITH SCHEME MEMBERS

	2017/18	2018/19	2019/20	2020/21	2021/22
Contributions Receivable	£'000	£'000	£'000	£'000	£'000
- Members	(6,781)	(7,157)	(7,408)	(8,004)	(8,735)
- Employers	(24,268)	(25,074)	(26,135)	(24,180)	(25,568)
- Transfers in	(3,012)	(2,934)	(4,326)	(9,350)	(8,617)
- Other	607	(1,221)	-	-	-
Total Income	**(33,454)**	**(36,386)**	**(37,869)**	**(41,534)**	**(42,920)**

	2017/18	2018/19	2019/20	2020/21	2021/22
Benefits Payable	£'000	£'000	£'000	£'000	£'000
- Pensions	31,465	32,912	34,916	36,363	37,839
- Lump sum retirements and death benefits	7,256	8,167	9,400	8,672	10,368
- Transfers out	4,086	7,726	7,225	7,013	5,737
- Refunds	20	41	119	40	152
Total Expenditure	42,827	48,846	51,660	52,088	54,096
Net Dealings with Members	**9,373**	**12,460**	**13,791**	**10,514**	**11,176**

The key variances were due to the following:

- Lump sums increased due to more members retiring than in the prior year.
- Transfers in were lower, reflecting less new starters joining the scheme and choosing to transfer in benefits on commencement of employment, than last year.
- Transfers out were higher, reflecting more people leaving the scheme and choosing to transfer out their benefits than the last year.

Financial Performance (continued)

ANALYSIS OF OPERATIONAL EXPENSES

The costs of running the pension fund are shown below.

	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Administration					
Employees	235	214	223	279	230
Supplies and services	165	132	139	254	354
Other Costs	3	2	3	3	2
Total Administration Costs	403	348	365	536	587
Governance and Oversight					
Employees	341	337	447	550	637
Investment advisory services	65	93	81	109	59
Governance and compliance	0	56	134	125	151
External audit	21	16	25	-4	40
Actuarial fees	25	50	79	54	35
Total Governance and Oversight Costs	452	552	766	834	922
Investment Management					
Management fees	3,223	4,763	4,250	5,446	6,431
Performance fees	343	244	36	257	79
Transaction costs	44	185	421	1,764	1,845
Custodian fees	38	107	28	66	51
Total Investment Management Fees	3,648	5,299	4,735	7,553	8,406
Total Operational Expenses	**4,503**	**6,199**	**5,866**	**8,903**	**9,915**

In 2021/22, the Fund completed an extensive work programme to bring its administrative function back in-house alongside its new administration platform provider, LPPA. To ensure effective administration for fund members this process was carried out whilst maintaining Surrey as the Funds admin team through part of 2021/22, whilst bringing on board LPPA. This was a key cost driver for the continued higher than usual supplies and services cost.

The Fund's investment management expenses increased by 11% during the year. The main driver of this increase in cost was the result of the Fund's managers continuing to achieve strong returns in year, with fees being based on the value of 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 LPPA under a not-for-profit contractual arrangement operational from 26 January 2022.

PERFORMANCE INDICATORS

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

Performance Indicators (Surrey)	Target	2020/21 Performance
Letter detailing transfer out quote	20 days	74%
Process refund and issue payment voucher	10 days	90%
Letter notifying estimate of retirement benefit	10 days	79%
Letter notifying actual retirement benefit	7 days	73%
Letter acknowledging death of member	5 days	77%
Letter notifying amount of dependant's benefits	10 days	75%
Calculate and notify deferred benefits	20 days	86.5%

Performance Indicators (LPPA)	Target	2020/21 Performance
Letter to new members	10 days	100%
Calculate transfer in calculations	10 days	91%
Calculate and pay transfer out calculations	10 days	84%
Calculate deferred benefit entitlement	15 days	77%
Calculate and pay retirement benefits	5 days	58%
Process refunds on contributions	5 days	75%
Letter acknowledging death of member and letter to next of kin	5 days	83%

Given the move between administration providers there are new set off performance indicators. As such, to provide a degree of comparison between years, those applicable from the previous year have been included alongside a separate table listing the new indicators. The performance indicators continue to be monitored with the new pension administrator LPPA, however, unfortunately challenges with the new software platform and unprecedented calls to its helpdesk have impacted on performance.

PensionPoint

The PensionPoint 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:

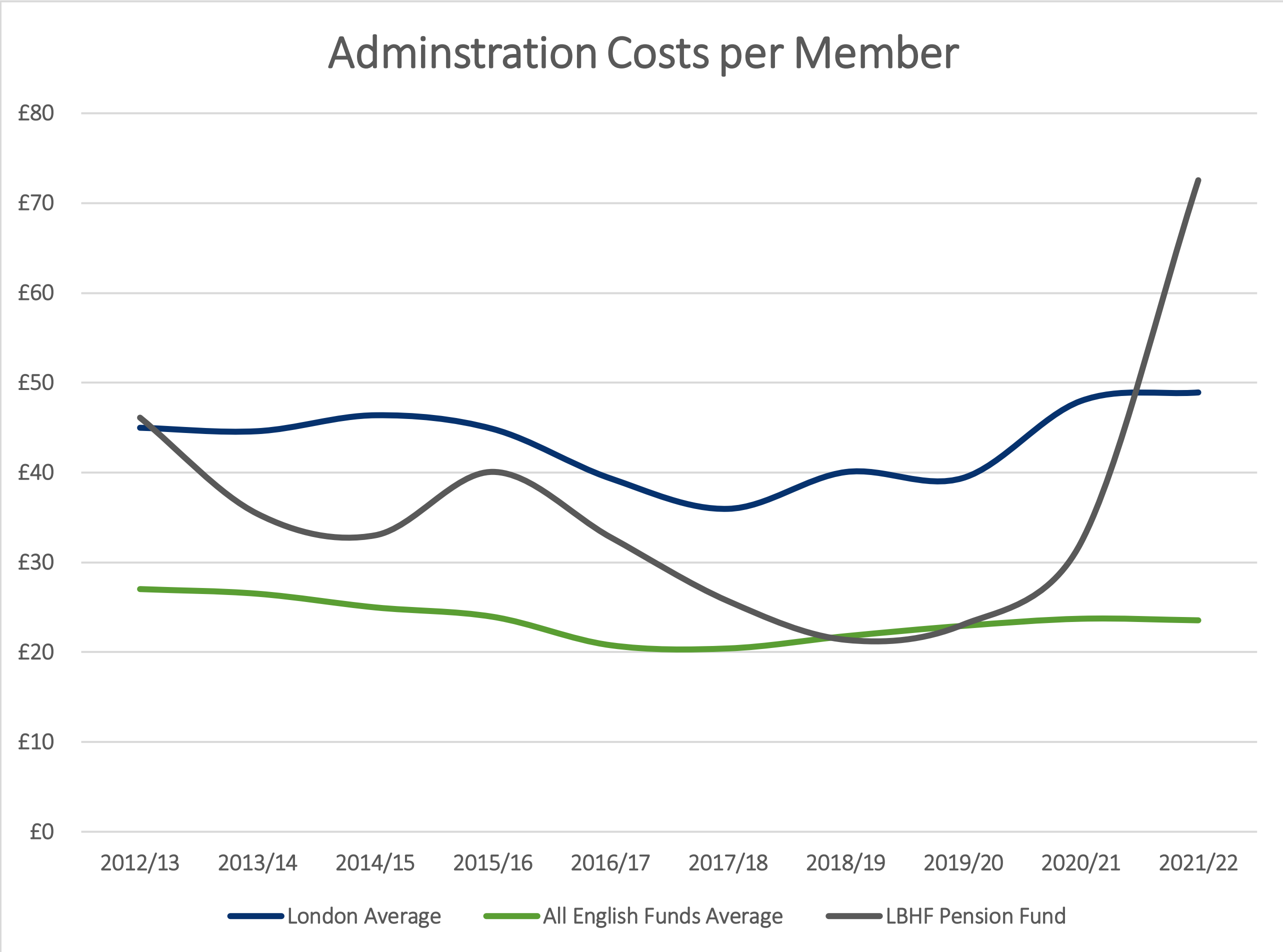
- Submit starter and leaver details and other changes online
- View and update employee details
- Run benefit calculations e.g. early retirements

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).

Three new complaints were lodged with the Ombudsman in 2021/22.

Administration Management Performance (continued)



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STAFFING INDICATORS

The Pension Fund's cost of administration per member remains has increased to above average for the London borough pension funds as shown in the chart. This is due to changing administrative platform providers and bringing the admin team back in-house which resulted in several one-off costs during the year.

Administration costs are subject to regular review.

The administration of the Fund comprises of:

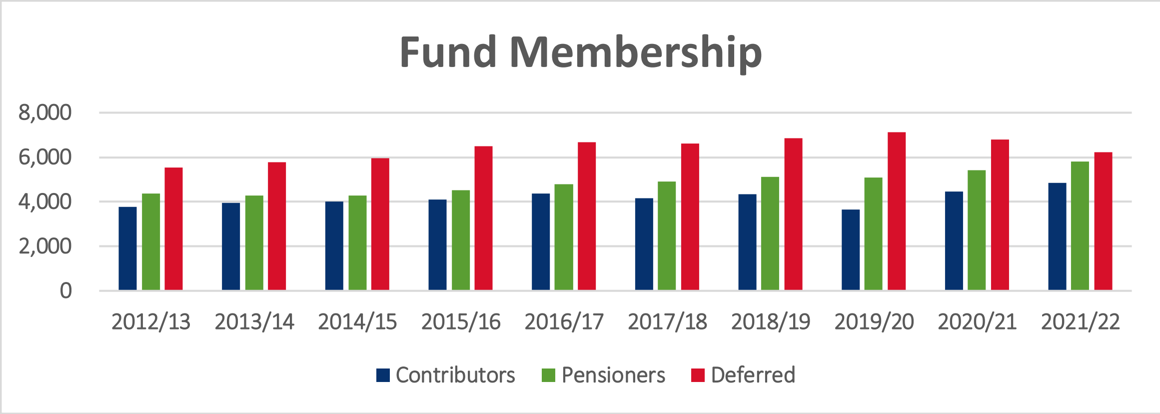
- 5 FTE Hammersmith and Fulham HR staff to deal with internal administration.
- 1.93 FTE Westminster Finance staff assigned to the oversight and governance of the Pension Fund.

Administration Management Performance (continued)

MEMBERSHIP NUMBERS AND TRENDS

Overall membership has increased by about 7% over the past 5 years from 15,853 to 16,892.

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	2017/18	2018/19	2019/20	2020/21	2021/22
Ill health retirement	6	4	3	6	9
Early retirement	18	20	21	29	37
	24	**24**	**24**	**35**	**46**

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 2021/22. 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	6,441	17,654	24,095
Addison Primary School	26	94	120
All Saints CE Primary School	11	40	51
Avonmore Primary School	27	105	133
Bayonne Nursery School	14	51	65
Brackenbury Primary School	30	108	137
Cambridge School	39	138	178
Flora Gardens Primary School	23	81	104
Holy Cross RC Primary School	37	134	170
Jack Tizard School	58	212	270
James Lee Nursery School	10	37	48
John Betts Primary School	17	61	78
Kenmont Primary School	17	60	77
Larmenier & Sacred Heart RC Primary School	30	110	139
Melcombe Primary School	22	82	105
Miles Coverdale Primary School	31	113	144
Normand Croft Community School	31	109	140
Old Oak Primary School	24	88	112
Queensmill School	25	89	113
Randolph Beresford Early Years Centre	39	128	168
Sir John Lillie Primary School	25	88	113
St Augustine's RC Primary School	16	59	75
St John XXIII RC Primary School	27	103	130
St John's Walham Green CE Primary School	20	72	92
St Mary's RC Primary School	26	95	121
St Paul's CE Primary School	21	82	103
St Peter's CE Primary School	17	63	81
St Stephen's CE Primary School	40	145	185
St. Thomas of Canterbury RC Primary School	10	35	44
The Good Shepherd RC Primary School	20	76	96
Vanessa Nursery School	16	58	75
Wendell Park Primary School	24	87	111
William Morris Sixth Form School	49	168	216
Wood Lane High School	31	106	137
Wormholt Park Primary School	36	120	156
Total Contributions from Administering Authority	**7,329**	**20,853**	**28,182**

[1] Includes early retirement and deficit contributions

Administration Management Performance (continued)

SCHEDULED BODIES

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

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

Scheduled Body	Employees Contributions £000	Employers Contributions[2] £000	Total Contributions £000
Bentworth Academy	14	61	74
Burlington Danes Academy	73	167	240
Conway Academy	17	78	95
Fulham Boys Academy	41	143	184
Fulham College Academy - Boys	52	188	240
Fulham College Academy Trust Girls	47	160	208
Greenside Academy	17	63	80
Hammersmith Academy - Dec	63	228	291
Hurlingham & Chelsea Academy	42	143	185
Lady Margaret Academy(L M A)	51	174	225
ARK Swift Primary Academy	19	80	99
Langford Academy	14	52	65
Mortlake Crematorium Board	22	54	76
Phoenix Academy (from October 2016)	25	95	120
Sacred Heart Academy (SHA)	57	197	253
The Bridge AP Academy (TBAP)	45	144	189
Thomas Academy	17	70	87
West London Free School	105	357	463
Queensmill Academy	144	566	710
The London Oratory School	68	167	235
Earls Court Free School	5	27	32
Brightwells Academy Fulham Primary School	26	103	129
Brightwells Academy Queens Manor Primary	23	90	113
Brightwells Academy Sulivan Primary School	17	72	89
Total Contributions from Scheduled Bodies	**1,006**	**3,478**	**4,484**

[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
Caterlink (2016 Schools)	4	16	20
HCT (Jack Tizard School)	1	5	6
Fulham Palace	0	-66	-65
BT IT Services	6	19	25
Peabody Trust Family Mosaic	10	41	51
3BM	15	41	56
Disabilities Trust	1	4	6
Interserve (Eden Foods Ltd)	20	83	103
F M Conway Ltd (2009)	10	29	39
Medequip Assistive Tech (HF)	2	8	10
Pinnacle Estates Services (HF)	79	274	352
Quadron Srv Ltd (Idverde) 2008	34	116	150
Serco (HF)	150	449	600
Urban Partnership Group	18	93	111
Caterlink (Hrlnghm and Chlsea)	-	3	3
Abelian UK (Wormholt Primary)	0	1	2
Birkin Clean	2	12	14
HCT (CT Plus H&F main contract)	8	40	48
F M Conway Ltd (2017)	4	-54	-50
Quadron Srv Ltd (Idverde) 2018	5	17	22
London Hire Community Services	1	8	10
Family Support Services FSS	0	-5	-5
Caterlink (Langford Primary)	0	2	2
Morgan Sindall Property Services Ltd (lot 1)	6	26	32
DW Contractors Ltd	1	7	8
Mears Group Contract 2	1	5	6
auditMorgan Sindall Property Services Ltd (lot 2)	16	45	61
Bee Services Randolph Beresford	1	5	7
Bee Services Vanessa Nursery	0	1	2
Churchill Contract Catering Ltd (Brackenbury)	2	10	12
Total Contributions from Admitted Bodies	**400**	**1,237**	**1,637**

[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	23	1	24
Admitted Bodies	38	25	63
Total number of bodies	**62**	**26**	**88**

3.

Investment Policy and Performance

Investment Policy

The Pension Fund 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.

The LGPS (Management and Investment of Funds) Regulations 2016, require 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 Pension Fund Committee and the Fund's advisers. The allocation during the year ended 31 March 2022 was as follows:

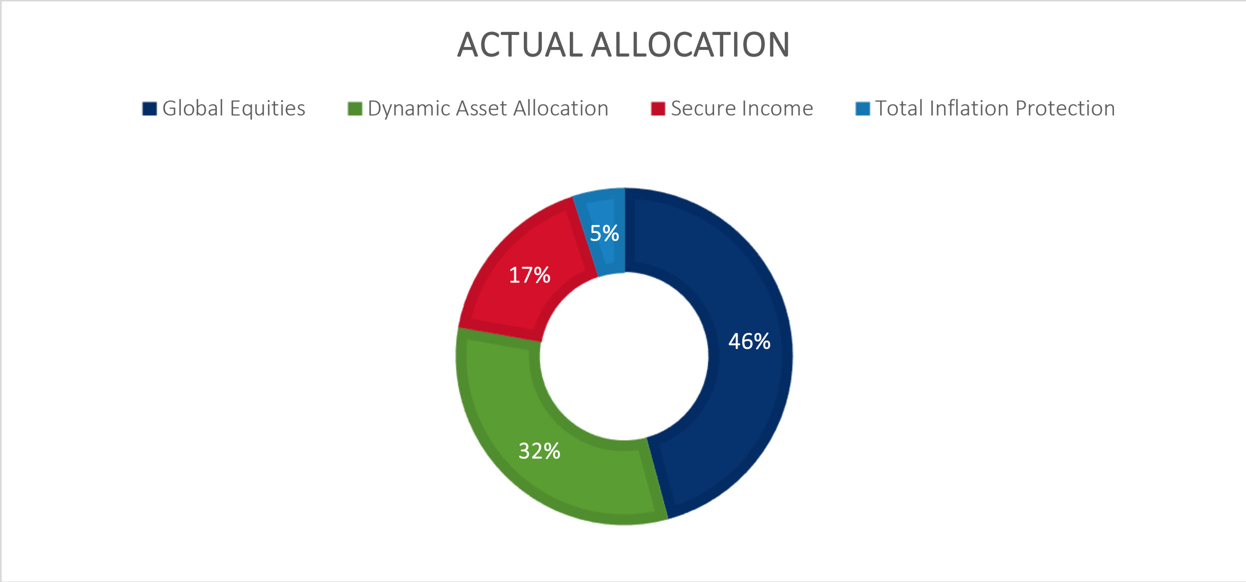
Asset Class	Actual Allocation	Target Allocation
Global Equities	46.1%	45.0%
Dynamic Asset Allocation	28.8%	20.0%
Secure Income	18.2%	20.0%
Total Inflation Protection	6.9%	15.0%
Total	**100.0%**	**100.0%**

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

Investment portfolios are reviewed at each Committee meeting in discussion with the Investment Adviser and Officers, and Fund Managers are called to a 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 Pension Fund Committee.

At 31 March 2022, 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 2022/23.

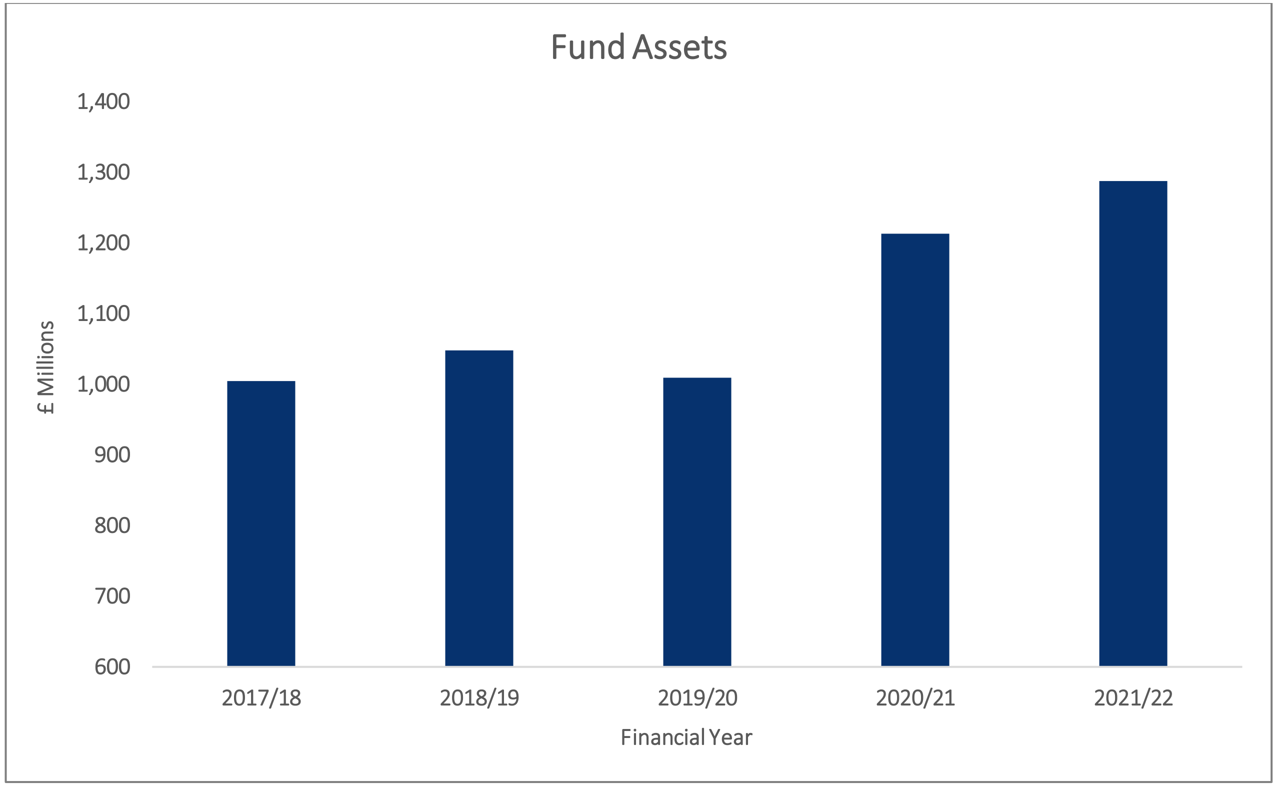
Asset Allocation (continued)

FUND VALUE

The net asset value of the Fund has more than doubled over the past ten years with 28.18% of this growth occurring over the last five years.

In 2021/22, the fund's net asset value rose by 9.83% to £1.29bn. This performance was largely due to the positive outcomes of the vaccination programme and its continued success, leading to continued 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.

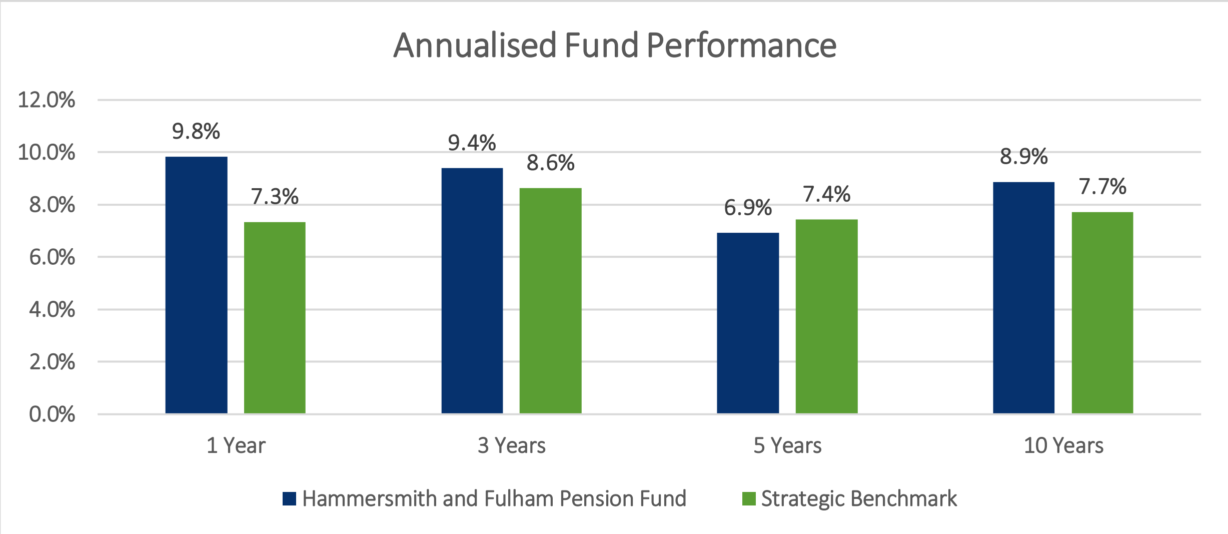


Investment Performance

In 2021/22, the Fund's investment performance was 9.83% (21.86% in 2020/21) to £1.29bn. This was above the average LGPS return of 8.60%.

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 outperformed its strategic benchmark across the different periods with an overperformance of 2.49% in 2021/22.



2020/21 was a strong year for global markets as the threat from the global outbreak of the coronavirus disease reduced and along with it volatility across various sectors. In 2021/22 market's continued to perform well due to continued 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 generally positive across all funds within the overall portfolio, with the exception of the Global Bond Fund.

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	
abrdn Long Lease Property Fund Multi-sector Private Credit	
Man Group Affordable Housing	
Darwin Alternatives Illiquid Alternatives	

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

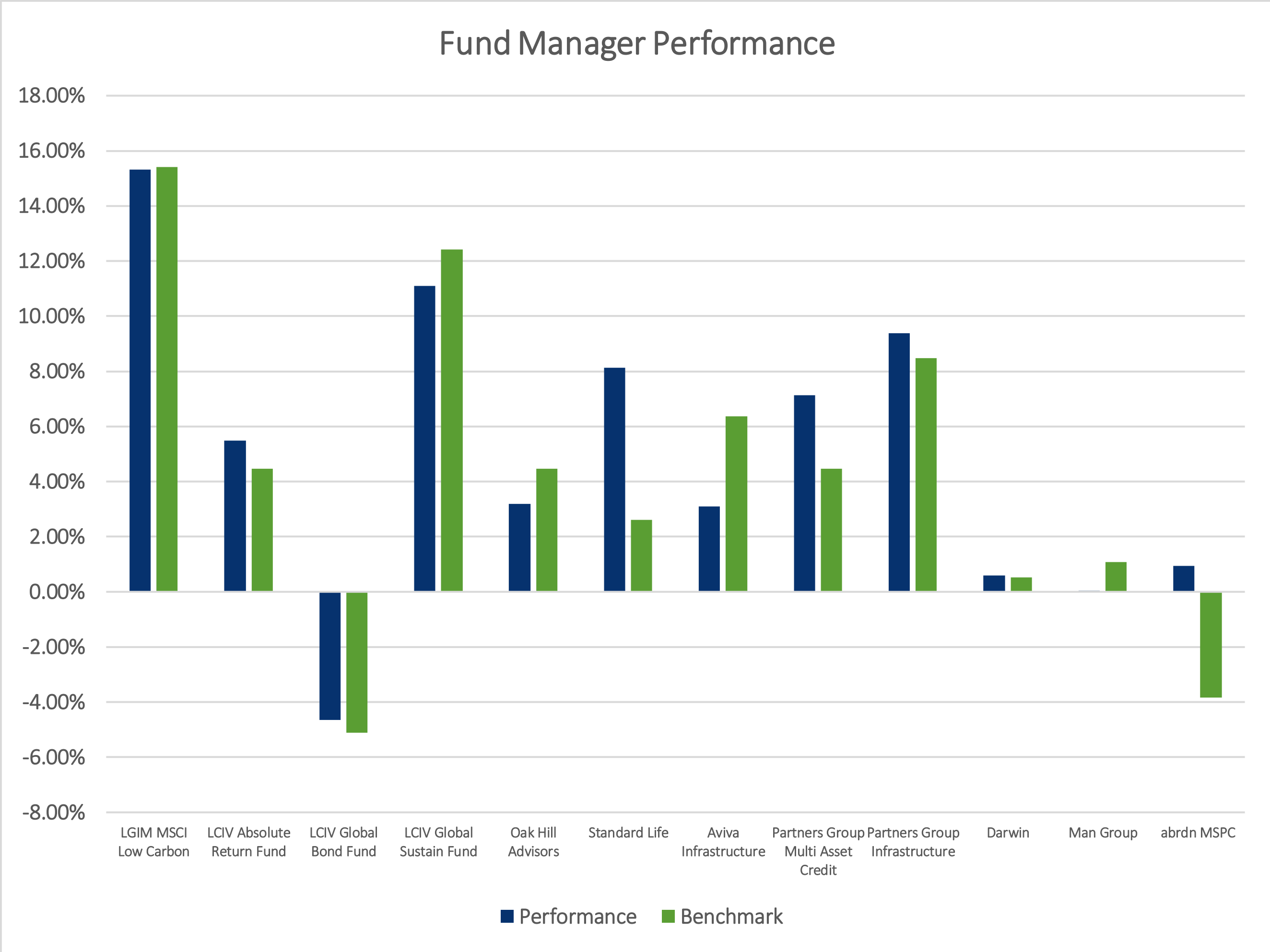
As there will inevitably there be short-term fluctuations in performance.

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:



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Corporate Governance

RESPONSIBLE INVESTMENT POLICY

The Council has a paramount fiduciary duty to obtain the best possible financial return on Fund investments without exposing assets to unnecessary risk. It believes that following 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 first Responsible Investment Statement which was approved later in 2020. This has since been updated with approval expected in 2022.

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 Pension Fund 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 Pension Fund 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 73% of assets invested with the pool as at 31 March 2022.

Corporate Governance (continued)

SEPARATION OF RESPONSIBILITIES

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

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

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

STEWARDSHIP CODE

The Pension Fund 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 Pension Fund 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 Pension Fund 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.

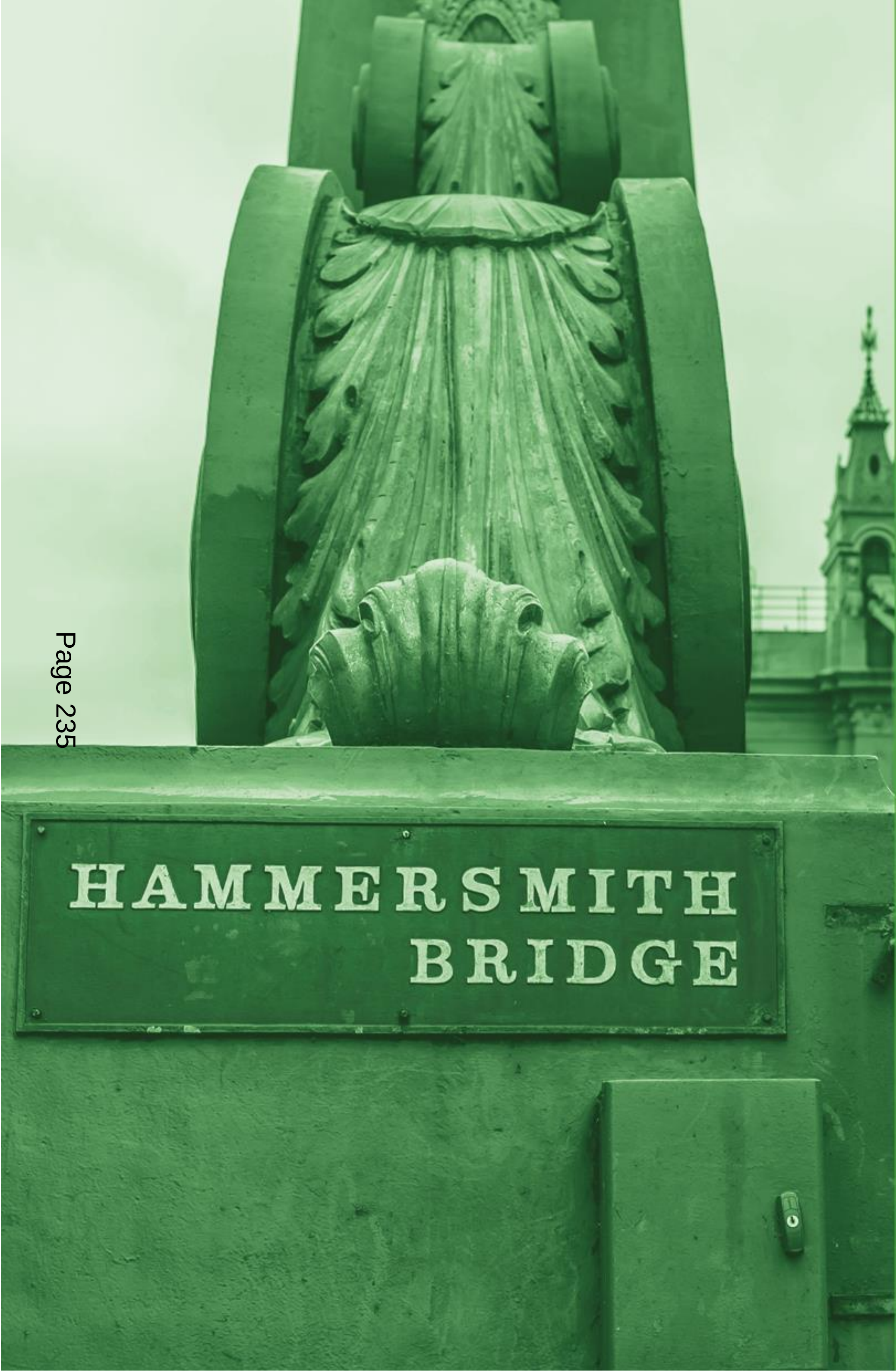
The Pension Fund Committee's role is not to micro-manage companies but provide perspective and share with boards and management our priorities for investment and approach to corporate governance. The aim is to work with management, shareholders and stakeholders to bring about changes that enhance long-term 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 88 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 Local Pensions Partnership Administration 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 88. 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.

Three complaints referred to the Pensions Ombudsman in 2021/22.

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 by Barnet Waddingham 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.

Hymans Robertson replaced Barnet Waddingham as the Fund's actuary in 2021/22. This statement provided by Hymans Robertson gives an update on the funding position as at 31 March 2022 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 2022 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.

Steven Scott FFA

Hymans Robertson 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 2022 and income and expenditure for the year for the financial year 2021/22.

Sukvinder Kalsi
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

Audit report to follow

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

2020/21		Notes	2021/22
£'000			£'000
	Dealings with members, employers and other directly involved in the fund		
	Contributions		
(24,180)	From Employers	7	(25,568)
(8,004)	From Members	7	(8,735)
(9,350)	Individual Transfers in from Other Pension Funds		(8,617)
-	Other income		-
(41,534)	Total Contributions		**(42,920)**
	Benefits		
36,363	Pensions	8	37,839
8,164	Commutation, Lump Sum Retirement and Death Benefits	8	10,097
508	Payment in respect of tax		271
	Payments to and on account of leavers		
7,013	Individual Transfers Out to Other Pension Funds		5,737
40	Refunds to Members Leaving Service		152
52,088	Total Benefits		**54,096**
10,554	Net (Additions) Withdrawals from dealings with members		**11,176**

FUND ACCOUNT

2020/21		Notes	2021/22
8,903	Management expenses	9	9,915
	Returns on Investment		
(12,327)	Investment Income	10	11,170
(23)	Other Income	10	26
(215,444)	(Profit) and losses disposal of investments and changes in value of investments	12	(115,585)
(227,794)	Net Return on Investments		**(126,781)**
(208,337)	Net (Increase)/Decrease in the net assets available for benefits during the year		(105,690)
(1,010,886)	Opening Net Assets of the Scheme		**(1,219,229)**
(1,219,223)	Closing Net Assets of the Scheme		**(1,324,913)**

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

NET ASSETS STATEMENT

2020/21		Notes	2021/22
£'000			
	Investment Assets		
150	Equities	11	150
61,161	Pooled Property Vehicles	11	87,897
1,081,786	Pooled Investment Vehicles	11	1,127,189
71,863	Private Equity/Infrastructure	11	72,202
8	Cash Deposits	11	32,104
	Other Investment Balances		
13	Investment income due	11	7
1,214,981	Net Investment Assets		**1,319,639**
3,664	Current Assets	19	4,525
(1,100)	Current Liabilities	20	(2,118)
1,678	Cash Balances (held directly by Fund)		2,867
1,219,223	**Net assets of the Fund available to fund benefits at the period end**		**1,324,913**

[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. PENSION FUND COMMITTEE

The Council has delegated the investment arrangements of the scheme to the Audit and Pensions Committee, which in December 2014 formed a Pension Fund Committee (the Committee) and delegated all pensions responsibilities to it. The Committee decides on the investment strategy most suitable to meet the liabilities of the Fund and has responsibility for the investment strategy. The Committee is made up of eight members, six of whom are elected representatives of the Council with voting rights and two co-opted members. Members of the admitted bodies and representatives of the Trade Unions may attend the Committee meetings but have no voting rights.

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

C. PENSIONS BOARD

In line with the provisions of the Public Service Pensions Act 2013, the Council has set up a Pensions 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 Pension Fund 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 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 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 participate in 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 2022
58	Number of active employers	55
4,467	Contributing employees	3,859
5,425	Pensioners receiving benefit	5,579
6,784	Deferred pensioners	7,765
16,676	Total members	17,203

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 2021/22 and its position at year end as at 31 March 2022. 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 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.

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, 31 December 2020 and 31 December 2021, 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 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. Hymans Robertson 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 £31m • 0.1% increase in assumed earnings would increase the value of the liabilities by approximated £3m • 0.1% increase in pension increases would increase the liability by about £28m • A one-year increase in life expectancy would increase the liability by about £75m

Management has agreed a reasonable set of actuarial assumptions in consultation with the actuary which derives the total pension fund liability.

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. 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 2022, the assets invested with Partners Group were valued at £53.5m (£45.9m in 2020/21).

The same applies to the Aviva Infrastructure which has a quarterly valuation cycle. As at 31 March 2022, the value of the investment was £26.6m (£25.5m in 2020/21). 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

There are no events after the balance sheet date.

Note 7 Contributions Receivable

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

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

BY AUTHORITY

2020/21 £000		2021/22 £000
(26,170)	Administering authority	(28,182)
(3,789)	Scheduled bodies	(4,484)
(2,225)	Admitted bodies	(1,637)
(32,184)	**Total Contributions Receivable**	

BY TYPE

2020/21 £000		2021/22 £000
(8,004)	Employees' normal contributions	(8,735)
	Employer's contributions:	
(20,050)	Normal contributions	(21,792)
(4,130)	Deficit recovery contributions	(3,776)
(32,184)	**Total Contributions Receivable**	**(34,303)**

Note 8 Benefits Payable

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

BY AUTHORITY

2020/21 £000		2021/22 £000
40,624	Administering authority	43,787
715	Scheduled bodies	671
3188	Admitted bodies	3,478
44,527	**Total Benefits Payable**	**47,936**

BY TYPE

2020/21 £000		2021/22 £000
36,363	Pensions	37,839
6,919	Commutation and lump sum retirement benefits	9,080
1,245	Lump sum death benefits	1,017
44,527	**Total Benefits Payable**	**47,936**

Note 9 Management Expenses

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

*after bringing certain fund administration roles in-house the administrative costs have increased and the oversight and governance costs have decreased.

MANAGEMENT EXPENSES

2020/21 £000		2021/22 £000
536	Administrative costs	1,225
7,533	Investment management expenses	8,406
834	Oversight and governance costs	284
8,903	**Total Management Expenses**	**9,915**

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

2020/21 £000		2021/22 £000
5,446	Management fees	6,431
257	Performance fees	79
1,764	Transaction costs	1,845
66	Custody fees	51
7,533	**Total Investment Management Expenses**	**8,406**

Note 10 Investment Income

The table below shows a breakdown of investment income.

2020/21 £000		2021/22 £000
(5,930)	Pooled investments – unit trusts and other managed funds	(8,037)
(6,387)	Income from Alternative Investments	(3,129)
(10)	Interest on Cash Deposits	(4)
(23)	Other Investment Income	(26)
(12,350)	**Total Investment Income**	**(11,196)**

Note 11 Investment Strategy

During 2021/22, the Fund's strategy had the following developments:

- In July 2021, the Fund had its first capital call from Man Group and has since committed £9.7m of a total commitment of £30m.
- In January 2022, the Pension Fund fully funded its commitment of £32m in Darwin Alternatives.

The market value and proportion of investments managed by each fund manager at 31 March 2022 was as follows:

31 March 2021 £000	%	Fund Manager	Mandate	31 March 2022 £000	%
Investment managed by the London CIV asset pool:					
381,252	31.4%	LGIM – MSCI Low Carbon	Global Equity (Passive)	405,364	30.7%
280,677	23.1%	LCIV – Ruffer	Absolute Return (Active)	270,935	20.5%
107,333	8.8%	LCIV – PIMCO	Global Bonds (Active)	99,766	7.6%
174,776	14.4%	LCIV – Morgan Stanley	Global Sustain Fund	188,554	14.3%
944,038	77.7%	Total assets managed by the London CIV asset pool		**964,619**	73.1%
Investment managed outside of the London CIV asset pool:					
-	0.0%	Darwin Alternatives	Leisure Fund	32,582	2.5%
-	0.0%	Man Group	Affordable Housing	18,231	1.4%
80,034	6.6%	Oak Hill Advisors	Secured Income (Active)	66,283	5.0%
61,162	5.0%	Aberdeen Standard	Long Lease Property	69,756	5.3%
25,546	2.1%	Aviva Investors	Infrastructure	26,596	2.0%
31,956	2.6%	Partners Group	Infrastructure	45,468	3.4%
13,896	1.1%	Partners Group	Multi Asset Private Credit	7,986	0.6%
47	0.0%	Invesco	Private Equity	-	0.0%
417	0.0%	Unigestion	Private Equity	138	0.0%
21	0.0%	Inhouse Cash	Cash	32,111	2.4%
150	0.0%	London CIV Ltd	UK Equity	150	0.0%
1,999	0.2%	NT Ultra Short Bond Fund	UK Equity	1	0.0%
55,715	4.6%	Aberdeen MSPC	Private Credit	55,718	4.2%
270,943	22.30%	Total assets managed outside of the London CIV asset pool		355,020	**26.9%**
1,214,981	**100.0%**	**Total investments**		**1,319,639**	**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 €12.1m (£10.2m) 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 2022, the Fund had £965m invested with the London CIV, which accounts for 73.1% 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 2021 £000	%	Fund Manager	Mandate	31 March 2022 £000	%
381,252	31.4%	LGIM – MSCI Low Carbon	Global Equity (Passive)	405,364	30.7%
280,677	23.1%	LCIV – Ruffer	Absolute Return (Active)	270,935	20.5%
107,333	8.8%	LCIV – PIMCO	Global Bonds (Active)	99,766	7.6%
80,034	6.6%	Oak Hill Advisors	Secured Income (Active)	66,283	5.0%
61,161	5.0%	Aberdeen Standard	Long Lease Property	69,756	5.3%
174,776	14.4%	Morgan Stanley	Global Sustain Fund	188,554	14.3%

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 2021/22.

Fund Manager	Value at 1 April 2021 £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 2022 £000
Equities	150	-	-	-	150
Pooled equity Investments	1,081,786	32,000	(91,882)	97,299	1,119,203
Pooled property investments	61,162	55	(100)	8,640	69,757
Private equity/infrastructure	71,863	31,260	(14,347)	9,642	98,418
Total	1,214,961	63,315	(106,329)	115,581	1,287,528
Cash deposits	8			(1)	32,104
Investment income due	13			-	7
Spot FX contracts	-			5	-
Net investment assets	**1,214,982**	**63,315**	**(106,329)**	**115,585**	**1,319,639**

Note 12 Reconciliation of Movement in Investments (continued)

The equivalent analysis for 2020/21 is provided below:

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 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
Illiquid Alternatives	Level 3	Valued by Fund Managers at the lower of cost and fair value.	In house evaluation of market data	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

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 2021				31 March 2022
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			
-	1,142,947	72,013	Designated at fair value through profit and loss	-	1,156,377	131,151
-	1,142,947	72,013	Net Financial Assets	-	1,156,377	131,151
		1,214,960				**1,287,528**

Note 14b Transfers Between Levels 1 and 2

In 2021/22, 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 2021	Purchases	Sales	Unrealised Gains/(losses)	Realised Gains/(losses)	Market Value as at 31 March 2022
	£000	£000	£000	£000	£000	£000
Overseas infrastructure	32,421	6,717	(312)	6,615	165	45,606
UK Infrastructure	25,546	-	-	1,050	-	26,596
Private Credit	13,896	24,543	(14,035)	1,812	-	26,216
London LGPS CIV	150	-	-	-	-	150
	-	32,000	-	582	-	32,582
Total	**72,013**	**63,260**	**(14,347)**	**10,059**	**165**	**131,151**

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 2022 has been estimated to be accurate within the following ranges:

	Assessed Valuation Range (+)	Assessed Valuation Range (-)	Valuation at 31 March 2022	Valuation on increase	Valuation on decrease
Aviva Infrastructure	8.2%	7.20%	26,596	28,777	24,681
Partners Group Infrastructure	9.16%	9.16%	45,468	49,633	41,303
Partners Group Multi Asset Credit	6.55%	6.55%	7,968	8,509	7,463
Darwin Alternative – Leisure Fund	10.00%	8.80%	32,582	35,840	29,715
Man Group – Affordable Housing	10.30%	11.30%	18,231	20,109	16,171
Total			**130,963**	**142,868**	**119,333**

*three assets (totalling £0.288m) 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 Designated at fair value through profit & loss £000	31 March 2021 Financial assets at amortised cost £000	31 March 2021 Financial liabilities at amortised cost £000		31 March 2022 Designated at fair value through profit & loss £000	31 March 2022 Financial assets at amortised cost £000	31 March 2022 Financial liabilities at amortised cost £000
			Financial Assets			
			Pooled Investment Vehicles:			
836,705			UK equity funds	864,853		
178,943			UK fixed income funds	163,471		
61,162			UK property funds	120,569		
25,546			UK infrastructure	26,596		
80,034			Overseas fixed income funds	66,283		
31,956			Overseas infrastructure	45,468		
464			Overseas venture capital	138		
150			London LGPS CIV	150		
-			UK cash funds			
	13		Investment Income Due		6	
	8		Cash deposits with managers		32,105	
	3,664		Debtors		4,525	
	1,678		Cash balances (held by fund)		2,867	
1,214,960	5,363		**Total Financial Assets**	**1,287,528**	**39,503**	
		-	**Financial Liabilities**			
-	-	(1,100)	Creditors			(2,118)
1,214,960	5,363	(1,100)	**Total Financial Liabilities**	1,287,528	39,503	**(2,118)**
		1,219,223	Total Net Assets			**1,324,913**

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 2021		31 March 2022
	Financial Assets	
215,592	Fair value through profit and loss	115,581
12	Loans and receivables	5
	Financial Liabilities	
(160)	Fair value through profit and loss	(1)
215,444	**Net Gains /(losses) on Financial Instruments**	**115,585**

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 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 the next 21 years, based on the 2019 actuarial valuation deficit recovery plan, the fund managers have been set differing targets appropriate to the types of assets they manage. 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 Pension Fund Committee and is reviewed on a regular basis.

On 24 February 2022, Russia invaded Ukraine, a severe escalation in the conflict which had been ongoing since 2014. Subsequently, numerous global powers implemented sanctions against major Russian banks and financial institutions, including freezing of overseas assets and removing access to SWIFT international payments. The Pension Fund can report that as at 31 March 2022, the value of investments in Russia or Ukraine is immaterial.

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 9.4% higher or 9.4% lower.

Assets exposed to price risk	Value £000	+% £000	-% £000
At 31 March 2021	1,214,960	1,347,392	1,082,530
At 31 March 2022	**1,322,506**	**1,447,181**	**1,197,831**

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 2021	363,074	348,918	377,231
At 31 March 2022	**341,107**	**331,880**	**348,737**

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 6.8% higher or lower for 2021/22 (5.18% in (2020/21).

Assets exposed to currency risk	Value £000	+% £000	-% £000
At 31 March 2021	869,126	914,155	824,097
At 31 March 2022	**739,360**	**789,358**	**689,363**

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.

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 13.2% of the Fund's Net Assets at 31 March 2022 (8.85% at 31 March 2021). The remaining assets can all be liquidated within days.

Manager	Portfolio	31 March 2021	31 March 2022
Aberdeen Standard	Property	61,162	
Partners Group	Infrastructure	31,956	
Partners Group	Multi Asset Credit	13,896	
Invesco	Private Equity	47	
Unigestion	Private Equity	417	
	Total	**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 2022 £000
Alpha Real Capital	60,000-	
Man Group	9,969	
Partners Group Direct Infrastructure Fund 2015	10,193	16,936
	80,162	**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 at the time, 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 2022. The figures have been prepared by Hymans Robertson, 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 £000		31 March 2022 £000
(1,923,604)	Present value of promised retirement benefits	(1,267,000)
1,216,634	Fair value of scheme assets (bid value)	1,324,913
(706,970)	**Net Liability**	**57,913**

The assumptions applied by the actuary are set out below:

FINANCIAL ASSUMPTIONS

	31 March 2021	31 March 2022
Salary increases	3.80%	4.20%
Pension increases	2.80%	3.20%
Discount rate	2.00%	2.70%

DEMOGRAPHIC ASSUMPTIONS

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund. Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 10% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

		31 March 2021	31 March 2022
Retiring today	Males	21.6	22.1
	Females	24.3	24.7
Retiring in 20 years	Males	22.9	23.2
	Females	25.7	26.1

OTHER ASSUMPTIONS

- Members will exchange half of their commutable pension for cash at retirement.

Note 19 Current Assets

DEBTORS

31 March 2021 £000		31 March 2022 £000
1,370	Contributions due – employers	1,620,
549	Contributions due – employees	704
941	London Borough of Hammersmith & Fulham	96
804	Sundry Debtors	2105
3,664	**Total Current Assets**	**4,525**

ANALYSIS OF DEBTORS

31 March 2021 £000		31 March 2022 £000
941	Local authorities	96
2,560	Other entities and individuals	4,087
163	Central Government	342
3,664	**Total Current Assets**	**4,525**

Note 20 Current Liabilities

CREDITORS

31 March 2021 £000		31 March 2022 £000
(589)	Unpaid benefits	(562)
(426)	Management expenses	(843)
(85)	Sundry creditors	(713)
(1,100)	**Total Current Liabilities**	**(2,118)**

ANALYSIS OF CREDITORS

31 March 2021 £000		31 March 2022 £000
(1,100)	Other entities and individuals	(2,118)
(1,100)	**Total Current Liabilities**	**(2,118)**

Note 21 Additional Voluntary Contributions (AVCS)

The Fund's AVC providers are Scottish Widows Workplace Savings and Utmost Life and Pensions. AVCs are invested separately from the Pension Fund and their valuations are shown in the table below.

31 March 2021 £000		31 March 2022 £000
908	Zurich Assurance	917
191	Equitable Life Assurance	176
1,099	**Total Additional Voluntary contributions**	**1,093**

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 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 £0.637m in 2021/22 (£0.542m in 2020/21) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses. The Council made £20.9m of contributions in year (£19.5m in 2020/21).

The Pension Fund's accounting and governance management is carried out through a shared service with Westminster City Council. Westminster City Council incurred costs of £0.174m in 2021/22 (£0.172m in 2020/21) in relation to the accounting and governance of the Fund and were reimbursed for the expense.

Key management Personnel

The key management personnel of the Fund are the Members of the Pension Fund 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 2021	31 March 2022
Short-term benefits	30	
Post-employment benefits	95	
Total	**125**	

Note 25 External Audit Costs

The external audit fee payable to Fund's external auditors, Grant Thornton LLP, was £33,000 (£33,000 in 2020/21).

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.

Glossary of Terms (continued)

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

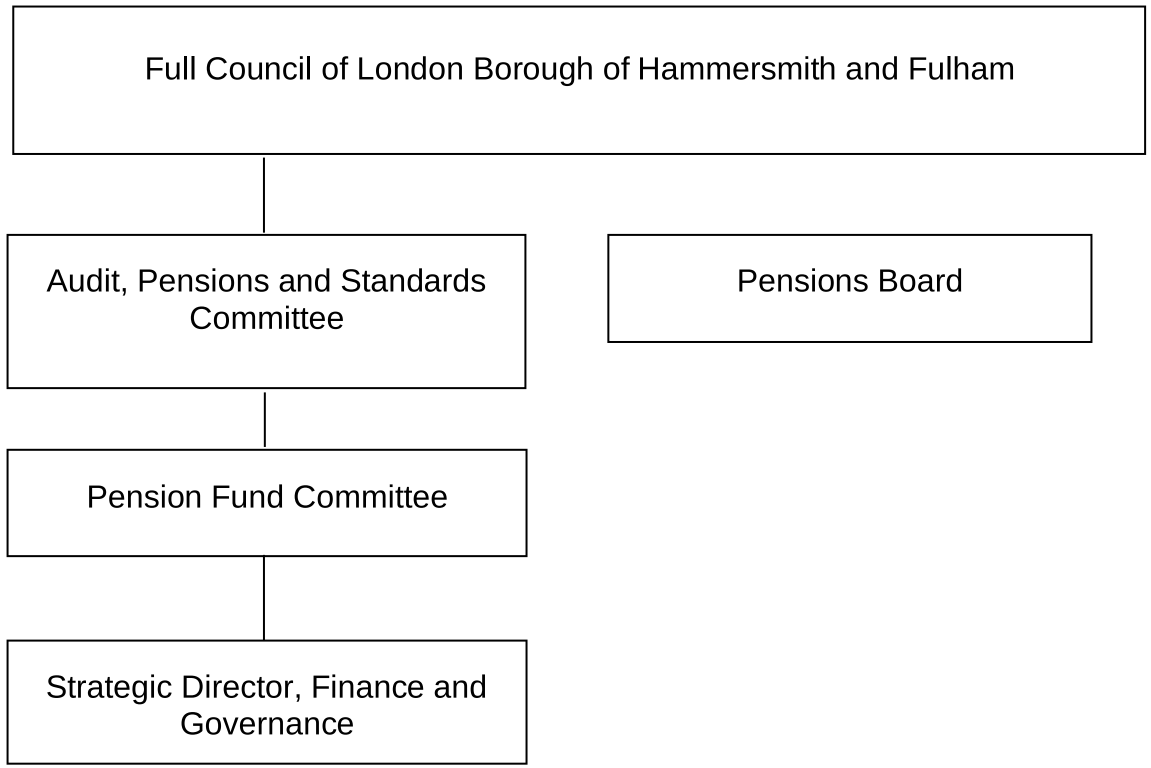
The London Borough of Hammersmith and Fulham Council is the administering authority for the London Borough of Hammersmith and Fulham (“the Fund”) and it administers the Local Government Pension Scheme on behalf of the participating employers.

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.



Governance Compliance Statement (continued)

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 Pension Fund Committee.

PENSION FUND COMMITTEE

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

The 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 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 Committee have voting rights. In the event of an equality of votes, the Chair of the Committee shall have a second casting vote. Where the Chair is not in attendance, the Vice-Chair has the casting vote.

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

The terms of reference for the 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.

PENSIONS BOARD

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

The role of the Pensions 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 Pension Fund 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 Pensions Board members, rather than members of the Pension Fund 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 Pension Fund 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 Pension Fund 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 Pensions Board members, rather than members of the Pension Fund Committee. Expert advisers attend the 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 Pension Fund 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 Pension Fund 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 Pension Fund 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 Pension Fund 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, 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 Pension Fund 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 Pension Fund 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 Pension Fund 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) (last reviewed in 2019).

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	Pensions 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	Pensions 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) (Last updated in 2019 and to be updated again after the March 2022 triennial valuation). 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 Pensions 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") (Last updated in 2019 and to be updated again after the March 2022 triennial valuation).

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 Committee ("the 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 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 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 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 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 Committee is aware of the risks it runs within the Fund and the consequences associated with these risks.

In order to control risk, the 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 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 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 Committee considers to be excessive.

The 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 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 Committee will keep this ISS under review to ensure that it reflects the approaches being taken. At all times, the 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 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 Committee will also compare the Fund asset performance with those of similar funds.
The 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 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 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 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 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 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 Committee uses an external investment adviser to monitor the portfolio risk level. In addition, when carrying out their investment strategy review, the 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 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 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 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 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 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 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 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 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 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;
- Pensions Board;
- advisers/consultants to the fund;
- investment managers.

Policy Implementation - Training

The 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 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 Committee (the Committee). The Committee meets at least quarterly. The responsibilities of the Committee are described in section 1 of the Investment Strategy Statement (ISS).

The 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 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 Committee annually and progress is monitored on a quarterly basis.

Several of the 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 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 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 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

Risk Group	Risk Ref.	Risk Description	Impact				Likelihood	Previous risk score	Current risk score	Trending	Mitigation actions	Revised likelihood	Total risk score	Reviewed on
			Fund	Employers	Reputation	Total								
Asset and Investment Risk	1	The global outbreak of COVID-19 poses economic uncertainty across the global investment markets.	4	3	1	8	3	30	24	↓	TREAT 1) Officers will continue to monitor the impact covid-19 measures have on the fund's underlying investments and the wider economic environment 2) The Fund will continue to review its asset allocation and make any changes when necessary 3) The Fund holds a well diversified portfolio, which should reduce the downside risks of adverse stock market movements. 4) Estimation uncertainty removed from valuers reports 5) Covid 19 restrictions have been reduced for many countries globally	2	16	16/02/2022
Asset and Investment Risk	2	Significant volatility and negative sentiment in global investment markets following disruptive geopolitical and economic uncertainty, including with Russia and Ukraine.	5	4	1	10	4	30	40	↑	TREAT 1) Continued dialogue with investment managers regarding management of political risk in global developed markets. 2) Investment strategy integrates portfolio diversification and risk management. 3) The Fund alongside its investment consultant continually reviews its investment strategy in different asset classes.	3	30	16/02/2022
Asset and Investment Risk	3	Volatility caused by uncertainty regarding the withdrawal of the UK from the European Union. Supply chain shortages disrupting the economy.	4	3	1	8	3	32	24	↓	TREAT 1) Officers to consult and engage with advisors and investment managers. 2) Possibility of hedging currency and equity index movements. 3) The UK has exited the EU and the transition period has come to an end. There is still the potential for volatility implementing some of the post-Brexit agreements once Covid becomes less of an issue.	2	16	16/02/2022
Liability Risk	4	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.	5	4	3	12	3	36	36	↔	TREAT 1) Cashflow forecast maintained and monitored. Cashflow position reported to sub-committee quarterly. 2) The Fund receives quarterly income distributions from some of its investments to help meet its short term pensions obligations. 3) The fund will review the income it receives from underlying investments and make suitable investments to meet its target income requirements.	2	24	16/02/2022
Asset and Investment Risk	5	The London Collective Investment Vehicle (LCIV) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious.	5	4	3	12	3	24	36	↑	TORELATE 1) Partners for the pool have similar expertise and like-mindedness of the officers and members involved with the fund, ensuring compliance with the pooling requirements. 2) Monitor the ongoing fund and pool proposals are comprehensive and meet government objectives. 3) The LCIV has recently bolstered its investment team with the successful recruitment of a permanent CIO, Head of Responsible Investment & Client Relations Director. 4)Fund representation on key officer groups. 5) Ongoing Shareholder Issue remains a threat	2	24	16/02/2022
Asset and Investment Risk	6	Investment managers fail to achieve benchmark/ outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.3m.	5	3	2	10	3	30	30	↔	TREAT 1) The Investment Management Agreements (IMAs)clearly state LBHF's expectations in terms of investment performance targets. 2) Investment manager performance is reviewed on a quarterly basis. Outperformance for the year is 3% 3) The Pension Fund Committee is positioned to move quickly if it is felt that targets will not be achieved. 4) Portfolio rebalancing is considered on a regular basis by the Pension Fund Committee. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.	2	20	16/02/2022

Asset and Investment Risk	7	Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers.	5	3	2	10	3	30	30	↔	**TREAT** 1) Proportion of total asset allocation made up of equities, fixed income, property funds and other alternative asset funds, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal risk asset allocation. 3) Actuarial valuation and strategy review take place every three years post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance is regarded as achievable over the long term when compared with historical data.	2	20	16/02/2022
Asset and Investment Risk	8	Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales	3	2	1	6	3	18	18	↔	**TOLERATE** 1) Officers consult and engage with MHCLG, LGPS Scheme Advisory Board, advisors, consultants, peers, various seminars and conferences. 2) Officers engage in early planning for implementation against agreed deadlines. 3) Uncertainty surrounding new MHCLG guidance	3	18	16/02/2022
Asset and Investment Risk	9	London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	3	3	2	8	3	24	24	↔	**TREAT** 1) Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work carried out by the London CIV. 2) Officers continue to monitor the ongoing staffing issues and the quality of the performance reporting provided by the London CIV.	2	16	16/02/2022
Liability Risk	10	Impact of economic and political decisions on the Pension Fund's employer workforce.	5	2	1	8	2	16	16	↔	**TOLERATE** 1) The Fund Actuary uses prudent assumptions on future of employees within workforce. 2) Employer responsibility to flag up potential for major bulk transfers outside of the LBHF Fund. 3) Officers to monitor the potential for a significant reduction in the workforce as a result of the public sector financial pressures.	2	16	16/02/2022
Asset and Investment Risk	11	Failure to keep up with the pace of change regarding economic, policy, market and technology trends relating to climate change	3	2	1	6	3	18	18	↔	**TREAT** 1) Officers regularly receive updates on the latest ESG policy developments from the fund managers. 2) The Pensions Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which engages with companies on a variety of ESG issues including climate change.	2	12	16/02/2022
Asset and Investment Risk	12	Increased scrutiny on environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in July 2019, the full impact of this decision is uncertain. TCFD regulations impact on LGPS schemes currently unknown but expected to come into force during 2023.	3	2	4	9	3	27	27	↔	**TREAT** 1) Review ISS in relation to published best practice (e.g. Stewardship Code, Responsible Investment Statement) 2) The Fund currently holds investments all it passive equities in a low carbon tracker fund, and is invested in renewable infrastructure. 3) The Fund's actively invests in companies that are contributing to global sustainability through its Global Core Equity investment 4) The Fund has updated its ESG Policy and continues to review its Responsible Investment Policy 5) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors. 6) Officers attend training sessions on ESG and TCFD requirements.	2	18	16/02/2022
Asset and Investment Risk	13	Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy	5	3	3	11	2	22	22	↔	**TREAT** 1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants. 2) Officers, alongside the Fund's advisor, set fund specific benchmarks relevant to the current position of fund liabilities. 3) Fund manager targets set and based on market benchmarks or absolute return measures.	1	11	16/02/2022

Asset and Investment Risk	14	Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	5	3	2	10	2	20	20		TREAT 1) At time of appointment, the Fund ensures advisers have appropriate professional qualifications and quality assurance procedures in place. 2) Committee and officers scrutinise, and challenge advice provided routinely.	1	10	16/02/2022
Asset and Investment Risk	15	Financial failure of third party supplier results in service impairment and financial loss.	5	4	1	10	2	20	20		TREAT 1) Performance of third party suppliers regularly monitored. 2) Regular meetings and conversations with global custodian (Northern Trust) take place. 3) Actuarial and investment consultancies are provided by two different providers.	1	10	16/02/2022
Asset and Investment Risk	16	Failure of global custodian or counterparty.	5	3	2	10	2	20	20		TREAT 1)At time of appointment, ensure assets are separately registered and segregated by owner. 2)Review of internal control reports on an annual basis. 3)Credit rating kept under review.	1	10	16/02/2022
Asset and Investment Risk	17	Financial failure of a fund manager leads to value reduction, increased costs and impairment.	4	3	3	10	2	20	20		TREAT 1) Adequate contract management and review activities are in place. 2) Fund has processes in place to appoint alternative suppliers at similar price, in the event of a failure. 3) Fund commissions the services of Legal & General Investment Management (LGIM) as transition manager. 4) Fund has the services of the London CIV.	1	10	16/02/2022
Liability Risk	18	Failure to identify GMP liability leads to ongoing costs for the pension fund.	3	2	1	6	1	6	6		TREAT 1) GMP to be identified as a Project as part of the Service Specification between the Fund and Surrey County Council.	1	6	16/02/2022
Liability Risk	19	Rise in ill health retirements impact employer organisations.	2	2	1	5	2	10	10		TREAT 1) Engage with actuary re assumptions in contribution rates.	1	5	16/02/2022
Liability Risk	20	Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs.	2	2	1	5	2	10	10		TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations.	1	5	16/02/2022
Liability Risk	21	Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 1.7%.	5	3	2	10	5	50	50		TREAT 1) The fund holds investments in index-linked bonds (RPI protection which is higher than CPI) and other real assets to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection. 2) Officers continue to monitor the increases in CPI inflation on an ongoing basis. 3) Short term inflation is expected due to a number of reasons on current course. 4) Equities will provide a degree of inflation protection.	3	30	16/02/2022
Liability Risk	22	Scheme members live longer than expected leading to higher than expected liabilities. This risk is trending down as life expectancy does not increase at rates expected.	5	5	1	11	2	22	22		TOLERATE 1)The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. 2)The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down.	2	22	16/02/2022
Liability Risk	23	Employee pay increases are significantly more than anticipated for employers within the Fund.	4	4	2	10	2	20	20		TOLERATE 1) Fund employers continue to monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer specific assumptions above the actuary's long term assumption would lead to further review. 3) Employers to made aware of generic impact that salary increases can have upon the final salary linked elements of LGPS benefits (accrued benefits before 1 April 2014). 4) Pay rises generally remain below inflation.	2	20	16/02/2022

Liability Risk	24	Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	4	2	1	7	2	14	14	↔	TOLERATE 1) Review "budgets" at each triennial valuation and challenge actuary as required. 2) Charge capital cost of ill health retirements to admitted bodies at the time of occurring. 3) Occupational health services provided by the Council and other large employers to address potential ill health issues early.	2	14	16/02/2022
Liability Risk	25	Impact of increases to employer contributions following the actuarial valuation	5	5	3	13	2	26	26	↔	TREAT 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.	1	13	16/02/2022
Regulatory and Compliance Risk	26	Changes to LGPS Regulations	3	2	1	6	3	18	18	↔	TREAT 1) Fundamental change to LGPS Regulations implemented from 1 April 2014 (change from final salary to CARE scheme). 2) Future impacts on employer contributions and cash flows will considered during the 2019 actuarial valuation process. 3) Fund will respond to several ongoing consultation processes. 4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored. Impact of Regulations 8 (compulsory pooling) to be monitored.	2	12	16/02/2022
Liability Risk	27	Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	5	3	2	10	1	10	10	↔	TOLERATE 1) Political power required to effect the change.	1	10	16/02/2022
Liability Risk	28	Transfers out of the scheme increase significantly due to members transferring their pensions to DC funds to access cash through new pension freedoms.	4	4	2	10	1	10	10	↔	TOLERATE 1) Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 2) Evidence has shown that members have not been transferring out of the CARE scheme at the previously anticipated rates.	1	10	16/02/2022
Liability Risk	29	Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	5	3	1	9	2	18	18	↔	TREAT 1) Review maturity of scheme at each triennial valuation. 2)Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. 3) Cashflow position monitored monthly.	1	9	16/02/2022
Liability Risk	30	The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	4	2	1	7	3	21	21	↔	TREAT 1) Review at each triennial valuation and challenge actuary as required. 2) Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	1	7	16/02/2022
Regulatory and Compliance Risk	31	Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	4	2	1	7	2	14	14	↔	TREAT 1) Maintain links with central government and national bodies to keep abreast of national issues. 2)Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	7	16/02/2022
Employer Risk	32	Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond placement.	5	3	1	9	3	27	27	↔	TREAT 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers planned to be part of 2019 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.	2	18	16/02/2022
Employer Risk	33	Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	5	3	3	11	2	22	22	↔	TREAT 1) Transferee admission bodies required to have bonds in place at time of signing the admission agreement. 2) Regular monitoring of employers and follow up of expiring bonds.	1	11	16/02/2022

Resource and Skill Risk	34	Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints. Service may deteriorate due to the contract ending at the end of 2021. Currently transitioning to new admin provider LPP.	1	3	3	7	3	21	21	↔	TOLERATE 1) Officers to continue monitor the ongoing staffing changes at Surrey CC. 2) Ongoing monitoring of contract and KPIs	3	21	16/02/2022
Resource and Skill Risk	35	Poor reconciliation process leads to incorrect contributions.	2	1	1	4	3	12	12	↔	TREAT 1) Reconciliation is undertaken by the pension fund team. Officers to ensure that reconciliation process notes are understood and applied correctly the team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process.	2	8	16/02/2022
Resource and Skill Risk	36	Failure to detect material errors in bank reconciliation process.	2	2	2	6	2	12	12	↔	TREAT 1) Pensions team to continue to work closely with staff at HCC to smooth over any teething problems relating to the newly agreed reconciliation process.	1	6	16/02/2022
Resource and Skill Risk	37	Failure to pay pension benefits accurately leading to under or over payments.	2	2	2	6	2	12	12	↔	TREAT 1) There are occasional circumstances where under/over payments are identified. Where underpayments occur, arrears are paid as soon as possible, usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted, and the pension corrected in the next month. Repayment is requested and sometimes this is collected over several months.	1	6	16/02/2022
Resource and Skill Risk	38	Unstructured training leads to under developed workforce resulting in inefficiency.	2	2	2	6	2	12	12	↔	TREAT 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and Surrey County Council. 2) Officers regularly attend training seminars and conferences 3) Designated officer in place to record and organise training sessions for officers and members	1	6	16/02/2022
Resource and Skill Risk	39	Lack of guidance and process notes leads to inefficiency and errors.	2	2	1	5	2	10	10	↔	TREAT 1) The team will continue to ensure process notes are updated and circulated amongst colleagues in the Pension Fund and Administration teams.	1	5	16/02/2022
Resource and Skill Risk	40	Lack of productivity leads to impaired performance.	2	2	1	5	2	10	10	↔	TREAT 1) Regular appraisals with focused objectives for pension fund and admin staff.	1	5	16/02/2022
Resource and Skill Risk	41	Failure by the audit committee to perform its governance, assurance and risk management duties	3	2	1	6	3	18	18	↔	TREAT 1) Audit Committee performs a statutory requirement for the Pension Fund with the Pension Sub-Committee being a sub-committee of the audit committee. 2) Audit Committee meets regularly where governance issues are regularly tabled.	2	12	16/02/2022
Resource and Skill Risk	42	Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	4	3	3	10	2	20	20	↔	TREAT 1) Person specifications are used at recruitment to appoint officers with relevant skills and experience. 2) Training plans are in place for all officers as part of the performance appraisal arrangements. 3) Shared service nature of the pensions team provides resilience and sharing of knowledge. 4) Officers maintain their CPD by attending training events and conferences.	1	10	16/02/2022
Resource and Skill Risk	43	Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	4	3	2	9	2	18	18	↔	TREAT 1) External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval)	1	9	16/02/2022

Resource and Skill Risk	44	Loss of 'Elective Professional Status' with any Fund managers and counterparties resulting in reclassification of fund from professional to retail client status impacting Fund's investment options and ongoing engagement with the Fund managers.	4	2	2	8	2	16	16		TREAT 1)Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. 2)Training programme and log are in place to ensure knowledge and understanding is kept up to date. 3)Existing and new Officer appointments subject to requirements for professional qualifications and CPD.	1	8	16/02/2022
Resource and Skill Risk	45	Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	2	2	1	5	2	10	10		TREAT 1) Succession planning processes are in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer.	1	5	16/02/2022
Administrative and Communicative Risk	46	The Pension Fund is recruiting for a brand new retained HR and Pensions administration team, with finding candidates for all postiions likely to be a challenge. At the Same time the Pension Fund is transferring its Pension Fund Administration service from Surrey County Council, to the Local Pensions Parternship.	4	3	3	10	3	30	30		TREAT 1) 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 2) Recruitment is almost complete for the retained team 3) Officers have received handover pack from the departing RBKC retained pensions team. 4) Members have chosen the new service provider as the London Pensions Partnership, with a project team established to manage the transition, which has almost fully completed. 5) A number of staff have been recruited with few posts unfilled.	2	20	16/02/2022
Administrative and Communicative Risk	47	COVID-19 affecting the day to day functions of the Pensions Administration services including customer telephony service, payment of pensions, retirements, death benefits, transfers and refunds.	2	4	3	9	1	9	9		TOLERATE 1) The Pensions Administration team have shifted to working from home 2) The administrators have prioritised death benefits, retirements including ill health and refunds. If there is any spare capacity the administrators will prioritise transfers and divorce cases. 3) Revision of processes to enable electronic signatures and configure the telephone helpdesk system to work from home. 4) Since the original outbreak the administator has been able to return to business as usual	1	9	16/02/2022
Administrative and Communicative Risk	48	Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	5	2	2	9	2	18	18		TREAT 1) Contract monitoring in place with all providers. 2) Procurement team send alerts whenever credit scoring for any provider changes for follow up action. 3). Officers to take advice from the investment advisor on fund manager ratings and monitoring investment	2	18	16/02/2022
Administrative and Communicative Risk	49	Concentration of knowledge in a small number of officers and risk of departure of key staff.	2	2	3	7	3	21	21		TREAT 1) Process notes are in place. 2) Development of team members and succession planning improvements to be implemented. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.	2	14	16/02/2022
Administrative and Communicative Risk	50	Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions.	4	4	3	11	2	22	22		TREAT 1) Update and enforce admin strategy to assure employer reporting compliance. 2) Implementation and monitoring of a Data Improvement Plan as part of the Service Specification between the Fund and Orbis. TOLERATE 1) Northern Trust provides 3rd party validation of performance and valuation data. Admin team and members can interrogate data to ensure accuracy.	1	11	16/02/2022
Administrative and Communicative Risk	51	Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	1	3	4	8	2	16	16		TREAT 1) Contract in place with HCC to provide service, enabling smooth processing of supplier payments. 2) Process in place for LPPA to generate lump sum payments to members as they are due. 3) Officers undertaking additional testing and reconciliation work to verify accounting transactions.	1	8	16/02/2022

Administrative and Communicative Risk	52	Inability to respond to a significant event leads to prolonged service disruption and damage to reputation.	1	2	5	8	2	16	16	↔	TREAT 1) Disaster recovery plan in place as part of the service specification between the Fund and new provider LPPA 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance.	1	8	16/02/2022
Administrative and Communicative Risk	53	Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	1	2	4	7	2	14	14	↔	TREAT 1) In the event of a pension payroll failure, we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers.	1	7	16/02/2022
Administrative and Communicative Risk	54	Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	1	1	1	3	3	9	9	↔	TREAT 1) Pension administration records are stored on the LPPA servers who have a disaster recovery system in place and records should be restored within 24 hours of any issue. 2) All files are backed up daily.	2	6	16/02/2022
Regulatory and Compliance Risk	55	Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation. The Fund is changing admin providers which poses a risk for a breach during transition.	3	3	5	11	3	33	33	↔	TREAT 1) Data encryption technology is in place which allow the secure transmission of data to external service providers. 2) LBHF IT data security policy adhered to. 3) Implementation of GDPR 4) Project team in place to ensure smooth transition	1	11	16/02/2022
Regulatory and Compliance Risk	56	Failure to comply with recommendations from the Local Pension Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	1	3	5	9	2	18	18	↔	TREAT 1) Ensure that a cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	9	16/02/2022
Reputational Risk	57	Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	3	2	5	10	2	20	20	↔	TREAT 1) Third parties regulated by the FCA and separation of duties and independent reconciliation processes are in place. 2) Review of third party internal control reports. 3) Regular reconciliations of pensions payments undertaken by Pension Finance Team. 4) Periodic internal audits of Pensions Finance and HR Teams.	1	10	16/02/2022
Reputational Risk	58	Financial loss of cash investments from fraudulent activity	3	3	5	11	2	22	22	↔	TREAT 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. 2) Strong governance arrangements and internal control are in place in respect of the Pension Fund. Internal audit assist in the implementation of strong internal controls. Processes recently firmed up 3)Fund Managers have to provide annual SSAE16 and ISAE3402 or similar documentation (statement of internal controls).	1	11	16/02/2022
Reputational Risk	59	Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	5	2	4	11	2	22	22	↔	TREAT 1) Officers maintain knowledge of legal framework for routine decisions. 2)Eversheds retained for consultation on non-routine matters.	1	11	16/02/2022
Reputational Risk	60	Inaccurate information in public domain leads to damage to reputation and loss of confidence	1	1	3	5	3	15	15	↔	TREAT 1) Ensure that all requests for information (Freedom of Information, member and public questions at Council, etc) are managed appropriately and that Part 2 Exempt items remain so. 2) Maintain constructive relationships with employer bodies to ensure that news is well managed.	2	10	16/02/2022
Reputational Risk	61	Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process	2	2	3	7	2	14	14	↔	TREAT 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process. 2) Pooled funds are not subject to OJEU rules.	1	7	16/02/2022

Regulatory and Compliance Risk	62	Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation.	3	3	2	8	2	16	16	↔	TREAT 1) The Fund has generally good internal controls regarding the management of the Fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches.	1	8	16/02/2022
Regulatory and Compliance Risk	63	Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests	3	3	4	10	2	20	20	↔	TREAT 1) Publication of all documents on external website. 2) Officers expected to comply with ISS and investment manager agreements. 3) Local Pension Board is an independent scrutiny and assistance function. 4) Annual audit reviews.	1	10	16/02/2022

Appendix 5. Pension Administration Strategy

Contents

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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.

Statutory background

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.

Aims & Objectives

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.

Other documents which make up the overall strategy

- Local Government Pension Scheme Communications Policy

3. Roles and responsibilities

Administering Authority

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.

https://www.lbhfpensionfund.org/

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 *https://www.lbhfpensionfund.org/* 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. 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

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Appendix 6. Annual Report of the Pensions Board

The role of the Pensions 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 Pensions 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 Pensions 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 Pensions 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 2021/22 the Pensions Board met twice:

- 9 June 2021
- 9 February 2022

During the year, the Pensions 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 ongoing performance of the new pensions administration provider and the associated ongoing project work related to the 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 Pensions Board (continued)

The Board underwent the following training in the year:

The Board attended two half-day bespoke training events that took place in October 2021 January 2022 and covered the following topics:

- 2021 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 Nikos Souslous

Chair, LBHF Pensions Board

June 2022


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

Year ended 31 March 2021

Updated May 2023

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

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

1. Headlines

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

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council and Pension Fund's financial statements give a true and fair view of the financial position of the Council and Pension Fund's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

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

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

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

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

At the time of writing, our audit is substantially complete. We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of the organisation and the financial statements we have audited.

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

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

1. Headlines

Value for Money (VFM) arrangements

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

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

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

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

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to certify the completion of the audit upon the completion of our work on:

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

Significant Matters

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

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

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

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

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

- An evaluation of the Council and Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not altered our audit plan, as communicated to the Audit Committee on 25 October 2021.

Conclusion

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

Acknowledgements

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

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

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

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

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

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2. Financial Statements - Significant risks

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

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

Risks identified in our Audit Plan	Risk relates to	Commentary
Fraud in revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. As reported in our Audit Plan, having considered the risk factors set out in ISA240 and the nature of the Council and Pension Fund revenue streams, we determined that the risk of fraud arising from revenue recognition could be rebutted, because: • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including the London Borough of Hammersmith and Fulham, mean that all forms of fraud are seen as unacceptable. Therefore, at the planning stage we did not consider this to be a significant risk at for the London Borough of Hammersmith and Fulham or Hammersmith and Fulham Pension Fund. No circumstances have subsequently arisen during the course of the audit process which would lead us to amend our initial assessment as reported in the Audit Plan.		
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	Council and Pension Fund	We have: • Evaluated the design effectiveness of management controls over journal entries; • Analysed the journal entry listing and determine the criteria for selecting high risk unusual journals; • Tested unusual journal entries recorded during the year and after the draft accounts stage for appropriateness and corroboration; • Gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. We identified during our testing of journal entries that there is no two-stage authorisation process for journal entry postings in place. We have not identified from our testing of journal entries any material misstatements or instances of management override of controls. However, we do not test every journal and there may be undetected fraud or error. We have raised a control recommendation for improvement in the Action Plan at Appendix A. This is a matter the Committee needs to understand fully from a risk perspective. Our audit procedures in this area are now complete. No further issues were identified during the course of our audit procedures which we would be required to report to the Audit Committee as those charged with governance.

2. Financial Statements - Significant risks

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

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of land and buildings The Council revalues its Land and Buildings, Council Dwellings, Surplus Assets and Investment Property on an annual basis to ensure that the carrying value is not materially different from the current value (for Land and Buildings and Council Dwellings) or fair value (for Surplus Assets and Investment Properties) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.8 billion) and the sensitivity of this estimate to changes in key assumptions. Management engaged the services of a valuer to estimate the current value as at 31 March 2021. We therefore identified valuation of Land and Buildings, Council Dwellings, Surplus Assets and Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	Council	We have: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluated the competence, capabilities and objectivity of the valuation expert; • Written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code were met; • Engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpinned the valuation; • Used our valuer to evaluate the appropriateness of obsolescence factors and rental yields, for the £82.6m investment properties held in the balance sheet, used in asset valuation calculations where applicable; • Tested revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements; • Assessed the value of a sample of assets in relation to market rates for comparable properties; and • Tested a sample of beacon properties in respect of Council Dwellings to consider whether their valuation assumptions were appropriate and whether they were truly representative of the other properties within that beacon group. In reviewing revaluation movements recorded in the fixed asset register, we identified that management had double-counted one of the revalued assets in the financial statements. The financial statements will be adjusted to correct this error, which will lead to a decrease of £3.8m in Property Plant and Equipment recognised in the Balance Sheet, and a corresponding increase of £3.8m in Other Operating Expenditure recorded in the CIES. Refer to Appendix C for further detail, where this has been reported as an adjusted misstatement. In addition, in review of the fixed asset register, a formula error was identified which meant that the split of the revaluation movements in respect of Other Land and Buildings and Surplus Assets, between the Revaluation Reserve and the Surplus or Deficit on Provision of Services, as stated in the draft set of financial statements, was incorrect. The impact on the Comprehensive Income and Expenditure Statement was a reclassification of £8.5m between the Cost of Services (COS) and Other Comprehensive Income (OCI). The impact on the Balance Sheet was a corresponding reclassification between the Revaluation Reserve and the Capital Adjustment Account, both of which are within the Balance Sheet line for 'Unusable Reserves'. There was no impact on the Council's useable reserves position, as a result of the statutory accounting entries required for capital transactions. Refer to Appendix C for further detail, where this has been reported as an adjusted misstatement. We carried out valuation reasonableness checks against assets not revalued in land and buildings and against council dwellings, by applying alternative valuation indices to challenge the management expert valuations. This indicated a valuation variance between management's experts valuation and the alternative indices totalling £3.2m against a total valuation of £1,744m. The variance was well below our performance materiality and therefore gave us further assurance that the valuation is materially correct. Our audit procedures in this area are now complete. There are no further issues which have been identified from our audit procedures which would require reporting to the Audit Committee as those charged with governance in respect of this risk.

2. Financial Statements - Significant risks

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

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of level 3 investments The Pension Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature, level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£72 million) and the sensitivity of this estimate to changes in key assumptions Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2021.	Pension Fund	We have: • Evaluated management's processes for valuing Level 3 investments; • Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code were met; • Independently requested year-end confirmations from investment managers and the custodian; • For a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2021 with reference to known movements in the intervening period; • In the absence of available audited accounts, evaluated the competence, capabilities and objectivity of the valuation expert; and • Where available, reviewed investment manager service auditor reports on design and operating effectiveness of internal controls. As in the previous year, an infrastructure Investment Fund (Level 3 investment) in which the Pension Fund held a material investment as at 31 March 2021, received a qualified audit opinion on their financial statements as at 31 December 2020. The Investment Fund's auditors qualified their audit opinion because they concluded they were unable to obtain sufficient appropriate audit evidence regarding claims made against a Limited Partnership 100% owned by the Investment Fund. Management's evaluation was that this issue did not lead to a material misstatement of the financial statements or result in an erroneous valuation of the Pension Fund's investment in the infrastructure fund. However disclosure of management's judgement in this regard was included in Note 4 to the Pension Fund financial statements. This disclosure will be highlighted in an emphasis of matter paragraph in the Pension Fund's audit opinion. This does not constitute a qualification of the audit opinion. Our audit procedures in this area are now complete. No further issues were identified which are required to be reported to the Audit Committee as those charged with governance.

2. Financial Statements – New issues and risks

This section provides commentary on new issues and other risks:

Issue	Commentary	Auditor view
Valuation of Infrastructure Assets • The CIPFA Code of Practice on Local Authority Accounting requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. In addition, the Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. The Council has material infrastructure assets, at a gross and net value basis, there is therefore a potential risk of material misstatement related to the infrastructure balance.	The inherent risks which we identified in relation to infrastructure assets were: • an elevated risk of the overstatement of Gross Book Value and accumulated depreciation figures, due to lack of derecognition of replaced components • a normal risk of understatement of accumulated depreciation and impairment as a result of failure to identify and account for impairment of infrastructure assets and an over or understatement of cumulative depreciation as a result of the use of inappropriate useful economic lives (UELs) in calculating depreciation charges. We have carried out audit inquiries to understand the control environment around the recognition and derecognition of infrastructure assets. In common with most other authorities there was not a clear mechanism by which existing infrastructure assets which still have a net book value on the balance sheet being depreciated are derecognised when the asset is replaced. There is therefore a risk that the infrastructure assets (both the gross assets and accumulated depreciation) could be materially misstated – the Council's system for derecognising these assets does not sufficiently mitigate this risk. We have been working with CIPFA and the English Government to find both long-term and short-term solutions which recognise the information deficits and permit full compliance with the CIPFA Code. It has been recognised that longer-term solutions, by way of a Code update, will take several years to put into place and so short-term solutions are being put in place in the interim. These short-term solutions include the issue of a Statutory Instrument (SI) by government. The English SI was laid before Parliament on 30 November 2022 and came into force on 25 December 2022. CIPFA issued an update to the Code for infrastructure assets in November 2022 and has issued further guidance in January 2023 in relation to useful economic lives (UELs).	We have completed the following work focusing on the Council's current year's infrastructure assets: - Reviewed and challenged the arrangements that the Council has in place around impairment of infrastructure assets - Evaluated management's processes and assumptions for the calculation of the estimate including review of in-year depreciation and associated UELs - Evaluated the competence, capabilities and objectivity of any management expert relied upon - Challenged the information and assumptions used to inform the estimate - Considered whether there has been any replacement of assets that have not been fully depreciated and evaluated the subsequent derecognition of the replaced assets. Based on our work, we are satisfied that the Council has: • correctly applied the SI and the requirements in the CIPFA Code update • appropriately removed the gross book value and accumulated depreciation from its disclosures adding a new disclosure setting out opening net book value and any in-year movements • not identified any prior period adjustments requiring disclosure in the accounts.

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: Net pension liability – £657.9m

Summary of management's approach:

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.

Audit Comments:

- 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:

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

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

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

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Assessment

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

2. Financial Statements - key judgements and estimates – Council

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

Assessment

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

2. Financial Statements - key judgements and estimates – Council

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

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Assessment

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

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

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

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

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

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

Assessment

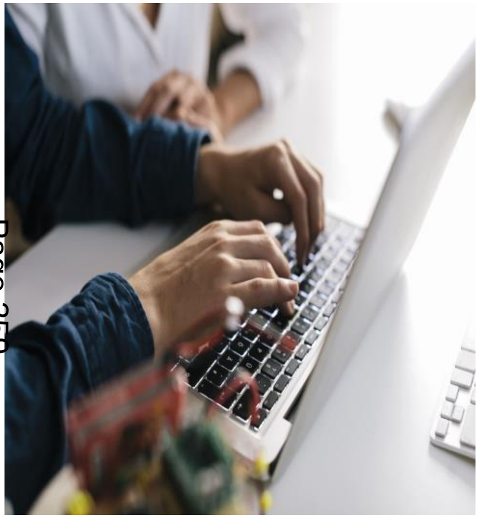
- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider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

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	The Council and Pension Fund have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	Letters of representation will be requested from the Council and Pension Fund in advance of the finalisation of the financial statements and the issue of the audit opinions on the financial statements.

2. Financial Statements - other communication requirements



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

2. Financial Statements - other communication requirements

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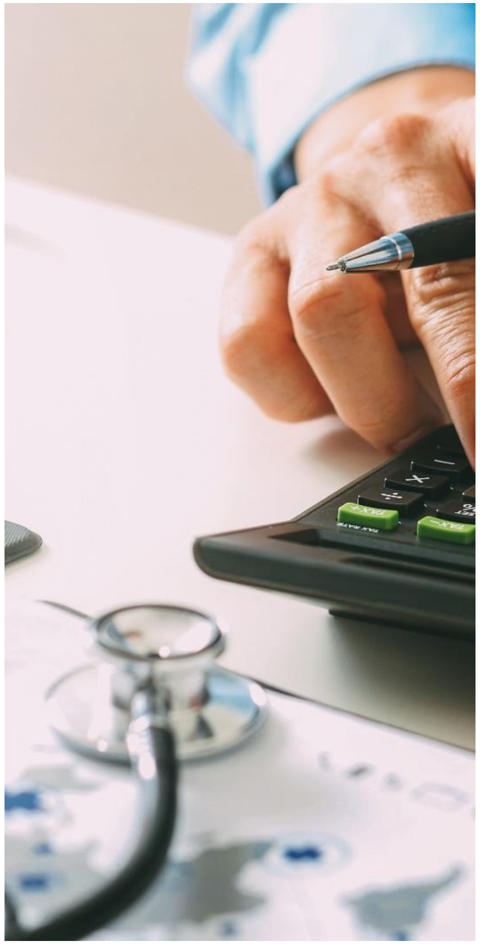
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

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

2. Financial Statements - other responsibilities under the Code

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



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. • Note that work is not required as the Council does not exceed the threshold;
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audits of the London Borough of Hammersmith and Fulham and Hammersmith and Fulham Pension Fund in the audit reports, as detailed in Appendix E. This is because we have not yet completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021 as above. Upon completion of this work we will be in a position to certify closure of the 2020/21 audits.

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

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

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

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

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

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

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

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

4. Independence and ethics

Audit and non-audit services

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

Service	Fees £	Threats identified	Safeguards
Audit related			
Agreed upon procedures relating to pooling of housing capital receipts (Council)	5,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £200,092 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 £200,092 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)	44,000	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 £44,000 in comparison to the total fee for the audit of £200,092 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 (continued)

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 £200,092, 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.

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Trust that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Trust.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Trust as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Trust.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Trust's board, senior management or staff [that would exceed the threshold set in the Ethical Standard]

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

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
Medium	**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.
Medium	**Audit trail reports for the Reliefs and Reductions amounts in the Collection Fund** When listings of reliefs and reductions were requested, these could not be provided because the council had not run reports from the system at the year end date and retained these as audit trails. As the system is a "live" system, the reports run at a later date do note agree fully to the reliefs/reductions amounts in accounts working papers and therefore are not a reasonable supporting audit trail.	We would recommend that processes are reviewed to ensure that appropriate detailed listing reports are retained to support the amounts in the Collection Fund working papers, and to facilitate the audit testing of these amounts. **Management response**

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
Medium	**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.
Medium	**Process for capitalisation of employee salaries** Within our sample testing of capital expenditure, we selected a number of items relating to the capitalisation of employee salaries. The basis on which these had been calculated was on an annual basis, rather than a review of actual time spent on a capital project on an ongoing basis. We are satisfied from audit procedures undertaken that this issue has not led to a material misstatement within the 2020/21 financial statements. However, there is a risk that, where this process occurs only annually, inaccurate time is recorded leading to inaccurate charges to capital and the general fund.	Processes should be implemented to capture employee time to be capitalised on a more regular basis such as monthly. **Management response** Agreed – management will look into at more frequent capitalisation where practicable - this would most likely be quarterly to coincide with the quarterly monitoring process.
Medium	**Impairment review for assets not revalued** During the performance of our procedures we noted that the Council did not carry out an assessment of whether there were impairment indicators for assets that were not subject to the external valuation exercise. Due to the volatility of the property market there is a risk that the assets not revalued may be misstated.	Management should ensure that they have implemented procedures or policies to assess the assets not revalued and ensure they are not materially misstated. **Management response** Agreed, management will build this into the overall valuation process with input from our external valuers.
Low	**Collection Fund reliefs** We were unable at the date of the audit to obtain a listing of reliefs that reconciled to the Collection Fund working papers and year end system reconciliations.	We would recommend that in order to keep a full audit trail, that the underlying listings for the Collection Fund system including reliefs and exemptions, are retained as evidence for the system reconciliations and for sampling from the system at year end audit fieldwork.

Controls

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

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

We have identified the following recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

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

Controls

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

B. Follow up of prior year recommendations – Council

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

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

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations – Council

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

Assessment

✓ Action completed

X Not yet addressed

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.

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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
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.

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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
✓	**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.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations – Pension Fund

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

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

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations – Pension Fund

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

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments – Council

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021. This table will be updated in the final version of this report and findings shared with the Audit Committee as those charged with governance in advance of issuing our audit opinion on the financial statements.

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

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C. Audit Adjustments – Council (continued)

Impact of adjusted misstatements (continued)

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

C. Audit Adjustments – Council

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. This table will be updated in the final version of this report and findings shared with the Audit Committee as those charged with governance in advance of issuing our audit opinion on the financial statements.

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

C. Audit Adjustments – Council

Misclassification and disclosure changes (continued)

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

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C. Audit Adjustments – Council

Misclassification and disclosure changes (continued)

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

C. Audit Adjustments – Council

Misclassification and disclosure changes (continued)

Disclosure amendment	Adjustment agreed?
Note 33 – Interests in Companies The disclosure note was updated to reflect material transactions with group entities, to reflect the disclosure requirements of IAS 24.	✓
Note 34 – Contingent Assets The first draft of the financial statements included disclosure of a material contingent asset relating to discounted market sale units. Following auditor challenge, management determined that these either did not meet the definition for contingent assets under IAS 37 and the Code, or the element which did was clearly immaterial. This disclosure note was therefore removed in the final draft of the financial statements.	✓
Note 36 - Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty The disclosure note was updated to correctly include the carrying value of the net defined benefit liability, which is subject to estimation uncertainty, as required by IAS 1.	✓
Note 39 – Critical Judgements in Applying Accounting Policies The first draft of the financial statements included a paragraph around 'Accounting for Schools – Transfer of Capital Grants', which upon review, management did not consider to be one of the 'judgements in applying accounting policies that had the most significant effect on amounts recognised', as required to warrant disclosure in accordance with IAS 1. This paragraph was therefore removed from the disclosure note. In addition, management enhanced the narrative included around 'Accounting for Schools – Recognition of Schools' to more clearly explain the impact of the judgement taken on the financial statements.	✓
Note 27 – Defined Benefit Schemes; movements on scheme assets misclassification The disclosed movements in the fair value of scheme assets in the draft accounts were identified to be inaccurate once we carried out analytical testing of the actual return on scheme assets. We carry out an analytical test by applying the actual rate of return for the pension scheme as a whole to the opening scheme assets for the Council. This demonstrated that although we were satisfied that the closing scheme assets for the Council as estimated by the actuary and disclosed in the draft accounts were not materially misstated, the disclosed movements in scheme assets contained some errors in the classifications of type of movements once they were recalculated from the movements as contained in the Pension Fund financial statements. Interest on assets was amended from £20,777k to £10,837k, Return on assets less interest was amended from £168,825k to £186,331k, and Administration expenses was amended from £246 to £7,812k. Note that the reclassificaion of asset movements had no impact on the closing scheme assets or the net liability, so the Balance Sheet was not adjusted by this.	✓

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.

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C. Audit Adjustments – Council

Impact of unadjusted misstatements

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

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

C. Audit Adjustments – Council

Impact of unadjusted misstatements (continued)

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

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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)	-	2,583 (2,583)	The adjustments shown in the table represent extrapolated errors rather than factual misstatements. This was not considered to be a material adjustment given the materiality limits.
Heritage assets valuation Our testing of the valuation of Heritage Assets held in the Council's Balance Sheet identified that management did not update the carrying amount of their Heritage Assets to reflect the latest independent valuation report. This has resulted in a discrepancy between the carrying value and the independent valuation at the Balance Sheet date (with no impact on the General Fund).	-	1,477 (Heritage Assets) (1,477) (Revaluation Reserve)	-	This was not considered to be a material adjustment given the materiality limits.
Valuation understatement of the net pension liability In our testing of the valuation of the net pension liability across the Council audit and the Pension Fund audit (see findings below) we identified valuation errors totalling £3,666k which represented un understatement of the net liability and associated Pension Reserve (with no impact on the General Fund).	-	3,666 (Net pension liability) (3,666) (Pension Reserve)	-	This was not considered to be a material adjustment given the materiality limits.
Errors identified in creditors sample testing In our sample testing of creditors, we identified 2 balances (£1.3m Better Care Fund creditor and £2.3m Mayoral CIL balance) were in fact funding amounts received in previous years which no longer had any repayment/clawback conditions attached and were therefore more appropriately classified within earmarked reserves (with no impact on the General Fund).	-	5,338 (Short-term creditors) (5,338) (Earmarked Reserves)	-	This was not considered to be a material adjustment given the materiality limits.
Overall impact	(1,246)	1,246	(1,246)	

Impact of prior year unadjusted misstatements

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

C. Audit Adjustments – Pension Fund

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted and unadjusted misstatements

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

Misclassification and disclosure changes

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

Impact of unadjusted misstatements

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

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

Impact of prior year unadjusted misstatements

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

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	£200,092	£TBC*
Pension Fund Audit	£33,000	£33,000
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.

*The Final Fees are TBC – as at the date of signing the auditor's report, additional fees for overruns of £20,500 have been approved by your Director of Finance and by PSAA, and £4,800 is still outstanding for approval by PSAA.

At the date of signing the auditor's report, there were invoices for £88,620 and £25,800 outstanding for payment. There was an error made in issuing the first of these invoices whereby the amount on the invoice was incorrect. We have agreed to issue a credit note for this amount and reissue a corrected invoice on provision of an updated purchase order by the Council. There is no dispute over the total fees detailed above, and your Director of Finance has confirmed agreement to these fee amounts and payment upon resolving this administrative issue.

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	£44,000
CFO Insights Subscription	£12,500	£12,500
Total non-audit fees (excluding VAT)	**£50,200**	**£69,200**

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]

Indicative External Audit Plan for London Borough of Hammersmith and Fulham and Hammersmith and Fulham Pension Fund

Year ending 31 March 2023

September 2023

Contents

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

Key matters

National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In March 2023, we issued About time?, which explored the reasons for delayed publication of audited local authority accounts. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

Local authority accounts are becoming increasingly complex as accounting standards evolve and local authorities enter more and more innovative financing arrangements and income generation projects. A significant challenge in managing local audits is the differing needs of various stakeholders. The local government sector, central government and regulators need to agree on the purpose of local audit and find a consensus on improving efficiency in publishing accounts. These delays are exacerbated by capacity constraints in both local auditors and local government. A new workforce strategy is being developed by the director of local audit at the Financial Reporting Council, but improving the attractiveness of a career in local audit and local authority accounting will require a lot of focus. You can find more insight and guidance on the key challenges for local audit in our report. https://www.grantthornton.co.uk/insights/report-key-challenges-in-local-audit-accounting/

Key matters

Our Responses

The Council was able to deliver an underspend against the budgeted General Fund outturn for the 2022/23 year despite the external challenges faced including cost of living crisis, high inflation and interest rates and increasing demand for Council services. The medium term position remains challenging however, with forecast budget gaps providing challenging to close.

The Council has a strong track record of sound budget management and the savings plans in place appear achievable. The Council's debt position is not considered to be a significant risk for the 2022/23 year. The Council are in a strong position in regard to management of the Dedicated School Grants (DSG) deficit, having been compliant with the Safety Valve agreement, and having systematically reduced the retained deficit on the High Needs Block portion of the DSG deficit. The Housing Revenue Account (HRA) has been run at a deficit for a number of years, and therefore HRA reserves have been eroded. The Council is making significant efforts to move to a more sustainable position in this area.

Note that as we have completed our Value for Money work for both the 2021/22 and 2022/23 financial years concurrently, we have considered the Council's arrangements around financial sustainability in detail in that work.

Our Responses

- There has been a delay in signing off the Council's 2021-22 financial statements. This is due to the later start of the audit after delays in the 2020/21 audit, and consecutive running of the 2 audits, along with additional information coming to light following the March 2023 pension fund triennial valuation that has resulted in amendments to the financial statements and some additional audit work. This is a national rather than local issue. This is expected to be resolved by late September and has no impact on this plan or our ability to continue with the 2022-23 audit.
- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Chief Finance Officer.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will have considered your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation , discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control – refer to page 9.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audits of the London Borough of Hammersmith and Fulham ('the Council') and Hammersmith and Fulham Pension Fund ('the Pension Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council and the Pension Fund. We draw your attention to both of these documents.

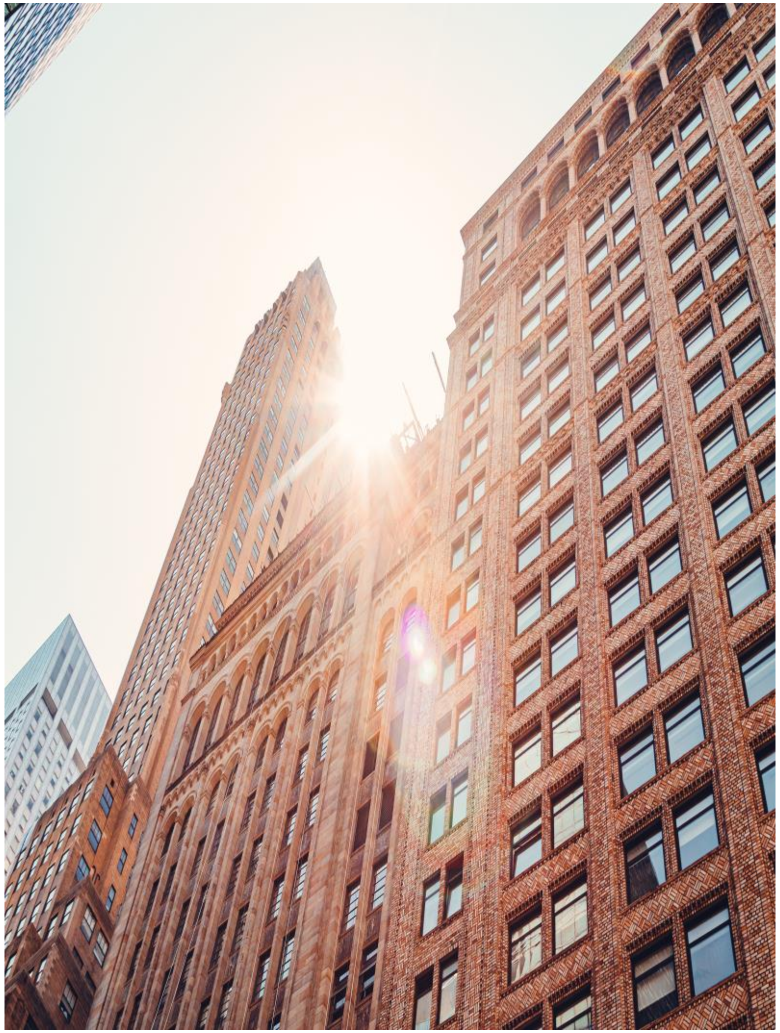
Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council and Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Pensions committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Pensions Committee of their responsibilities. It is the responsibility of the Council and Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council and Pension Fund are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council and Pension Fund's business and is risk based.



Introduction and headlines (continued)

Indicative Significant risks

Those indicative risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as follows:

Council

- The risk that the valuation of land and buildings in the accounts is materially misstated.
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.
- The risk of management override of controls.

Pension Fund

- The risk of management override of controls.
- The risk that the valuation of level 3 investments in the accounts is materially misstated

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

Council

We have determined materiality to be £11m (PY £10.2m), which equates to 1.5% of the Council's gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.554m (PY £0.510m).

Pension Fund

We have determined materiality to be £12.2m (PY £12.5m), which equates to 0.95% of the Pension Fund's net assets as at 31 March 2023. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.612m (PY £0.625m).

Value for Money arrangements

We have carried out our Value for Money fieldwork processes on both the 2021/22 and 2022/23 financial years concurrently. We are currently completing our draft report and discussing findings with management. We anticipate bringing this report to the Full Council meeting on 1 November 2023 and to Audit Committee at the November meeting. The Redmond Review recommended that auditors attend Full Council to provide their overall summary of work each year.

Introduction and headlines (continued)

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our planning work will take place in October 2023 and we will move directly into our fieldwork which will take place in November and December 2023. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £231,117 (PY: £212,742) for the Council, and £47,750 (PY: £38,000 prior to fee variance) subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Indicative Significant risks identified

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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 fraudulent revenue recognition (rebutted)	Council and Pension Fund	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the Council and Pension Fund revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: - there is little incentive to manipulate revenue recognition; - opportunities to manipulate revenue recognition are very limited; - the culture and ethical frameworks of local authorities, including London Borough of Hammersmith and Fulham, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk at for the London Borough of Hammersmith and Fulham or Hammersmith and Fulham Pension Fund.	Significant risk rebutted.
Risk of fraud related to expenditure recognition under Practice Note 10 (rebutted)	Council and Pension Fund	We have also considered the risk of material misstatement due to the fraudulent recognition of expenditure. We have considered each material expenditure area, and the control environment for accounting recognition. We have considered the risk factors in Practice Note 10 as they apply to the Council and Pension Fund expenditure streams. We were satisfied that this does not present a significant risk of material misstatement in the 2021/22 accounts as: - The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong; - We have not found significant issues, errors or fraud in expenditure recognition in the prior years audits; - Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition. Therefore, we do not consider this to be a significant risk at for the London Borough of Hammersmith and Fulham or Hammersmith and Fulham Pension Fund.	Significant risk rebutted.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Indicative Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Council and Pension Fund	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Evaluate the design effectiveness of management controls over journal entries; • Analyse the journal entry listing and determine the criteria for selecting high risk unusual journals; • Test unusual journal entries recorded during the year and after the draft accounts stage for appropriateness and corroboration; • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. Note the Pension Fund journals control environment is the same as for the Council and the work identified above will be carried out in the same way to give assurance over the risk in the Pension Fund.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Indicative Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Council	The Council revalues its Land and Buildings, Council Dwellings, Surplus Assets and Investment Property on an annual basis to ensure that the carrying value is not materially different from the current value (for Land and Buildings and Council Dwellings) or fair value (for Surplus Assets and Investment Properties) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.8 billion Land and Buildings, £85.5m Investment Property) and the sensitivity of this estimate to changes in key assumptions. Management has engaged the services of a valuer to estimate the current value as at 31 March 2023. We therefore identified valuation of Land and Buildings, Council Dwellings, Surplus Assets and Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement. This significant risk is particularly focused on the valuers' key assumptions and inputs to the valuations as these are the greatest sources of estimation uncertainty/sensitivity.	We will: • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluate the competence, capabilities and objectivity of the valuation expert; • Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met; • Engage our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation; • Use our auditor's expert valuer to challenge and evaluate the appropriateness of obsolescence factors (for assets valued under the existing use value methodology); • Use our auditor's expert valuer to challenge and evaluate the appropriateness of rental yields as a management's expert valuer's key assumption within their estimate of investment property valuation; • Test revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements; • Assess the value of a sample of assets in relation to market rates for comparable properties; and • Test a sample of beacon properties in respect of Council Dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group.

Indicative Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability - assumptions applied by the professional actuary in their calculation	Council	The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (approximately £89.9 million in the Authority's balance sheet at the 31 March 2023) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their calculation of the net liability. We have concluded that there is not a significant risk of material misstatement due to the source data used by the actuary in their calculation (we would reconsider this if it becomes apparent at the year-end that there significant special events relating to the source data (such as bulk transfers, redundancies or other significant movements of staff) which would need to be given special consideration during the audit. Despite not being considered a significant risk we still carry out testing and consideration of the source data to obtain sufficient and appropriate audit evidence that there is no material misstatement.	We will: • Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • Assess the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud, Goodwin and Guaranteed Minimum Pension cases; • Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; • The triennial valuation took place at 31 March 2022; we will carry out additional testing to gain assurance over the completeness and accuracy of the data/information provided to the actuary for the valuation which forms the basis of the valuation of the liability in the Council accounts. We will also review and challenge the reasonableness of any changes in assumptions/methods used by the actuary.

Indicative Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments	Pension Fund	The Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£186 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 2023.	We will: • Evaluate management's processes for valuing Level 3 investments; • Review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met; • Independently request year-end confirmations from investment managers and the custodian; • For a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2023 with reference to known movements in the intervening period; • In the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert; and • Where available review investment manager service auditor report on design and operating effectiveness of internal controls.

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Indicative Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Minimum Revenue Provision	Council	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. MRP is required to be charged with respect to borrowing obtained as part of acquiring assets to be held in the General Fund (GF). No MRP charge is made in respect of borrowing for the acquisition of assets held in the Housing Revenue Account (HRA). According to regulations, this is on the basis that HRA assets should be self-financing, with local authorities being required to make an annual charge from the HRA to their Major Repairs Reserve in place of MRP, to maintain functionality of housing assets. MRP represents one of the few elements of capital financing in local authority financial statements which is a true charge to useable reserves, and therefore over time has the potential to have a significant impact on the Council's longer term financial sustainability. As a result of findings across the sector as a whole whereby MRP has been miscalculated or not calculated in accordance with the statutory guidance, we have identified this as a risk requiring specific audit attention.	We will: • Gain an understanding of the Council's current policy for calculating the MRP charge for the year and evaluate whether this is in accordance with the statutory guidance; • Evaluate whether the MRP policy has been appropriately understood and approved by the Council's members; • Substantively test the inputs into the MRP calculation back to supporting evidence and the financial statements; • Evaluate key ratios in relation to borrowing, CFR and MRP and benchmark the Council's position against that of its closest peers, documenting and corroborating the reasons for any anomalies.
Breach of the HRA ringfence	Council	As stated above the Housing Revenue Account (HRA) should be self financing. The HRA is strictly ringfenced to ensure that expenditure on maintaining dwellings and managing tenancies is balanced by rents charged to tenants and that rents cannot be subsidised by council tax or vice versa. As a result of findings across the sector as a whole whereby there were transactions which breached the HRA ringfence either intentionally or otherwise , we have identified this as a risk requiring specific audit attention.	We will: • Specifically identify and test any unusual journals which impact the HRA and General Fund in unexpected transactions; • Tailor into our existing work programmes across expenditure, income and balance sheet substantive testing, additional procedures to confirm that the impact of the transaction on the General Fund or HRA is corroborated by the evidence and substance of the underlying transaction.

'In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.' (ISA (UK) 315)

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Pension Fund

The Pension Fund is administered by the London Borough of Hammersmith and Fulham (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Our approach to indicative 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.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit Council: £11m (PY £10.2m), which equates to 1.5% of the Council's gross expenditure for the year. Pension Fund: £12.2m (PY £12.5m), which equates to 0.95% of the Pension Fund's net assets as at 31 March 2023.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £100k.

Our approach to indicative 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.

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to the Audit Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Council and Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if Council audit: it is less than £0.554m (PY £0.510m); and Pension Fund audit: it is less than £0.612m (PY £0.625m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Our approach to indicative 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.

	Amount (£)	Qualitative factors considered
Materiality for the Council financial statements	£11m	In determining materiality we have considered the following key factors: - Debt arrangements. - Business environment: the Council operates in a generally stable, regulated environment, although in recent years government policies have reduced the funding available and this has increased the financial pressures on the authority. - Control environment – the audit of the 2021-22 financial statements did not identify any significant deficiencies in the control environment - Other sensitivities – There has been no change in key stakeholders, and no other sensitivities have been identified that would require materiality to be reduced.
Materiality for the Pension Fund financial statements	£12.2m	- Any significant changes in the investment holdings/strategy; - Business environment: the Pension Fund operates in a generally stable, regulated environment. - Control environment – the audit of the 2021-22 financial statements did not identify any significant deficiencies in the control environment - Other sensitivities – There has been no change in key stakeholders, and no other sensitivities have been identified that would require materiality to be reduced.
Materiality for specific transactions, balances or disclosures	We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £0.1 for senior officer remuneration disclosures in the Council's financial statements and Key Management Personnel disclosures in the Pension Fund.	

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 18.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
SAP	Financial reporting, General Ledger, Accounts Payable, Accounts Receivable, Payroll	We will consider the design but not the operating effectiveness of the ITGCs
Altair	Pensions Administration (member data), Pensions payroll	We will consider the design but not the operating effectiveness of the ITGCs

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office -issued its latest Value for Money guidance -to auditors in January 2023 . The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to present our Auditor's Annual Report to Full Council on 1 November 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

Audit logistics and team

Interim Progress Report

Audit committee
12 September 2023
Indicative Audit Plan
Auditor's Annual Report

October 2023
Planning and risk assessment

Year end audit
November – December 2023

Audit committee
TBC
Audit Findings Report

TBC
Audit opinion

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Paul Dossett, Key Audit Partner

Paul is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit Committee, the Chief Executive and the Corporate Director Resources. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Paul will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit work. Paul will sign your audit opinion.

Andy Conlan, Audit Senior Manager

Andy is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit and Pensions Committee, Director of Finance and finance team. He will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. He will be responsible for the delivery of our work on the Council's arrangements in place to secure value for money.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for London Borough of Hammersmith and Fulham Council to begin with effect from 2018/19. The fee agreed in the contract was £132,242 for the Council and £16,170 for the Pension Fund. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £5,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf and has been agreed with the Chief Finance Officer.

Audit fees

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	Propose Fee 2021/22	Actual Fee 2021/22 Note 1	Proposed fee 2022/23
London Borough of Hammersmith and Fulham Council Audit	£212,742	£TBC	£231,117
Hammersmith and Fulham Pension Fund Audit	£38,000	£TBC	£47,750
Total audit fees (excluding VAT)	£250,742	£TBC	£278,867

Note 1 – We are in the process of finalising work on the 2021/22 audits (see the Audit Findings Report also reported to this Committee meeting). Where there have been audit overruns related to delays in provision of information/supporting data we will discuss and agree a fee variance related to these with your Chief Finance Officer.

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

	Council	Pension Fund
Scale fee published by PSAA (Note inflationary uplift made by PSAA)	£144,367	£22,420
Ongoing increases to scale fee first identified in prior years		
Raising the bar/regulatory factors, including additional focus on PPE and Pensions	£26,000	£8,830
Additional work on Value for Money (VfM) under new NAO Code	£26,000	£0
Impact of new auditing standards – ISA 540 (Auditing accounting estimates)	£10,000	£6,000
Impact of new auditing standards – ISA 240 (Fraud) and ISA 700 (Forming an opinion)	£7,000	£2,000
FRC response – additional review and response to ongoing FRC issues raised on reviews	1,500	-
Remote Working – ongoing impact of working remotely which demonstrably causes public audits to take longer (Note fee to be confirmed based on the extent of remote working and impact)	10,000	5,000
New issues for 2022/23		
ISA 315 additional work – see page 21	5,000	3,000
Payroll – additional change of circumstance testing (expansion of the remit of payroll testing to cover changes in circumstances in more detail as a response to audit quality points raised in FRC reviews).	500	500
Collection Fund – additional testing of reliefs (expansion of the remit of collection fund testing to cover further testing of reliefs in more detail as a response to audit quality points raised in FRC reviews).	750	-
Increase to scale	£86,750	£25,330
Total audit fees (excluding VAT)	**£231,117**	**£47,750**

All variations to the scale fee will need to be approved by PSAA

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and Pension Fund.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit Subsidy Claim	43,000 **Indicative fee (to be discussed and agreed)**	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £25,000 in comparison to the total fee for the Council audit of £231,117 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Agreed upon Procedures relating to the Pooling of Housing Capital Receipts	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £231,117 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Agreed upon Procedures relating to the Teachers' Pensions end of year certificate	7,700	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,700 in comparison to the total fee for the audit of £231,117 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.
Total	55,700		

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	n/a	n/a
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures	n/a	n/a
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Grant Thornton

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London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 12/09/2023

Subject: Treasury Management Outturn Report 2022/23

Report of: Councillor Rowan Ree, Cabinet Member for Finance and Reform

Report author: Phil Triggs, Tri-Borough Director of Treasury & Pensions
Sophie Green, Treasury Manager

Responsible Director: Sukvinder Kalsi, Strategic Director of Finance

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SUMMARY

The purpose of this report is to present the Council's annual Treasury Management outturn for 2022/23, in accordance with the Council's treasury management practices. It is a regulatory requirement for this outturn report to be presented to Audit Committee and Cabinet during September of the relevant year.

Over the 2022/23 financial year, the Council operated within the Treasury Limits and Prudential Indicators. Despite the significant external financial challenges, the Council met all of its prudential indicators, and undertook no new borrowing.

During the year, cash balances decreased from £328.9m at 31st March 2022 to £270.2m at 31st March 2023. These funds were invested at competitive rates throughout the year with the average interest rate returns for the year increasing significantly from 2021/22, ending the year at 4.02%.

The majority of investments were kept with money markets funds ensuring the security and liquidity of the Council's cash. Treasury Limits and Prudential Indicators are set out in the Treasury Management Strategy Statement, approved by Council on 24 February 2022.

RECOMMENDATIONS

1. That the Committee note the annual Treasury Management Outturn Report for 2022/23.

Wards Affected: None

Our Values	Summary of how this report aligns to the H&F Values
Being ruthlessly financially efficient	Ensuring an optimum borrowing and investment strategy in line with the Council's Treasury Management Strategy Statement

Financial Impact

This report is wholly of a financial nature.

Legal Implications

There are no legal implications in respect of this report.

Contact Officers

Name: Phil Triggs
Position: Director of Treasury and Pensions
Telephone: 0207 641 4136
Email: ptriggs@westminster.gov.uk
Verified by Sukvinder Kalsi, Director of Finance

Name: Grant Deg
Position: Assistant Director of Legal Services
Telephone: 07798 588 766
Email: grant.deg@lbhf.gov.uk

Background Papers Used in Preparing This Report

- Treasury Management Strategy Statement 2022/23 (published and approved by Council on 24 February 2022)

DETAILED ANALYSIS

Proposals and Analysis of Options

Background and Treasury Position

1. Treasury management in this context is defined as:

   "The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2. This annual treasury report covers:

- the treasury position as at 31 March 2023;
- the borrowing strategy for 2022/23;
- the borrowing outturn for 2022/23;
- compliance with treasury limits and prudential indicators;
- investment strategy for 2022/23; and
- investment outturn for 2022/23.

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

	31 March 2022 (£m)	Rate (%)	31 March 2023 (£m)	Rate (%)
General Fund (GF)	52.8	3.71	52.8	3.71
Housing Revenue Account (HRA)	218.9	3.77	218.9	3.77
Total Borrowing	**271.7**	**3.76**	**271.7**	**3.76**
Total Cash Invested	328.9	0.54	270.2	4.02
Net Cash Invested	**57.2**		**1.5**	

4. The table below shows the allocation of interest paid and received during the year 2022/23:

	Interest Paid (£m)	Interest Received (£m)	Net (£m)
General Fund (GF)	2.0	(6.8)	(4.8)
Housing Revenue Account (HRA)	10.2	(2.0)	8.2
Other*	0.0	(0.0)	0.0
Total	**12.2**	**(8.8)**	**3.4**

* Other – interest paid on balances held for Section 106 and other deposits

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

6. The table below shows the split of investments by duration as at 31 March 2023:

Maturity Period	Call (£m)	Fixed (£m)	MMF (£m)	Total (£m)
Liquidity	0.0	0.0	151.6	**151.6**
< 1 Month	0.0	52.0	0.0	**52.0**
1 – 3 Months	0.0	31.6	0.0	**31.6**
3 – 6 Months	0.0	15.0	0.0	**15.0**
6 – 12 Months	0.0	20.0	0.0	**20.0**

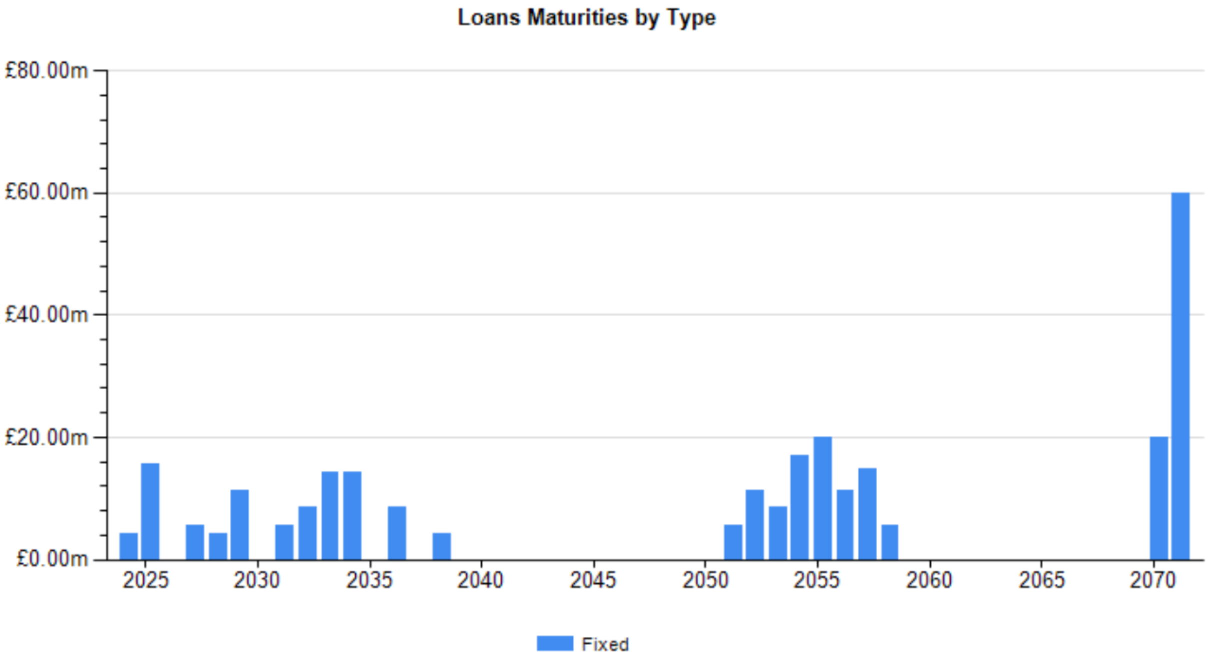
Total	**0.0**	**118.6**	**151.6**	**270.2**

7. The TMSS kept investments short-term and invested with highly rated or UK Government backed institutions, resulting in lower returns compared to borrowing rates.

Treasury Borrowing

8. No new borrowing was undertaken in the 2022/23 financial year, leaving borrowing unchanged at £271.7m.

9. All of the Council's loans are at a fixed rate of interest. The table below shows the debt profile as at 31 March 2023:



10. In 2022/23, the HRA PWLB debt of £218.9 million remained below the HRA Capital Financing Requirement (CFR) of £300.6 million, which generates internal borrowing of £81.7 million. This difference does not exceed the value of HRA working balances. HRA reserves and working capital, in excess of the internal borrowing, represent cash balances on which interest is allocated from the General Fund. As at 31 March 2023, the HRA held cash balances of £218.9m over and above the £81.7m.

11. As at 31 March 2023, the Council had an under-borrowed position. This means that the capital borrowing need was not fully funded by the existing external loan debt and the balance is funded by cash reserves (known as internal borrowing).

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

	31 March 2022 CFR £m	31 March 2022 External Debt £m	31 March 2023 CFR £m	31 March 2023 External Debt £m
GF CFR (Excluding DSG funded Schools Windows borrowing)	128.9	0.0	134.0	0.0
GF CFR (DSG funded Schools Windows borrowing)	28.7	0.0	55.4	0.0
Total GF Headline CFR	**157.6**	**0.0**	**189.4**	**0.0**
Finance leases/PFI	8.5	0.0	13.5	0.0
Total Closing GF CFR	**166.1**	**52.8**	**202.9**	**52.8**
HRA TOTAL	257.0	0.0	300.6	0.0
HRA CFR Total	**257.0**	**218.9**	**300.6**	**218.9**
Total CFR/External Debt	**423.1**	**271.7**	**503.5**	**271.7**

Treasury Investments

12. At 31 March 2023, a significant part of the Council's treasury investment portfolio (£118.6 million) was held in fixed term deposits with the Debt Management Agency Deposit Facility (DMADF) and bank notice accounts.

13. The TMSS allowed investment in the following areas:

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

14. The investments outstanding at 31 March 2023 amounted to £270.2 million invested in short-term deposits. This compares with £328.9 million short-term investments at 31 March 2022.

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

	31 March 2022 £m	31 March 2023 £m
Money Market Funds	204.4	151.6
Notice Accounts	25.0	0.0
Term Deposits	99.5	118.6
Total	**328.9**	**270.2**

16. During 2022/23 cash balances varied between £271.8 million and £349.1 million reflecting the timing of the Council's income (council tax, national non-domestic rates, government grants and capital receipts, etc) and expenditure (precept payments, payroll costs, supplier payments and capital projects).

17. The average return achieved on investments managed internally for the year was 2.05% compared with the average 7-day money market rate (uncompounded) of 2.23%. The total interest received of £5.0 million compares with a weighted average of 0.13% and a total interest received of £0.2 million for 2021/22. Interest rates remained low throughout the year with the Council following a low risk strategy and avoiding potentially higher returns which would increase counterparty risk.

Inflation Rates

18. The below table shows the movement in inflation rates throughout the 2022/23 financial year.

	CPI Index (UK, 2015 =100)	CPI 12-month rate
2022 Mar	117.1	7.0
Apr	120.0	9.0
May	120.8	9.1
Jun	121.8	9.4
Jul	122.5	10.1
Aug	123.1	9.9
Sep	123.8	10.1
Oct	126.2	11.1
Nov	126.7	10.7
Dec	127.2	10.5
2023 Jan	126.4	10.1
Feb	127.9	10.4
Mar	128.9	10.1

Source: Consumer price inflation from the Office for National Statistics

Prudential Indicators

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

20. The table below provides a breakdown of the indicators and actual position for the year ending 31 March 2023:

<table>
<tr><th>Indicator</th><th>2022/23 Approved Limit</th><th colspan="2">2022/23 Actual</th><th>Indicator Met?</th></tr>
<tr><td>Capital Financing Requirement</td><td>£557m</td><td colspan="2">£504m</td><td>Met</td></tr>
<tr><td>Authorised Limit for external debt[1]</td><td>£650m</td><td colspan="2" rowspan="2">£271.7m</td><td>Met</td></tr>
<tr><td>Operational Debt Boundary[2]</td><td>£570m</td><td>Met</td></tr>
<tr><td>Capital Expenditure</td><td>£191m</td><td colspan="2">£140m</td><td>Met</td></tr>
<tr><td>Working capital balance</td><td>£0m</td><td colspan="2">£0m</td><td>Met</td></tr>
<tr><td>Limit on surplus funds invested for more than 364 days</td><td>£120m</td><td colspan="2">£0m</td><td>Met</td></tr>
<tr><th>Maturity Structure of Borrowing</th><th>Minimum</th><th>Maximum</th><th>Actual</th><th>Indicator Met?</th></tr>
<tr><td>Under 12 Months</td><td>0%</td><td>15%</td><td>2%</td><td>Met</td></tr>
<tr><td>12 Mths to within 24 Mths</td><td>0%</td><td>15%</td><td>6%</td><td>Met</td></tr>
<tr><td>24 Mths to within 5 years</td><td>0%</td><td>60%</td><td>4%</td><td>Met</td></tr>
<tr><td>5 years to within 10 years</td><td>0%</td><td>75%</td><td>15%</td><td>Met</td></tr>
<tr><td>Over 10 years</td><td>0%</td><td>100%</td><td>74%</td><td>Met</td></tr>
</table>

Indicator	**2022/23 Forecast**	**2022/23 Actual**
Ratio of financing costs to revenue stream	GF (0.13%) HRA 6.18%	GF (3.76%) HRA 6.48%

Reasons for Decision

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

[1] The Authorised Limit is the maximum requirement for borrowing taking into account maturing debt, capital programme financing requirements and the ability to borrow in advance of need for up to two years ahead.

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

Equality Implications

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

23. Implications completed by: Sophie Green, Treasury Manager, tel. 07816 280 994.

Risk Management Implications

24. The purpose of this report is to present the Council's annual Treasury Management Outturn Report for 2022/23 in accordance with the Council's treasury management practices. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities is measured. Risk levels were set in accordance with the approved Treasury Management Strategy Statement.

25. The Council continues to recognise that effective treasury management provides support towards the achievement of its business and service objectives, specifically, being ruthlessly financially efficient. The identification, monitoring and control of risks are central to the achievement of the treasury objectives. Potential risks are identified, mitigated and monitored in accordance with treasury practice. It is also worthwhile in noting that this covers a period that included considerable uncertainty at a national level during the Covid-19 outbreak.

26. Implications verified by: David Hughes, Director of Audit, Risk and Fraud, tel. 020 7361 2389.

Consultation

None.

LIST OF APPENDICES

None.

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 12 September 2023

Subject: Local Government and Social Care Ombudsman Annual Review Letter 22/23

Report Author: Nicola Ellis, Strategic Director, Chief Operating Officer, Corporate Services

Responsible Director: Nicola Ellis, Strategic Director, Chief Operating Officer, Corporate Services

Summary

The Local Government and Social Care Ombudsman (LGSCO) provides all member organisations with an annual letter every July. This provides a summary of performance in the previous financial year. This report updates Audit Committee on the content of the most recent annual letter which refers to performance from April 2022 to March 2023.

This demonstrates that performance of Hammersmith and Fulham Council has improved when compared to 2021/2022 and our performance is better than the average for similar authorities and in the top four when compared to all London Boroughs.

The LGSCO covers majority of council services excluding most Housing services which are covered by the Housing Ombudsman. The Housing Ombudsman does not provide an annual letter but publishes performance data annually in December. This will be reported at that time.

Recommendation

1. That Audit Committee note and comment on the content of the LGSCO Annual Letter.

Wards Affected: All

H&F Priorities

Our Priorities	Summary of how this report aligns to the H&F Priorities
Building shared prosperity	Having effective systems in place to monitor feedback from residents enables opportunities to improve services for our residents' benefit.
Creating a compassionate council	Understanding difficulties our residents face in dealing with our services where residents are experiencing their most difficult circumstances or have complex needs

Our Priorities	Summary of how this report aligns to the H&F Priorities
Doing things with local residents, not to them	Learning from our residents' feedback enables us to ensure that we are delivering services that meet their needs.
Being ruthlessly financially efficient	Providing a service that meets residents needs provides value for money. Ensuring we learn from our mistakes and improve services accordingly is financially efficient.
Taking pride in H&F	Providing accessible and effective services to our residents and businesses makes Hammersmith and Fulham an attractive place to live work and do business in
Rising to the challenge of the climate and ecological emergency	A more efficient service increases the opportunity for digital delivery and better facilitates sustainable service delivery.

Background

When a resident has exhausted the corporate complaints procedure and if they are still dissatisfied with our response, they can make a complaint to either the Local Government & Social Care Ombudsman (LGSCO) or the Housing Ombudsman.

Each year the LGSCO provides an annual review of performance. This report considers the LGSCO annual review.

LGSO Annual Review Letter 2022/2023

The Annual Review letter was received on 19th July 2023 and is included as Appendix A.

In addition, the LGSCO also provide details of all cases considered during the period and those where the decision was upheld.

During the period (April 22 – Mar 23) the LGSCO received **88 cases** (80 cases in 21/22). The table below sets out the overall summary by service and the outcomes:

Service	Received	Resolved	Investigated	Upheld
Adult Social Care	8	6	2	2
Benefits and Tax	2	2	-	-
Education and Childrens	12	5	7	5
Environment and Public	7	7	-	-
Highways and Transport	10	5	5	2
Housing	38	31	7	3
Planning	7	-	7	6
Other	4	4	-	-
Total	**88**	**60**	**28**	**18**

It is important that the number of requests received by the LGSCO should be considered in the context of the considerable volume of serves provided to the 189,000 residents of the Borough.

During the period the LGSCO only fully investigated 28 requests (17 in 21/22) and a decision issued. Others were concluded for a variety of reasons including being closed after initial enquiries, giving advice to follow complaints process, closed as incomplete or invalid or referred back for local resolution.

Of the 28 decisions made in the period, 18 of those were upheld (i.e the Ombudsman agreed with the complainant). This means our percentage of **decisions upheld is 64% (lower than 76% in 21/22).** The average for similar authorities is 77%. We have improved since last year and are better than similar authorities.

The LGSCO also reports on compliance with recommendations and orders and we had **100% compliance** compared to an average in similar authorities of 99%. We have maintained our 100% performance and are performing better than similar authorities.

The LGSCO reports on cases where the authority has satisfactorily resolved the issue prior to the decision being issued. We had **28% resolved (8% in 21/22)** and this compares to an average of 15%. We have improved since last year and are performing better than similar authorities.

Our performance is compared to previous years in the table below:

	20/21	**21/22**	**22/23**
Numbers of full decisions	10	17	28
Decisions upheld	70%	76%	64%
Compliance	100%	100%	100%
Resolution prior to decision	0%	8%	28%

NB 20/21 Decisions were lower as the Ombudsman stopped accepting complaints for a period during the pandemic.

<u>Comparisons with London Boroughs</u>

The performance for all London Boroughs is shown in Appendix B.

The Council had the **4th lowest percentage of decisions upheld** of all London Boroughs.

It is also positive to see that we have the **4th highest percentage of cases where the issue had been resolved prior to the decision,** of all London Broughs.

<u>Responses on Housing Cases</u>

The Ombudsman has pointed out that they encountered delays in requesting information from Housing stating that 4 out of 5 responses were late. They have also commented about poor quality of responses and that in one case the resident had been signposted to the incorrect Ombudsman. The Ombudsman commented on delays to

Housing responses last year also. We have approached the Ombudsman for further information on the cases referred to and carried out some further analysis.

The cases referred to are detailed in the table below with comment following further investigation.

Our ref	Enquiries sent	Date due	Date received	Days to respond	Comment
22005303	27 Sep 2022	26 Oct 2022	02 Nov 2022	26	An extension was granted by the Ombudsman and information was returned in the extension period.
22005541	29 Sep 2022	28 Oct 2022	31 Oct 2022	22	28th was a Friday and this was sent on the Monday so one working day late.
22008429	16 Nov 2022	08 Dec 2022	21 Dec 2022	25	Information was sent on 9th December one working day late. The date of 21st December is incorrect.
22010276	07 Dec 2022	13 Jan 2023	13 Feb 2023	42	It is accepted that in this case there were severe delays and there has been significant learning from this case which has been used in training.

These cases will be raised with the Assistant Ombudsman at a future meeting. Since these cases there have been changes in the management of Ombudsman cases within Housing with all going through the Dispute Resolution Team and being tightly controlled. This is in addition to the controls in place to manage responses through the Resident Experience Team.

LIST OF APPENDICES

Appendix A. LBHF LGSCO Annual Review
Appendix B. LGSCO London Boroughs Performance 2022/2023

19 July 2023

By email

Ms Lea
Chief Executive
London Borough of Hammersmith & Fulham

Dear Ms Lea

Annual Review letter 2022-23

I write to you with your annual summary of complaint statistics from the Local Government and Social Care Ombudsman for the year ending 31 March 2023. The information offers valuable insight about your organisation's approach to complaints. As always, I would encourage you to consider it as part of your corporate governance processes. As such, I have sought to share this letter with the Leader of your Council and Chair of the appropriate Scrutiny Committee, to encourage effective ownership and oversight of complaint outcomes, which offer such valuable opportunities to learn and improve.

The end of the reporting year, saw the retirement of Michael King, drawing his tenure as Local Government Ombudsman to a close. I was delighted to be appointed to the role of Interim Ombudsman in April and look forward to working with you and colleagues across the local government sector in the coming months. I will be building on the strong foundations already in place and will continue to focus on promoting improvement through our work.

Complaint statistics

Our statistics focus on three key areas that help to assess your organisation's commitment to putting things right when they go wrong:

Complaints upheld - We uphold complaints when we find fault in an organisation's actions, including where the organisation accepted fault before we investigated. We include the total number of investigations completed to provide important context for the statistic.

Over the past two years, we have reviewed our processes to ensure we do the most we can with the resources we have. One outcome is that we are more selective about the complaints we look at in detail, prioritising where it is in the public interest to investigate. While providing a more sustainable way for us to work, it has meant that changes in uphold rates this year are not solely down to the nature of the cases coming to us. We are less likely to carry out investigations on 'borderline' issues, so we are naturally finding a higher proportion of fault overall.

Our average uphold rate for all investigations has increased this year and you may find that your organisation's uphold rate is higher than previous years. This means that comparing uphold rates with previous years carries a note of caution. Therefore, I recommend comparing this statistic with that of similar organisations, rather than previous years, to better understand your organisation's performance.

Compliance with recommendations - We recommend ways for organisations to put things right when faults have caused injustice and monitor their compliance with our recommendations. Failure to comply is rare and a compliance rate below 100% is a cause for concern.

Satisfactory remedy provided by the authority - In these cases, the organisation upheld the complaint and we were satisfied with how it offered to put things right. We encourage the early resolution of complaints and credit organisations that accept fault and find appropriate ways to put things right.

Finally, we compare the three key annual statistics for your organisation with similar authorities to provide an average marker of performance. We do this for County Councils, District Councils, Metropolitan Boroughs, Unitary Councils, and London Boroughs.

Your annual data, and a copy of this letter, will be uploaded to our interactive map, Your council's performance, on 26 July 2023. This useful tool places all our data and information about councils in one place. You can find the detail of the decisions we have made about your Council, read the public reports we have issued, and view the service improvements your Council has agreed to make as a result of our investigations, as well as previous annual review letters.

Your organisation's performance

In last year's letter, concerns were raised about your Council's responses to our enquiries, particularly those from your Housing department. It is disappointing, then, that similar issues have persisted this year. Four out of five responses to our enquiries were late, in one case by over a month. The quality of responses was also poor in some cases, with information not supplied and questions not answered. It is also concerning that a complainant was incorrectly directed to the Housing Ombudsman, rather than this office. I expect the Council to address these concerns in the course of this year. If there is any support we can provide, please let me know.

Supporting complaint and service improvement

I know that complaints offer organisations a rich source of intelligence and insight that has the potential to be transformational. These insights can indicate a problem with a specific area of service delivery or, more broadly, provide a perspective on an organisation's culture and ability to learn. To realise the potential complaints have to support service improvements, organisations need to have the fundamentals of complaint handling in place. To support you to do so, we have continued our work with the Housing Ombudsman Service to develop a joint complaint handling code that will provide a standard for organisations to work to. We will consult on the code and its implications prior to launch and will be in touch with further details.

In addition, our successful training programme includes practical interactive workshops that help participants develop their complaint handling skills. We can also offer tailored support and bespoke training to target specific issues your organisation might have identified. We delivered

105 online workshops during the year, reaching more than 1350 people. To find out more visit www.lgo.org.uk/training or get in touch at training@lgo.org.uk.

Yours sincerely,

P. Najsarek

Paul Najsarek
Interim Local Government and Social Care Ombudsman
Interim Chair, Commission for Local Administration in England

Complaints upheld

64%

64% of complaints we investigated were upheld.

This compares to an average of **77%** in similar organisations.

18
upheld decisions

Statistics are based on a total of **28** investigations for the period between 1 April 2022 to 31 March 2023

Compliance with Ombudsman recommendations

100%

In **100%** of cases we were satisfied the organisation had successfully implemented our recommendations.

This compares to an average of **99%** in similar organisations.

Statistics are based on a total of **7** compliance outcomes for the period between 1 April 2022 to 31 March 2023

- Failure to comply with our recommendations is rare. An organisation with a compliance rate below 100% should scrutinise those complaints where it failed to comply and identify any learning.

Satisfactory remedy provided by the organisation

28%

In **28%** of upheld cases we found the organisation had provided a satisfactory remedy before the complaint reached the Ombudsman.

This compares to an average of **15%** in similar organisations.

5
satisfactory remedy decisions

Statistics are based on a total of **18** upheld decisions for the period between 1 April 2022 to 31 March 2023

London Boroughs	No of decisions	Number upheld	% Upheld	% Compliance with orders
Hammersmith and Fulham	28	18	64%	100%
Ealing	28	17	61%	100%
Westminster	34	28	82%	100%
Brent	29	22	76%	100%
Lambeth	54	46	85%	97%
RBKC	24	20	83%	100%
Hackney	28	25	89%	100%
Islington	17	12	71%	100%
Camden	20	14	70%	100%
Newham	45	37	82%	100%
Tower Hamlets	30	22	73%	100%
Wandsworth	18	15	83%	92%
Southwark	43	35	81%	100%
Hounslow	23	15	65%	100%
Lewisham	31	21	68%	100%
Greenwich	38	26	68%	100%
Richmond	11	10	91%	100%
Haringey	39	31	79%	96%
Kingston	10	7	70%	100%
Merton	19	11	58%	92%
Sutton	21	16	76%	93%
Croydon	69	57	83%	98%
Bromley	38	29	76%	100%
Bexley	17	10	59%	100%
Havering	18	14	78%	100%
Barking and Dagenha	22	20	91%	100%
Redbridge	33	27	82%	100%
Waltham Forest	27	21	78%	100%
Enfield	28	22	79%	100%
Barnet	50	39	78%	100%
Harrow	23	17	74%	100%
Hillingdon	28	24	86%	100%

% Resolution Prior to Decision
28%
12%
21%
41%
13%
10%
32%
17%
14%
11%
5%
13%
9%
13%
15%
15%
40%
10%
14%
27%
19%
16%
3%
0%
14%
20%
22%
19%
14%
5%
12%
8%