London Borough of Hammersmith & Fulham

Audit Committee

Agenda

Monday 11 March 2024 at 7.00 pm

145 King Street (Ground Floor), Hammersmith, W6 9XY

Watch the meeting live: youtube.com/hammersmithandfulham

MEMBERSHIP

Administration	Opposition
Councillor Patrick Walsh (Chair) Councillor Florian Chevoppe-Verdier Councillor Ashok Patel	Councillor Adrian Pascu-Tulbure
	Independent
	Councillor David Morton

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

Date Issued: 01 March 2024

Audit Committee
Agenda

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.

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

This report presents the London Borough of Hammersmith & Fulham's 2022/23 Statement of Accounts, including the Pension Fund Accounts and Annual Governance Statement for approval.

The following is presented by the external auditor for discussion and noting:

- External Audit Progress and Sector Update March 2024

6. INTERNAL AUDIT PROGRESS REPORT (APRIL 2023 TO FEBRUARY 2024) 380 - 387

This report summarises the status of work included in the 2023/24 Internal Audit Plan as at the end of February 2024. Six audits have been finalised, two of which received a Substantial assurance opinion and four receiving Satisfactory assurance, with a further three audits at draft report stage.

7. DRAFT INTERNAL AUDIT PLAN 2024/25 388 - 402

The Strategic Audit Plan documents significant, persistent risks that the Council faces and the business areas to be covered over a five-year period. The Strategic Plan supports the annual planning process and ensures that internal audit continues to provide assurance over the breadth of the Council's operations.

8. RISK MANAGEMENT UPDATE 403 - 417

The purpose of this report is to provide members of the Audit Committee with an update on risk management across the Council.

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

9. DATES OF FUTURE MEETINGS

The following meeting dates have been scheduled:

- 17 June 2024
- 16 September 2024
- 9 December 2024
- 10 March 2025

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

Proposed resolution:

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

London Borough of Hammersmith & Fulham

Audit Committee

Minutes

Monday 27 November 2023

PRESENT

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

Other Councillors: Councillors Paul Alexander and Bora Kwon

Officers:
Sukvinder Kalsi (Strategic Director of Finance)
Jon Pickstone (Strategic Director of Economy)
Phil Triggs (Director of Treasury & Pensions)
James Newman (Assistant Director – Finance)
Moira Mackie (Head of Internal Audit)
Andy Hyatt (Head of Fraud)
Jules Binney (Risk and Assurance Manager)
Debbie Yau (Committee Coordinator)

Guests:
Paul Dossett (Key Audit Partner, Grant Thornton)
Alexa Ngini (Public Services Consulting Manager, Grant Thornton)

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 12 September 2023 were agreed as an accurate record.

4. **ANNUAL AUDIT REPORT (VALUE FOR MONEY) 2021/22 AND 2022/23**

Sukvinder Kalsi (Strategic Director of Finance) introduced the report and explained that the Annual Audit Report (Value for money) 2021/22 and 2022/23 concerned Hammersmith and Fulham Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. He invited the Council's External Auditor –

Grant Thornton LLP (GT) to brief the Committee on its Interim Annual Auditor's Report.

Paul Dossett (Key Audit Partner, GT) gave an overview of the report and highlighted their role in commenting on the local authority's arrangements in respect of financial sustainability, governance, and improving economy, efficiency and effectiveness. The report covered both 2021/22 and 2022/23, with differentiated comments and assessment presented separately for the Council's General Fund Account and Housing Revenue Account (HRA).

Alexa Ngini (Public Services Consulting Manager, GT) briefed members on each of the three areas for the General Fund Account in 2021/22 and 2022/23. In terms of financial sustainability, the Council was able to deliver a stable financial outturn against the general fund revenue budget in both years and finishing them with underspends. The Council's strong budget management and its relatively healthy reserves balance made its medium-term position better than that of some local authorities. The Auditor considered the current savings plan was generally achievable though required greater development to meet the medium-term gap. On governance, the Council had appropriate risk management arrangement in place for both years and improvement recommendations had been made relating to risk management and the Audit Committee. Lastly, the Council had adequate arrangements to safeguard value for money regarding performance management, procurement and partnership working.

Alexa Ngini continued that significant weakness had been identified in Housing relating to the financial sustainability of the HRA. It was also noted that the Housing Service at the Council had been underperforming, as demonstrated in the high number of maladministration findings, poor complaint-handling, and a lack of reasonable communication with the tenants. She referred members to the key recommendations in the report.

Councillor Florian Chevoppe-Verdier sought elaboration about the strategy of maintaining a minimum HRA balance of £5 million, i.e., at about 6% of all rent/service charge income (page 24). Paul Dossett considered that the Council was currently managing a situation that was risky to a local authority's governance. He said that with a robust management of the General Fund Account, there was a need to keep the balance at a strong level to meet future demand. He anticipated that future demand might happen in 2024 as exemplified by continuing inflation, spiking costs in the housing services for children and increasing homelessness across the sector. Paul remarked that the Council was not alone as the whole spectrum of difficulties in housing management had posed real challenges for local authorities across the country, but the Council's General Fund Account was in a relatively strong position compared to that in other councils that GT was working with.

Noting the response, Councillor Chevoppe-Verdier asked about the general trends on medium-term forecast that had set this Council apart from its counterparts. Paul Dossett noted that most councils had drawn up its medium-term forecast to last for 3 to 4 years, with the level of savings predicted being quite high to ameliorate uncertainties beyond 2026/27. Uncertainties included the increasing demand for housing services from homelessness and particularly children, and the income profile including central government funding support and other means of incomes. Paul highlighted that what set H&F Council apart was its good track record of delivery and it had started the challenging plan from the right place.

Councillor David Morton highlighted the Council's maladministration findings noted by the Housing Ombudsman and reductions to the HRA's reserve since 2021. He asked what could be done to improve the reserve position.

Paul Dossett said that it was necessary to restore the financial health of HRA by maintaining and improving its performance, for example, by setting rental levels to the maximum allowable. Sukvinder Kalsi added that the Council had reduced the structural deficit of HRA from £4.1 million in 2022/23 to £1.4 million in 2023/24 and planned to eradicate it totally when drawing up the HRA's business plan for approval at the Cabinet meeting in February 2024. Sukvinder further advised that the current balance of HRA reserve stood at a good position of about £10 million, with over-spending lowered from the expected £2.3 million to £1.5 million. He considered a balance of reserve pitched at £5 million and up was at the right level unless provisions had been set aside to cover known arrears and liabilities.

Councillor Chevoppe-Verdier requested to put on record his view that while the Council might have lost out on rent receivable due to the decision not to raise rent by the cap allowable at the beginning of 2022/23 (page 23), he considered the decision helped residents cope with the rising cost of living.

In terms of follow-up to previous recommendations, Councillor Ashok Patel was concerned that the recommendation of "the Council should develop a sustainable strategy for the HRA" was not addressed since it was raised in September 2022 (page 54). Alexa Ngini advised that at the time of writing the report, GT was not aware about the Council's action to address the problem of HRA's structural deficit and hence had not documented any progress. She added that concerns surrounding the overall position of the HRA remained.

Noting that the Council had a 40-year financial business plan for the HRA (page 23), Councillor Patel asked about the plan and outcomes of examination, if any. Sukvinder Kalsi confirmed that the business plan had been considered by the Cabinet at its meeting in February 2022. Since then, a lot of changes had happened to the sector, such as the introduction of the Social Regulations Act. He reiterated that the HRA's business plan would be updated and reported to the Cabinet for consideration again in February 2024 when members would be briefed on its assumptions, outcomes, and achievements.

Councillor Adrian Pascu-Tulbure referred to the under-performance of the Council's Housing Service, its significant weakness and effort towards improving the service as set out on pages 25 to 27. While noting that improvement would take time, he was concerned whether tangible changes could take effect as quickly as possible instead of taking two or three years for them to begin to materialise.

Jon Pickstone (Strategic Director of Economy) remarked that the issues facing the Housing department as well as those in many local authorities included national trends and involved intrinsic systems. He said that it might take some time to achieve a full recovery of the Housing Service. The department had worked hard to improve the performance of the repairs service, for example, there were now fewer outstanding repairs jobs, much less outstanding damp and mould cases and no overdue Stage 1 or 2 complaints related to repairs since last September. This had been achieved by coordinated efforts among officers from the Finance and Housing departments. He added that the Housing Service would work with local firms to deal with disrepairs and void cases in the coming months.

Sukvinder Kalsi remarked that the improvements were made possible after implementing a number of governance changes to the Housing Service. A Housing Task Force chaired by the Chief Executive was set up to meet monthly to discuss improvement performance planning. He also noted the Budget Board, and other transformation and improvement boards looking at each aspect of the service. The new Director of Housing had been appointed in April and extra capacity was brought to help in this difficult period. The team had also worked closely with the regulators like the Housing Ombudsman. He emphasised that incremental changes took time and the local authority would expedite the process and hope to see more progress over the next 12 months.

Councillor Chevoppe-Verdier noted that the Council was reforming its housing repairs service, including successfully exiting an underfunded 10-year maintenance contract in 2019 (page 25), and sought elaboration. Sukvinder Kalsi said that the Council had exercised strong contractual management for repairs service by terminating existing under-performed contractors to allow others to come forward and provide better quality of repairs service. Jon Pickstone added that the Council had learnt not to be overly reliant on a small number of large firms. The current diverse model led by the Housing Task Force was better for the local economy and the Council's risk, and in terms of the Council's responsiveness and management efficiency.

Councillor Patel expressed concern about the strong language used by the Housing Ombudsman who found the Council had "the highest number of maladministration findings for damp and mould" and had "the third highest number of complaint handling failure determinations in comparison to other London Boroughs" (page 25). Sukvinder Kalsi highlighted the context that the lack of central government funding for some of the investments the Council needed to comply with the national building safety standards had led to some of the Housing Ombudsman's findings. He said that a lot of improvements had been made to address the concerns as detailed in the report for item 7 on the agenda. He expected that 's performance servicing 12,000 tenants and 4,000 leaseholders would be improved and reflected in the Housing Ombudsman's next report to be released in late December.

Jon Pickstone added that several external factors had also contributed to the repairs backlog, including the lack of labour due to COVID-19 pandemic and the associated lockdowns. Similarly, the Housing Ombudsman also experienced a backlog for about 18 months and the complaints did not reflect the current policy. It was hoped that the introduction of the customer and complaint resolution services would help reduce the number of cases escalating to the Housing Ombudsman while improvements in repairs service would help drive out the complaints. The Council had apologised and offered compensation for the past cases and would work closely with the Housing Ombudsman in observing their code and advice.

Councillor Pascu-Tulbure asked about the assumptions for potential increase of council tax and other financial commitments such as payroll for the next couple of years. Paul Dossett advised that the External Auditor relied on the Council's own financial plan and assumptions that worked around the savings required to undertake the analysis and assessment. Sukvinder Kalsi noted that the Council always made prudent assumptions and subject to further review pursuant to the central government's funding to be made known by late December, there were assumptions of 3% increase for prices and 4% for general price inflation.

The Chair noted that information at the CIPFA Report was up to 31 March 2023, and asked if it was due to ongoing audit issues with the local authorities if no updated figures further to that date was available. Alexa Ngini said due to many local authorities failing to produce their accounts in time, it was the latest CIPFA Report. She said that GT was happy to provide up-to-date CIPFA report once available.

ACTION: Grant Thorton/ Sukvinder Kalsi/ Chris Harris

Councillor Patel sought elaboration about the recommendation of the separation of executive roles and Audit Committee membership and made it the rule that a period of two years should elapse before a councillor who previously held a senior policy role joined the Audit Committee in line with *CIPFA's guidance Audit Committees: Practical Guidance for Local Authorities and Police (2022)* (page 47). Alexa Ngini noted it represented the best practice recommended by CIPFA to achieve gold star standard and greater independence for the Audit Committee.

Councillor Chevoppe-Verdier noted that the Council's gross external debt was towards the lower risk end of the scale as an indicator of financial stress, and its debt position was not considered to be a significant risk at the time of writing (page 36). He asked for the national picture in respect of debt position. Paul Dossett advised that in terms of the London position, H&F Council's external debt was in the lower risk end which was partly due to its prudent approach in deploying resources, such as capital grants assigned to support capital works. Moreover, the Council had invested in properties in proportion to its size. As regards the national picture, Paul said that external debt was one of the key drivers behind Section 114 notice served by some local authorities to indicate the authority was about to incur expenditure that was unlawful according to the Local Government Finance Act 1988. He confirmed that the Council had a good track record and stayed nowhere near such a risk.

The Chair commended finance officers for their diligent management of the Council's financial resources and delivering a balanced budget as many councils across the country were facing serious financial challenges.

RESOLVED

That the Committee agreed to note the contents of the "Interim Annual Auditor's Report on Hammersmith and Fulham Council 2021/22 and 2022/23" from Grant Thornton LLP at Appendix 1.

5. EXTERNAL AUDITOR PROGRESS AND SECTOR UPDATE

Paul Dossett (Key Aduit Partner, GT) introduced the report. He briefed members on the audit progress in November 2023 and explained the reasons for delayed publication of audited local authority accounts in England including the current local audit deadline “unachievable”. He expected to complete the ongoing work for the Financial Statement Audit 2021/22 soon and sign the unqualified auditor’s report prior to Christmas 2023. As regards the Financial Statement Audit 2022/23, he said that it was the central government’s initial plan to set a statutory cut-off date by 31 March 2024 to deal with the backlog, and to introduce a statutory disclaimer qualified opinion for those who failed to do so. Regardless whether the backstop plan would proceed or otherwise, Paul said he was confident that the final Audit Finding Report for the Financial Statement Audit 2022/23 could be considered by this Committee at its March 2024 meeting, with the audits to be signed off right after. He added that the value for money report and sector update for both 2021/22 and 2022/23 had been done.

Noting the current September audit deadline was unlikely to be met due to, among others, low capacity in council finance team (page 73), Councillor Ashok Patel was concerned about the implications of audit delays as some councils had years of unaudited accounts when they declared themselves effectively bankrupt due to excessive levels of debt (page 75).

Paul Dossett outlined the three causes of delays, namely, capacity gap in audit firms, increasing volume of Audit work for 30% – 40% in the last 5 years and the increasing complexity of the local authority accounts. In some councils, there was a lack of capacity in their finance department which might not be able to deliver a compliant set of accounts or fail to produce them for several years. Paul said that the accounts produced by the Council’s finance team was relatively up-to-date.

Regarding the Chair’ question on officers’ providing timely updates to the External Auditor and their interaction, Sukvinder Kalsi (Strategic Director of Finance) highlighted that regular meetings between the two sides were held every week to follow up matters on the action lists. Finance officers were fully supported by service colleagues in responding promptly to the External Auditor’s queries. They also forwarded to the External Auditor any questions or concerns received in the first instance. Sukvinder remarked that he would ensure the Finance team had the right expertise and capacity to carry out the statutory duties up to the required standards.

RESOLVED
That the Committee agreed to note the External Auditor Progress Report and Sector Update.

6. TREASURY MANAGEMENT STRATEGY: MID-YEAR REVIEW 2023/24

Phil Triggs (Director of Treasury & Pensions) introduced the report which provided an update (six months up to 30 September 2023) on the implementation of the 2023/24 Treasury Management Strategy and its mid-year review. He briefed members on the Council’s debt and investment positions (paragraph 3), borrowing position (paragraph 9), treasury investments (paragraphs 10 -15), and Prudential Indicators (paragraphs 16 – 18).

Noting the levels of cash deposits for money market funds and term deposits, Councillor Ashok Patel asked whether consideration could be given to putting more monies to term deposits. Phil Triggs noted this was the case as the money market funds was used much less in September than six months' ago. He assured that both of them were very secure way of investing with a reasonable rate of return.

Councillor Florian Chevoppe-Verdier commended the good work of the Treasury team which had managed very well the Council's Treasury and Pensions responsibilities (as reflected in the recent national award).

RESOLVED
That the Committee agreed to note the Treasury Management Strategy: Mid-year Review 2023/24.

7. HOUSING OMBUDSMAN COMPLAINT HANDLING CODE SELF ASSESSMENT

Sukvinder Kalsi (Strategic Director of Finance) briefed members on the report which set out the Council's self-assessment against the Housing Ombudsman Complaint Handling Code. He said that the Council had prioritised and focused considerable resources on improving complaint handling, especially around Housing Services. Over the past year, the Council's Corporate Complaints Policy had been reviewed and updated to ensure compliance with the best practice. Appendix A set out a positive picture of compliance with the code with some actions for further improvement.

Jon Pickstone (Strategic Director of the Economy) highlighted the integration of several teams, including the Resident Experience Team and the dedicated Dispute Resolution Team into a more strategic single function. Housing repairs and housing management complaints were brought into the one-stop Housing Hub where complaints were handled by officers experienced in customer service to address the failings of not handling complaints well in the past. This involved investment on additional staff training on both effective complaint handling and wider customer service skills both of which should be exercised alongside the physical intervention of the property by the Repairs Team under the wholistic approach.

The Chair expressed concern about ownership of a particular complaints case at an early stage and resolving it by coordinated effort to prevent it falling through the cracks of the division of the three teams concerned. Jon Pickstone confirmed this was the case. He elaborated that it was important to improve the repairs service and get them done as quickly as possible because this would in turn help improve complaints handling. The teams would meet on a weekly basis to bring the cases under constant checks to prevent the complaints from escalating to the Housing Ombudsman.

Councillor Adrian Pascu-Tulbure was concerned whether the Council's updated policy and improvement measures would bring about a better experience with the Housing Ombudsman. Jon Pickstone believed they would as the Council had taken a multi-facet approach by improving its policy alongside complaint handling measures and coaching skills.

Councillor Florian Chevoppe-Verdier asked about the accessibility to the feedback surveys linked to complaint responses launched by the Resident Experience Team and its formats between digital and in-person/post. Jon Pickstone said the Resident Experience Team was beginning the root cause analysis and exploring the organisational learning themes. The Council, through surveying satisfaction about housing/repairs works, was now more aware of the performance of individual contractors. He noted that satisfactory quality repairs had gone up in recent months as a result of the tighter management of the main contractors and clearance of repairs backlog. Jon further noted that to capture a more realistic picture of customer satisfaction via a bigger sample size, the Council would reach out to residents on different digital and non-digital ways from verbal response to text messaging. In reply to the Chair's enquiry, residents could still receive full range of housing services by phone with the Council's contact numbers being listed on its website.

Councillor Ashok Patel noted that according to the Code requirement, landlords must respond to the Stage one and two complaints within 10 and 20 working days respectively. He reiterated his suggestion of referring unresolved cases for external independent review before they reached the Housing Ombudsman. Jon Pickstone referred to the advice of the Housing Ombudsman that it was the resident's right to approach the Ombudsman if the complaint was not resolved to their satisfaction. The Housing Ombudsman was an independent third party within the system.

The Chair expressed concern about the expenses of commissioning external scrutiny and internal resources might have already been deployed for the purpose. Jon Pickstone remarked that a number of internal checks and balances were in place to deal with housing-related complaints arising possibly from, among others, some 4,000 repairs cases per months. Sukvinder Kalsi echoed substantial resources had been deployed for internal scrutiny.

RESOLVED
That the Committee agreed to note the Housing Ombudsman Complaint Handling Code Self-Assessment as set out in Appendix A.

8. RISK MANAGEMENT UPDATE

Jules Binney (Risk and Assurance Manager) introduced the report and said that the SLT Assurance had reviewed the Corporate Risk Register on 1 November 2023 and agreed to reduce the risk score for two risks (Risks 6 and 16) and amend the narrative for two risks (Risks 9 and 18). They also noted that there was no addition of new risks. Moira Mackie (Head of Internal Audit) added that the Corporate Risk Register was quite stable and the three risks (Risks 3, 18, 27) in high score were closely monitored.

Cllr David Morton asked why a risk related to the Community Schools Programme was not included in the Corporate Risk Register when £2.4m was committed to the programme. He said that while the Cabinet had recently approved £800k in respect of Mund Street for decant accommodation for Avonmore School, the planning application had not yet been submitted and there was no indication that the Department of Education would approve the Council's plans. He noted that the Programme had been identified as a risk area by the Cabinet.

Moira Mackie said that for risks across the Council, some would sit on a local register but would not necessarily be included on the Corporate Risk Register. She agreed to provide the required information after discussing with the department concerned.

The Officers' response is attached at Appendix A

Councillor Morton asked about the financial impact resulting from the failure to deliver the Civic Campus Programme (Risk 14). Sukvinder Kalsi (Strategic Director of Finance) advised that it was a complicated and complex project involving a lot of issues. More detailed report would be submitted to the Council and the Audit Committee in due course.

ACTION: Sukvinder Kalsi

Councillor Adrian Pascu-Tulbure noted that contractual levers were being used to deal with performance failures under Risk 27 and asked for further information. Jon Pickstone (Strategic Director of the Economy) noted that weekly performance meetings were held with contractors on their schedules, capacity and attendance of repairs work to ensure their responsibility and accountability. In addition, there were ongoing commercial discussions with contractors around financial and operational arrangements.

Councillor Ashok Patel asked if there was any improvement to Risk 12 - Unable to retain talented people in key posts at LBHF. Sukvinder Kalsi (Strategic Director of Finance) gave a brief account on the changes to the key posts at LBHF because of staff turnover and most of them were now filled. He said that the Council was carefully monitoring its turnover position to identify workforce planning needs going forward.

The Chair recalled discussing Risk 12 with the Chief Executive at the July meeting and considered it worth noting that in regularly reviewing the Corporate Risk Register, the Committee could ensure the risks therein were adequately owned and managed.

RESOLVED
That the Committee agreed to note the Risk Management Update.

9. INTERNAL AUDIT PROGRESS REPORT (APRIL TO OCTOBER 2023)

Moira Mackie (Head of Internal Audit) presented the report which summarised the status of work included in the 2023/24 Internal Audit Plan as at the end of October 2023. She noted that two audits had been finalised, both of which received positive assurance opinions, with a further six audits at draft report stage. A total of 69 recommendations had been followed up in the year to date, and a majority of medium and high priority recommendations had been fully implemented with some partly implemented. She then briefed members on the status of audits confirmed for inclusion within the Plan as shown in Appendix 2.

Councillor Ashok Patel asked about the recommendations for one of the finalised audits, i.e., Modern Slavery Strategy (2022/23). Moira Mackie noted that it was a good piece of tri-borough work attaining substantial assurance, with a sound system of internal control designed to achieve their objectives with good engagement, so there were no recommendations.

RESOLVED
That the Committee agreed to note the Internal Audit Progress Report (April to October 2023).

10. CORPORATE ANTI-FRAUD SERVICE HALF-YEAR REPORT (1 APRIL 2023 TO 30 SEPTEMBER 2023)

Andy Hyatt (Head of Fraud) briefed the Committee on the report and noted that for the period between 1 April and 30 September 2023, the Council had identified 235 positive outcomes and the fraud identified a notional value of over £680,000.

Councillor Florian Chevoppe-Verdier commended on the Corporate Anti-fraud Service's increasing value for money in terms of staff cost to notional value ratio. He asked about the reasons for abandonment of the Council's properties. Andy Hyatt referred to some tenancy cases whereby the tenants returned the keys after being found sub-letting the property. Although data matching and use of technique had helped identify possible frauds, there were cases of unproven sub-letting with the tenant leaving no associated financial footprint while the sub-tenant not answering the door upon investigator's visits.

Councillor Chevoppe-Verdier asked further question on people's moonlighting by working for two councils at the same time. Andy Hyatt noted that the local authority had just completed the data impact assessment and signed a data sharing agreement with some London agencies. Such data sharing might soon be expanded to nation-wide scale as the hybrid mode of working allowed people taking up jobs in London and another city simultaneously. As to how the local authority could share data with local and overseas banks, Andy referred to the Council's participation in the National Fraud Initiative's data matching exercise which helped uncover data identity theft in conjunction with the police.

Regarding the enquiry of Councillor Adrian Pascu-Tulbure about the calculation of the notional value, Andy Hyatt noted that it varied depending on the type and use of value for prevention or detection. For example, the formula adopted by the Tenancy Board was based on the amount of money spent on temporary accommodation linked to the number of rooms in the property concerned. Some local authorities would also take into account other actual loss such as benefits entitlement.

Councillor Ashok Patel referred to case 1 on Appendix 1 in which the tenant was an Albanian faking as a Kosovan homeless in late 2002 when he was granted a one-bed tenancy and housing benefits. He was found sub-letting the property between

July 2008 and October 2012 (during the period of his absence from the UK following deportation). All these came to light upon the due diligence checks on his right-to-buy application. Councillor Patel asked for the rationale behind the barrister's advice against criminal charges.

Andy Hyatt noted that criminal prosecution with a not guilty plea involved lengthy trial and high legal cost even if the technicalities of the case met the standard for prosecution. He remarked that in this instance, the Council was the Prosecting Authority as only really big cases would go through the Crown Prosecution Service which might not incur cost to the Council. Andy said he was pleased to share with Councillor Patel outside the meeting more details as to why criminal charges were not pursued for this case.

ACTION: Andy Hyatt

Councillor Chevoppe-Verdier opined that those fraud tenants might not hand back the properties so readily if the Council was going to sue them. Moreover, the Council could re-allocate the recovered properties after housing the sub-tenants concerned in temporary accommodation. Andy Hyatt agreed and said the officers should explain the consequences to the residents in a skilful way.

RESOLVED
That the Committee agreed to note the report.

11. AUDIT FEES 2023/24

James Newman (Assistant Director – Finance) introduced the report which provided an update on the external audit fees for 2023/24 as set by Public Sector Audit Appointments (PSAA) and the Council's response to the recent consultation on the proposed framework for fees in Appendix 1. He said that it had provisionally been indicated to increase the scale fee for 2023/24 by 151%.

Councillor Adrian Pascu-Tulbure found the proposed fee increase disappointing and agreed it was necessary to address potential market failure. He asked if consideration could be given to engaging with other local authorities further at the ministerial level to deal with the situation.

James Newman said that the Council had carried out sizable engagements with different parties through various channels and provided a lot of feedbacks in addition to the Council's consultation response. He also noted that the procurement process was moving to a new kind of framework with a view to addressing the frailties and the weaknesses that had been seen in recent years.

Councillor Ashok Patel considered the proposed audit fee increase of 151% mindboggling and the agreed deadline might end up in failure. The Chair considered it might be helpful to outline PSAA's procurement process and any changes made during the period.

Sukvinder Kalsi (Strategic Director of Finance) noted that economies of scale had been achieved through the PSAA's external procurement process which validated everything needed. To illustrate, Sukvinder noted the cash term fee in 2010 was in the order of £420,000, or 3 – 4 times in real term. He said that the audit sector had re-balanced itself having dealt with some structural and capacity issues. Sukvinder assured that the Council had expressed its general view in the response letter and would monitor the trend with a view to reducing the audit fees in the future.

Summing up, the Chair highlighted the Council's strong emphasis on achieving financial efficiency, to be reflected in the quality of service and timeliness of reports provided by the External Auditor.

RESOLVED

That the Committee agreed to note the update on the external audit fees as set by Public Sector Audit Appointments and the Council's response to the recent fee consultation (Appendix 1).

12. DATE OF NEXT MEETING

The Committee noted the next meeting would be held on 11 March 2024.

Meeting started: 7.00 pm
Meeting ended: 8.56 pm

Chair ....

Contact officer Debbie Yau
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Corporate Services
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Audit Committee 27 November 2023, Agenda Item 8 – Risk Management Update

Cllr Morton asked why a risk related to the Community Schools Programme wasn't included in the corporate risk register when £2.4m is committed to the programme, the Cabinet recently approved £800k in respect of Mund Street for decant accommodation for Avonmore School, the planning application had not yet been submitted and there is no indication that the DoE will approve the Council's plans. The Programme has been identified as a risk area by Cabinet.

The Operational Director for Education and SEND, Peter Haylock, has confirmed that the planning application for Avonmore School has been submitted, and would be live from 29 November 2023 on the Council's Planning portal. In addition, the application for the section 77 request has been submitted and a response is awaited.

The Strategic Head of Regeneration and Development, Matt Rumble, confirmed that there are risks related to the scheme on the development risk register but he was of the opinion that the abortive cost risk is not significant enough to require inclusion on the corporate risk register.

16 December 2023

Agenda Item 4

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 11th March 2024

Subject: Statement of Accounts 2022/23, including Pension Fund Accounts and Annual Governance Statement.

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 2022/23 Statement of Accounts, including the Pension Fund Accounts and Annual Governance Statement for approval.

RECOMMENDATIONS

1. To approve the 2022/23 Annual Governance Statement which is included in the Statement of Accounts (Appendix 1).

2. To approve the Statement of Accounts for 2022/23, 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 2022/23 management representation letters (Appendices 3 and 4).

5. To approve the Pension Fund Annual Report 2022/23 (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.

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 and the Annual Governance Statement must be approved by the Audit Committee.

Angela Hogan, Chief Solicitor (Contracts and Procurement) 1st March 2024

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Background Papers Used in Preparing This Report

None

Statement of Accounts 2022/23

1. The 2022/23 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 2022/23.

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).

Supplementary updates

12. The external auditor issued an unqualified opinion on the 2021/22 Accounts on 22 February 2024. These accounts had previously been reviewed by the Audit Committee in September 2023 and there are no significant differences to report between the previous Committee version and the final accounts (i.e. the net position on the main statements and usable reserves position remains unchanged).

13. The external auditor has provided an audit progress report and sector update. This is included elsewhere on the agenda and will be presented to the Committee.

LIST OF APPENDICES:

Appendix 1 – London Borough of Hammersmith and Fulham Annual Statement of Accounts 2022/23 (including Pension Fund)

Appendix 2 – Grant Thornton UK LLP Audit Findings Report (ISA260) (Main Financial Statements and LBHF Pension Fund) 2022/23

Appendix 3 – Draft Letter of Representation 2022/23 – LBHF Main Accounts

Appendix 4 – Draft Letter of Representation 2022/23 – Pension Fund

Appendix 5 – Pension Fund Annual Report 2022/23

STATEMENT OF ACCOUNTS
2022/23

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 2023 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 2022/23 accounts.

CERTIFICATION BY CHAIR OF THE AUDIT COMMITTEE

Certificate to follow pending Committee approval of final 2022/23 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. For over a decade, national and local public finances have been under significant pressure whilst demand for our services has increased.

Whilst 2022/23 saw continued recovery from the health pandemic, from a financial point-of-view, the year will most likely be marked by the cost-of-living crisis and the inflationary and interest rate pressures faced by the Council and its residents from the national economic turbulence. 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. The Council has remained within budget during the year and earmarked reserves continue to be proportionate at £165m given the current strategic operating environment. Capital investment for the financial year was £140m.

Looking ahead to 2023/24, the Council has set a balanced budget and continues its commitment to investment through an ambitious capital programme.

The strategic operating environment of the Council remains significantly challenging with the continuing macro-economic pressures with inflation remaining a particular concern. 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 (including 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 2022/23 financial year was as follows:

Acting Chief Executive	Sharon Lea
Strategic Director of Economy	Jonathan Pickstone
Strategic Director of Environment	Bram Kainth
Strategic Director of Social Care	Lisa Redfern
Interim Director of Corporate Services	David Tatlow
Strategic Director of Children's Services	Jacqui McShannon
Acting Director of Finance	Sukvinder Kalsi

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 2,324 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 age, disability, gender and ethnicity.

Age

Age group	Childrens Services	Finance	Corporate Services	Social Care	The Economy	The Environment
<20	1%	0%	0%	0%	1%	1%
20-24	3%	4%	3%	2%	1%	3%
25-29	9%	12%	10%	3%	7%	6%
30-34	16%	14%	9%	9%	12%	6%
35-39	13%	10%	14%	10%	11%	8%
40-44	10%	10%	10%	13%	13%	13%
45-49	11%	11%	11%	12%	11%	13%
50-54	14%	14%	14%	15%	13%	15%
55-59	12%	13%	15%	17%	13%	17%
60-64	9%	10%	12%	17%	14%	15%
>65	2%	2%	2%	2%	4%	3%
Grand Total	100%	100%	100%	100%	100%	100%

Disability

Disability	Childrens Services	Finance	Corporate Services	Social Care	The Economy	The Environment
Disabled	6.9%	7.0%	4.0%	7.4%	6.2%	4.9%
Non-disabled	93.1%	93.0%	96.0%	92.6%	93.8%	95.1%
Grand Total	100%	100%	100%	100%	100%	100%

Gender

Department	Female Employees	Female Employees	Male Employees	Male Employees
Social Care	163	70.0%	70	30.0%
Children's Services	341	81.0%	80	19.0%
Finance	96	55.8%	76	44.2%
Corporate Services	114	57.9%	83	42.1%
The Economy	297	46.6%	340	53.4%
The Environment	304	45.8%	360	54.2%
Grand Total	1,315	56.6%	1,009	43.4%

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/

Ethnicity

Ethnicity	Childrens Services	Finance	Corporate Services	Social Care	The Economy	The Environment
Asian	8%	14%	16%	4%	9%	13%
Black	23%	26%	23%	33%	23%	27%
Mixed	6%	5%	6%	4%	5%	8%
No data provided	2%	0%	0%	1%	1%	1%
Other	1%	1%	2%	1%	2%	1%
Prefer not to say	15%	14%	8%	12%	20%	8%
White	45%	40%	45%	45%	40%	42%
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.

The Council's key risks are summarised below:

Highest-Level Risks	Impact and Mitigation
Financial Sustainability/ Medium-Term Financial Management Planning.	The Council's financial operating environment remains challenging with the expected pressure on public finances and the impact on services from the current high inflation levels and interest rates. This will increase all operating costs and also impact of services especially homelessness and other welfare services. The Council has a well-developed and established medium-term financial planning process (for revenue, capital and treasury management) and strong in-year financial governance arrangements (from Finance SLT to DMTs) to help mitigate these risks.
Management of complaints and requests for information from residents	Mishandling of queries and complaints potentially resulting in underlying issues not being addressed and/or escalation to regulatory authorities. An improvement plan is in place and being overseen by SLT. Regular reporting to SLT and controls are in place and action being taken to address areas of concern.
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. In 2022/23 mitigations included risk-mitigation workshops run buy digital services, enhancements to email security and participation by Digital Services in an expert led cyber security workshop.
Delivering the Civic Campus Programme in a timely way.	Assurance is 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.
High needs safety-valve agreement delivery	The education High-Needs budget continues to face pressure, impacting on provision of services for vulnerable young residents. Mitigations include Early Intervention to schools and other providers, the SEND transformations programme and a robust savings plan with pipeline savings modelled for 2024/25 and 2025/26

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 Council has approved the **HRA Asset Management Compliance Strategy and Capital Programme**. 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.

<u>The Environment</u>

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.

In 2019, H&F Council declared a climate and ecological emergency. We have set ambitious targets for emissions by 2030 for our borough. You can find out more about what the Council is doing to tackle this emergency on our website: https://www.lbhf.gov.uk/environment/climate-and-ecological-emergency.

Some of our key environmental achievements during the last 12 to 18 months are set out below:

- The Clean Air Neighbourhoods (CAN) is being developed and two CAN zones have been implemented.
- The Council were judged to have London's best climate emergency plan by independent charity Climate Emergency UK, the highest concentration of electric vehicle charging points in Britain, and the highest concentration of air quality monitors in Europe. UK Divest also found that our pension fund has the best record of any local authority in the country of divesting from fossil fuels.
- More than 1,000 local young people have received cycle training from our expert tutors over the past year.
- The Council has installed 50 new air quality sensors to help track and reduce air pollution near schools.
- "Adopt a tree" and tree giveaway schemes were launched;
- The Hammersmith and Fulham "Library of Things" was launched offering a range of useful household, DIY and gardening items, available to rent from only a few pounds a day;
- The roll-out of electric charge-points has continued apace and in the year the milestone of 3,000 points in the Borough was passed.

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 2022/23 budgets included:

- Investment of £7.4m to meet the costs of statutory obligations, demographic, service and demand pressures and key resident priorities;
- Savings of £4.9m required to balance the budget and off-set cost pressures; and
- Measures to strengthen the Council's future financial resilience by contributing one-off resources of £2.9m to general balances and setting aside an additional one-off contingency of £1.5m regarding Covid-19 financial pressures.

This resulted in a gross budget of £534m (and net revenue budget requirement of £125.7m) funded from council tax, the local share of business rates and revenue support grant from government.

The 2022/23 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 2022/23 were £21.3m.

The Council also approves the **Capital Programme** which captures the spending to purchase or improve the Council's long-term assets (such as buildings and vehicles). The 2022-26 capital programme included:

- A housing and regeneration programme of £390m
- Hammersmith Bridge stabilisation
- 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 2022/23 shows a year end underspend of £0.3m after adjustments to and from reserves across a range of services and to take into account anticipated risks on our finances from the continuing macro-economic turbulence together with technical timing impacts on the Collection Fund. This net underspend will be added to the General Fund balance. At the end of the year, the General Fund Balance stands at £21.3m and earmarked reserves were £165m for both the general fund and the HRA.

The draft Statement of Accounts for 2022/23 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	68.2	68.2	0
Children's Services	53.8	53.4	(0.4)
The Economy Department	(16.6)	(16.4)	0.2
The Environment Department	75.2	76.6	1.4
Controlled Parking Account	(34.1)	(34.1)	-
Finance	2.5	2.1	(0.4)
Resources	9.1	9.2	0.1
Centrally Managed Budgets (including unallocated contingency)	1	(0.2)	(1.2)
Gross Operating Expenditure	**159.1**	**158.8**	**(0.3)**
Technical and Financial Accounting Adjustments	21.7	21.7	-
Non-Ring-fenced Revenue Grants	(53.7)	(53.7)	-
Net Contribution to/(from) Earmarked Reserves	(6.9)	(6.9)	-
Total Net Expenditure	**120.2**	**119.9**	**(0.3)**

Funded by:			
Localised Business Rates	(53.2)	(53.2)	-
Council Tax	(67)	(67)	-
Total Funding	**(120.2)**	**(120.2)**	**-**
Final Position	**0**	**(0.3)**	**(0.3)**

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 £14.5m, which in line with statutory accounting requirements is held in an unusable reserve and will remain unchanged through the statutory determination period (2021-2024). This deficit reserve is matched by a discretionary usable earmarked reserves to ensure that the Council is able to fund this deficit on the expiration of the statutory provisions.

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 £10.0m with associated Earmarked Reserves of £11m. This reflects a budgeted use of reserves during 2022/23. 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, there is a continued need to identify significant efficiencies in future years to ensure that the HRA is sustainable. Further details for 2022/23 are set out in the HRA Statement of Accounts.

The Council's **Balance Sheet** as at 31 March 2023 is summarised below.

Summary Balance Sheet	**31-Mar-23 £m**	**31-Mar-22 £m**
Long Term Assets	2,171	2,127
Current Assets	333	388
Current Liabilities	(230)	(255)
Net Pension Liabilities	(90)	(477)
Other Long-Term Liabilities	(316)	(307)
Net Assets	**1,868**	**1,476**
Represented by:		
Usable Reserves	(301)	(282)
Unusable reserves	(1,567)	(1,194)
Total Reserves	**(1,868)**	**(1,476)**

The breakdown of the usable reserves is set out below:

Summary Usable Reserves	**31-Mar-23 £m**	**31-Mar-22 £m**
General Fund Balance	(21)	(20)
General Fund Earmarked Reserves	(154)	(161)
HRA Balance and Earmarked Reserves	(21)	(26)
Schools Reserves	(7)	(10)
Capital Reserves (Receipts and Grants)	(98)	(65)
Total	**(301)**	**(282)**

Capital

In 2022/23, the actual capital expenditure (outturn) totalled £140.1m and the table below summarises capital expenditure by service area:

Department	**2022/23 £m**	**2021/22 £m**
Adult Social Care	1.8	1.5
Children's Services	0.9	0.7
The Environment Department	26.9	10.5
Finance	1.0	0.5
The Economy Department - General Fund Schemes	43.7	26.3
The Economy Department – Housing and Regeneration	12.9	16.0
The Economy Department - Housing Revenue Account	52.9	39.6
Total	**140.1**	**95.1**

The 2022/23 capital programme was financed as follows:

Capital Financing	**2022/23 £m**	**2021/22 £m**
Capital Receipts	6.3	7.6
Increase in Capital Finance Requirement (CFR)	77.1	43.6
Capital Grants and Contributions	35.2	26.1
Major Repairs Reserve (MRR)	17.8	17.0
Council and School Reserves	0.2	0.1
Revenue Contributions to Capital	3.5	0.7
Total	**140.1**	**95.1**

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 2023/24 budget proposals were approved in February 2023 to tackle the cost-of-living crisis and delivery of resident priorities. The ongoing cost-of-living crisis has led to an increase in demand for services whilst the upturn in both interest rates and inflation, alongside the resetting of the public finances, at a national level, has placed a further strain on local authorities. The 2023/24 budget was set with the need to strengthen the Council's financial resilience as mitigation against this increased financial risk and preserve front line services valued by residents, visitors and businesses.

General government grant funding has increased by an estimated £7.8m from 2022/23 to 2023/24. Although an increase on 22/23 funding levels, this is still below the increase in the Council's costs due to inflation, demographic pressures and wider economic challenges.

The key summary of the 2023/24 revenue budget is as follows:

- Investment of £10.7m 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 £2.9m were put forward to balance the budget;
- The budget proposals included measures to strengthen the Council's future financial resilience by contributing resources of £5.3m to contingencies. In addition, a one-off contingency of £1.0m was set aside to support residents for cost-of-living and further develop the Council Tax Support scheme;
- Overall, this produced a net revenue budget requirement of £132.6m 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 ongoing impact of the pandemic, future government funding allocations, the sharp upturn in inflation and cost of living crisis, the impact of Brexit, the impact of the war in Ukraine and increasing demand for services.

The 2023-27 capital programme was also approved in February 2023. The programme for this period totals £506.8m. The gross anticipated spend for 2023/24 is £202.5m, comprising the General Fund (GF) Programme of £85.4m and the Housing Revenue Account (HRA) Programme of £117.1m.

The General Fund capital 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 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 so that users can continue to use the Bridge safely.

A further £8.5m budget has been approved with regards to pre-restoration works. Further work towards the Phase 2 full strengthening and restoration of the Bridge and its re-opening to motor vehicles is now required in line with the Strategic Transport aspirations of the DfT, TfL and the Council. This will ensure that the future project to strengthen the Bridge can be undertaken with greater expediency, effectiveness, and minimisation of technical risks.

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 £730m. 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 2023-27 HRA capital programme includes spend of £234.5m 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, however, management are not aware of any material uncertainties in relation to the Council’s ability to continue as a going concern.

Structure of the Statement of Accounts and Basis of Preparation

The Statement of Accounts sets out the Council's income and expenditure for the financial year 2022/23 and its Balance Sheet as at 31 March 2023. 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 2022/23, 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 2023. 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 2023 (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 2022/23 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 2022/23 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 2021/22.

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 2022/23 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; and
- 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; and
- 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 2023 and income and expenditure for the financial year 2022/23.

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 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)**
Movement in Reserves during 2022/23													
Total Comprehensive Income and Expenditure		(15,826)	-	-	40,583	-	-	-	-	-	24,757	(416,820)	(392,063)
Adjustments between accounting basis & funding basis under regulations	3	24,654	-	-	(35,471)	-	(16,405)	554	(17,998)	878	(43,788)	43,788	-
Transfer to/(from) Earmarked Reserves		(9,769)	6,949	2,820	432	(432)	-	-	-	-	-	-	-
(Increase)/Decrease in 2022/23		**(941)**	**6,949**	**2,820**	**5,544**	**(432)**	**(16,405)**	**554**	**(17,998)**	**878**	**(19,031)**	**(373,032)**	**(392,063)**
Balance at 31 March 2023		**(21,349)**	**(153,812)**	**(7,349)**	**(10,020)**	**(11,025)**	**(69,718)**	**-**	**(27,559)**	**-**	**(300,832)**	**(1,566,905)**	**(1,867,737)**

General Fund and HRA Balances as disclosed in Note 1 Expenditure Funding Analysis note:

	General Fund Balances* £000	HRA Balances** £000	Total Balances £000
Balance as at 31 March 2021	(200,943)	(30,202)	(231,145)
Balance as at 31 March 2022	(191,339)	(26,157)	(217,496)
Balance as at 31 March 2023	(182,511)	(21,045)	(203,556)

* 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 2023			Year Ended 31 March 2022		
	Notes	**Gross Expenditure**	**Gross Income**	**Net Expenditure**	**Gross Expenditure**	**Gross Income**	**Net Expenditure**
		£000	£000	£000	£000	£000	£000
Children's Services		181,203	(128,598)	52,605	174,024	(122,203)	51,821
Social Care		121,018	(64,300)	56,718	113,465	(66,325)	47,140
Economy		57,136	(45,933)	11,203	57,455	(45,392)	12,063
Local Authority Housing (HRA)		93,182	(85,549)	7,633	86,453	(82,794)	3,659
Local Authority Housing (HRA) - Dwelling Revaluation	5	36,473	-	36,473	(13,996)	-	(13,996)
Environment (including Parking)		110,156	(75,123)	35,033	110,842	(69,250)	41,592
Finance		8,645	12	8,657	10,647	(1,288)	9,359
Resources		27,366	(7,507)	19,859	29,670	(7,693)	21,977
Centrally Managed Budgets		104,671	(98,581)	6,090	117,836	(119,132)	(1,296)
Cost of Services		**739,850**	**(505,579)**	**234,271**	**686,396**	**(514,077)**	**172,319**
Other Operating Expenditure	6	4,454	(7,522)	(3,068)	6,352	8,710	15,062
Financing and investment income and expenditure	7	24,666	(18,729)	5,937	25,577	(5,324)	20,253
Taxation and non-specific grant income and expenditure	8	18,620	(231,003)	(212,383)	17,209	(215,052)	(197,843)
(Surplus) or Deficit on Provision of Services				**24,757**			**9,791**
(Surplus) or deficit on revaluation of non-current assets				10,714			(56,944)
(Surplus) or deficit on revaluation of available for sale financial assets				-			-
Remeasurements of the net defined benefit liability	27			(427,534)			(223,843)
Other Comprehensive Income and Expenditure				**(416,820)**			**(280,787)**
Total Comprehensive Income and Expenditure				**(392,063)**			**(270,996)**

*Note: Previous year balances between services may have changed as result of restructures and aligning the CIES with the management accounts. The Total Cost of Services remained the same.

Balance Sheet

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

	Note No.	**31 March 2023 £000**	**31 March 2022 £000**
Property, Plant and Equipment	9	2,020,092	1,994,114
Heritage Assets	11	8,023	8,023
Investment Property	10	85,478	81,131
Intangible Assets		745	545
Investments in Associates and Joint Ventures	33	33,213	15,679
Long Term Debtors	21 & 33	22,897	14,502
Long Term Assets		**2,170,448**	**2,113,994**
Assets Held for Sale	12	-	13,229
Short Term Investments	21	120,625	124,658
Short Term Debtors	16	61,290	53,954
Inventories		58	98
Cash and Cash Equivalents	17	151,525	208,855
Current Assets		**333,498**	**400,794**
Short Term Borrowing	21	(6,846)	(2,581)
Short Term Creditors	18	(183,107)	(215,541)
Provisions	20	(16,120)	(26,071)
Grants and Contributions Receipts in Advance	30	(24,017)	(10,374)
Current Liabilities		**(230,090)**	**(254,567)**
Long Term Borrowing	21	(267,737)	(272,011)
Long Term Creditors	21	(100)	(100)
Provisions	20	(6,000)	(6,000)
Other Long Term Liabilities	19	(100,880)	(483,224)
Grants and Contributions Receipts in Advance	30	(31,402)	(23,212)
Long Term Liabilities		**(406,119)**	**(784,547)**
NET ASSETS		**1,867,737**	**1,475,674**
Usable Reserves	3b	(300,832)	(281,802)
Unusable Reserves	3c	(1,566,905)	(1,193,872)
TOTAL RESERVES		**(1,867,737)**	**(1,475,674)**

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	**2022/23 £000**	**2021/22 £000**
Net surplus or (deficit) on the provision of services		(24,757)	(9,791)
Adjustments to net surplus or deficit on the provision of services for non-cash movements	22a	(3,681)	87,691
Adjust for items in the net deficit on the provision of services that are investing or financing activities		(26,124)	(14,836)
Net cash flows from Operating Activities		**(54,562)**	**63,064**
Investing Activities			
Purchase of Property, plant and equipment, investment property and intangible assets		(110,451)	(81,547)
Proceeds from sale of property, plant and equipment, investment property and intangible assets		26,124	14,836
Net proceeds/payments from short-term and long-term investments		(13,501)	33,765
Other receipts from investing activities		46,665	26,681
Net cash flows from Investing Activities		**(51,163)**	**(6,265)**
Financing Activities			
Net Cash receipts of short and long term borrowing		1,867	142
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts		(628)	(455)
Other proceeds/payments for financing activities		47,156	9,802
Net cash flows from Financing Activities		**48,395**	**9,489**
Net increase or (decrease) in cash and cash equivalents		**(57,330)**	**66,288**
Cash and cash equivalents at the beginning of the reporting period		208,855	142,567
Cash and cash equivalents at the end of the reporting period	17	**151,525**	**208,855**

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.

2022/23	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	53,395	(9,675)	43,720	8,885	52,605
Social Care	68,190	(13,983)	54,207	2,511	56,718
Economy	(16,422)	22,491	6,069	5,134	11,203
Local Authority Housing (HRA)	-	(18,364)	(18,364)	62,470	44,106
Environment (including Parking)*	42,456	(28,450)	14,006	21,027	35,033
Finance	2,131	5,390	7,521	1,136	8,657
Resources	9,163	7,887	17,050	2,809	19,859
Centrally Managed Budgets	(198)	11,123	10,925	(4,835)	6,090
	158,715	**(23,581)**	**135,134**	**99,137**	**234,271**
Other income and expenditure not charged to services	(38,838)	(82,356)	(121,194)	(88,320)	(209,514)
(Surplus) or Deficit on Provision of Services before planned use of Earmarked Reserves	**119,877**	**(105,937)**	**13,940**	**10,817**	**24,757**
Opening Balance of General Fund/ HRA Balances			(217,495)		
add: (Surplus) or Deficit on Provision of Services			13,940		
Closing Balance of General Fund/ HRA Balances			(203,555)		

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.

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

	2022/23				2021/22			
	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	(987)	(7,898)	-	**(8,885)**	(1,861)	(8,704)	-	**(10,565)**
Social Care	(146)	(2,365)	-	**(2,511)**	(204)	(2,566)	-	**(2,770)**
Economy	(3,186)	(1,948)	-	**(5,134)**	(1,333)	(2,345)	-	**(3,678)**
Local Authority Housing (HRA)	(54,025)	(8,445)	-	**(62,470)**	(2,462)	(8,732)	-	**(11,194)**
Environment (including Parking)*	(15,706)	(5,321)	-	**(21,027)**	(15,510)	(5,654)	-	**(21,164)**
Finance	(16)	(1,120)	-	**(1,136)**	(16)	(1,211)	-	**(1,227)**
Resources	(676)	(2,133)	-	**(2,809)**	(675)	(2,248)	-	**(2,923)**
Centrally Managed Budgets	988	3,817	30	**4,835**	-	218	508	**726**
Net Cost of Services	**(73,754)**	**(25,413)**	**30**	**(99,137)**	**(22,061)**	**(31,242)**	**508**	**(52,795)**
Other income and expenditure not charged to services - General Fund	32,406	(13,036)	41,949	**61,319**	(4,931)	(9,902)	39,505	**24,672**
Other income and expenditure not charged to services - HRA	27,111	(1,968)	1,858	**27,001**	30,880	(1,925)	3,027	**31,982**
(Surplus) or Deficit on Provision of Services	**(14,237)**	**(40,417)**	**43,837**	**(10,817)**	**3,888**	**(43,069)**	**43,040**	**3,859**

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.

	2022/23 £000	2021/22 £000
Expenditure		
Employee Benefits	233,100	223,032
Other Services Expenses	430,327	440,533
Support Service Recharges	(1,200)	(1,469)
Capital Charges & Revaluations	77,911	24,767
Interest Payments	11,209	11,250
Levies	3,084	2,453
Business rates tariff	17,965	17,148
Payments to the Government Housing Capital Receipts Pool	2,195	3,954
Net interest on the net defined benefit liability (asset)	13,000	13,400
Schools converted to Academy Status	-	467
Total Expenditure	**787,591**	**735,535**
Income		
Fees, Charges and other Service Income	(235,303)	(227,655)
Grants and Contributions	(369,653)	(381,729)
Income from Council Tax and NDR	(138,803)	(127,174)
Interest and Investment Income	(11,518)	2,109
(Gains)/losses on the disposal of non-current assets	(7,557)	8,705
Total Income	**(762,834)**	**(725,744)**
(Surplus) or Deficit on the Provision of Services	**24,757**	**9,791**

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 2022/23 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)

2022/23	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)	(30,004)	-	-	-	(10,413)	-	-	-	**(40,417)**
Financial instruments (transferred to the Financial Instruments Adjustments Account)	74	-	-	-	-	-	-	-	**74**
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	23,817	-	-	-	-	-	-	-	**23,817**
Holiday pay (transferred to the Accumulated Absences Reserve)	30	-	-	-	-	-	-	-	**30**
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)	(37,640)	-	-	-	(58,511)	-	-	-	**(96,151)**
Transfer in-year Dedicated Schools Grant deficit/(surplus) (to DSG Adjustment Account)	-	-	-	-	-	-	-	-	**-**
Total Adjustments to Revenue Resources	**(43,723)**	**-**	**-**	**-**	**(68,924)**	**-**	**-**	**-**	**(112,647)**
Adjustments between Revenue and Capital Resources									
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	13,780	-	-	-	11,674	-	(26,331)	878	**1**
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	(103)	-	-	-	(116)	-	219	-	**-**
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(2,195)	-	-	-	-	-	2,195	-	**-**
Posting of HRA resources from revenue to the Major Repairs Reserve	-	-	-	-	17,305	(17,305)	-	-	**-**
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	2,225	-	-	-	-	-	-	-	**2,225**
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	3,706	-	-	-	-	-	-	-	**3,706**
Total Adjustments between Revenue and Capital Resources	**17,413**	**-**	**-**	**-**	**28,863**	**(17,305)**	**(23,917)**	**878**	**5,932**
Adjustments to Capital Resources									
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	-	-	-	-	6,332	-	**6,332**
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	-	-	17,859	-	-	**17,859**
Application of capital grants to finance capital expenditure	28,950	-	-	3,510	2,734	-	-	-	**35,194**
Transfers of capital grants from revenue to Capital Grants Unapplied	18,059	-	-	(19,915)	1,856	-	-	-	-
Movements in the market value of investment properties	3,955	-	-	-	-	-	-	-	**3,955**
Cash payments in relation to deferred capital receipts	-	-	-	-	-	-	(413)	-	**(413)**
Total Adjustments to Capital Resources	**50,964**	**-**	**-**	**(16,405)**	**4,590**	**17,859**	**5,919**	**-**	**62,927**
Total Adjustments	**24,654**	**-**	**-**	**(16,405)**	**(35,471)**	**554**	**(17,998)**	**878**	**(43,788)**

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)**

3b. Usable Reserves

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

3c Unusable Reserves

	31 March 2023 £000	31 March 2022 £000
Revaluation Reserve	(323,043)	(337,899)
Capital Adjustment Account	(1,340,256)	(1,363,405)
Deferred Capital Receipts Reserve	-	-
Pensions Reserve	89,961	477,078
Financial Instruments Adjustment Account	756	830
Available for Sale Financial Instruments Reserve	-	-
Collection Fund Adjustment Account	(12,132)	11,685
Accumulated Absences Account	3,304	3,334
Dedicated Schools Grant Adjustment Account	14,505	14,505
Total Unusable Reserves	**(1,566,905)**	**(1,193,872)**

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.

	2022/23 £000	2021/22 £000
Balance as 1 April	(337,899)	(294,149)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	10,714	(56,944)
Difference between fair value depreciation and historical cost depreciation	3,088	2,894
Accumulated gains on assets sold or scrapped	1,054	10,300
Amount written off to the Capital Adjustment Account	4,142	13,194
Balance at 31 March	**(323,043)**	**(337,899)**

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.

	2022/23 £000	2021/22 £000
Balance as 1 April	(1,363,405)	(1,340,944)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
• Charges for depreciation non-current assets	19,475	20,220
• Revaluation losses on property, plant and equipment	35,671	(17,628)
• Amortisation of intangible assets	183	190
• Revenue expenditure funded from capital under statute	5,521	5,212
• Reversal of Major Repairs Allowance credited to the HRA	17,061	16,774
• 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	18,240	23,431
	96,151	48,199
Adjusting amounts written out of the Revaluation Reserve	(4,142)	(13,195)
Net written out amount of the cost of non-current assets consumed in the year	**92,009**	**35,004**
Capital financing applied in the year:		
• Use of the Capital Receipts Reserve to finance new capital expenditure	(6,332)	(7,572)
• Use of the Major Repairs Reserve to finance new capital expenditure	(17,860)	(17,012)
• Capital grants and contributions applied	(35,194)	(30,381)
• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(2,225)	(2,000)
• Capital expenditure charged against the General Fund and HRA balances	(3,706)	(743)
	(65,317)	**(57,708)**
Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement	(3,955)	**243**
Adjustments between Capital Adjustment Account and Capital Receipts Reserve (Deferred Cost and Loan Repayments)	412	-
Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement	-	
Balance at 31 March	**(1,340,256)**	**(1,363,405)**

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.

	2022/23 £000	2021/22 £000
Balance as 1 April	477,078	657,853
Remeasurements of the net defined benefit liability/(asset)	(427,534)	(223,843)
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	63,009	63,984
Employer's pensions contributions and direct payments to pensioners payable in the year	(22,592)	(20,916)
Balance as 31 March	**89,961**	**477,078**

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.

	2022/23 £000	2021/22 £000
Balance as 1 April	11,685	40,247
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	(23,817)	(28,562)
Balance as 31 March	**(12,132)**	**11,685**

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.

	2022/23 £000	2021/22 £000
Balance as 1 April	3,334	3,843
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	(30)	(509)
Balance as 31 March	**3,304**	**3,334**

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.

	2022/23 £000	2021/22 £000
Restated Balance as 1 April	14,505	16,679
In-year Dedicated Schools Grant (surplus)/deficit (to DSG Adjustment Account)	-	(2,174)
Balance as 31 March	**14,505**	**14,505**

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 2022/23.

		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	Transfers Out 2022/23 £000	Transfers In 2022/23 £000	Movement Between Reserves 2022/23 £000	Balance at 31 March 2023 £000
	General Fund									
1	Insurance Fund	(5,937)	689	-	-	**(5,248)**	773	-	-	**(4,475)**
2	Controlled Parking Fund	(476)	275	(521)	-	**(722)**	233	(2,297)	-	**(2,786)**
3	Efficiency Projects Reserve	(1,231)	-	(750)	-	**(1,981)**	-	(750)	-	**(2,731)**
4	Corporate Demand Pressures	(28,590)	3,116	(6,749)	3,856	**(28,367)**	1,922	(3,836)	(7,071)	**(37,352)**
5	Temporary Accommodation	(450)	-	-	-	**(450)**	-	-	-	**(450)**
6	Supporting People Programme	(600)	300	-	-	**(300)**	300	-	-	**-**
7	Troubled Families	(829)	-	(805)	-	**(1,634)**		(82)	-	**(1,716)**
8	C19 Collection Fund Smoothing Reserve	(41,438)	39,701	(19,738)	(1,877)	**(23,352)**	22,094	(2,151)	-	**(3,409)**
9	Partners in Practice	(957)	465	(465)	-	**(957)**	-	-	-	**(957)**
10	Civic Campus	(3,434)	4,968	(816)	(6,215)	**(5,497)**	4,144	-	-	**(1,353)**
11	Managed Services	(1,128)	-	(132)	-	**(1,260)**	-	-	-	**(1,260)**
12	Corporate People Reserve	(150)	-	-	-	**(150)**	-	(1,400)	-	**(1,550)**
13	Corporate Technology & IT	(3,045)	-	(1,911)	-	**(4,956)**	-	(925)	-	**(5,881)**
14	Planning Reserve	-	-	(1,723)	-	**(1,723)**	-	-	-	**(1,723)**
15	Corporate Property Reserve	(650)	150	-	-	**(500)**	221	(400)	-	**(679)**
16a	Dedicated Schools Grant Support Reserve	(16,679)	-	-	4,859	**(11,820)**	-	-	7,071	**(4,749)**
16b	Dedicated Schools Grant High Needs Block	-	-	(2,685)		**(2,685)**		(7,071)	-	**(9,756)**
16c	Dedicated Schools Grant - Schools & Early years Block	(2,173)	1,874	-	-	**(299)**	234	(824)	-	**(889)**
17	Covid Response Support & Unringfenced Reserve	(9,927)	8,721	(6,673)	1,877	**(6,002)**	4,946	(1,000)	-	**(2,056)**
18	NHS contributions for Social Care	-	-	(2,575)	-	**(2,575)**	1,536	-	-	**(1,039)**
19	Homlessness Prevention Reserve	-	-	(750)	-	**(750)**	-	-	-	**(750)**
20	Pre-Development Costs Reserve	-	-	-	(5,000)	**(5,000)**	-	-	-	**(5,000)**
21	Inflation Risk Reserve	-	-	-	-	**-**	-	(4,800)	-	**(4,800)**
22	Other Funds	(7,612)	799	(922)	2,500	**(5,235)**	1,228	(2,537)	-	**(6,544)**
	General Fund Reserves	**(125,306)**	**61,058**	**(47,215)**	**-**	**(111,463)**	**37,631**	**(28,073)**	**-**	**(101,905)**

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

	General Fund Revenue Grants	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	Transfers Out 2022/23 £000	Transfers In 2022/23 £000	Movement Between Reserves 2022/23 £000	Balance at 31 March 2023 £000
23	S106 - Revenue Schemes	(46,049)	11,666	(14,533)	-	**(48,916)**	(13,603)	11,010	-	**(51,509)**
24	Other Revenue Grants	(178)	4	(208)	-	**(382)**	(15)	-	-	**(397)**
	Revenue Grants Sub-Total	**(46,227)**	**11,670**	**(14,741)**	**-**	**(49,298)**	**(13,618)**	**11,010**	**-**	**(51,906)**
	General Fund Total	**(171,533)**	**72,728**	**(61,956)**	**-**	**(160,761)**	**24,013**	**(17,063)**	**-**	**(153,811)**
	HRA Reserves									
25	HRA Efficiency Reserve	(174)	-	-	-	**(174)**	-	-	-	**(174)**
26	HRA Non-dwellings Impairment Reserve	(4,914)	2,157	-	-	**(2,757)**	-	(755)	-	**(3,512)**
27	HRA Strategic Regeneration and Housing Development	(3,596)	-	-	-	**(3,596)**	-	-	-	**(3,596)**
28	HRA Utilities Reserve	(1,962)	-	-	-	**(1,962)**	-	-	-	**(1,962)**
29	Disrepairs Compensation and Legal costs	-	-	(514)	-	**(514)**	827	(1,122)	-	**(809)**
30	Other HRA Funds	(1,994)	440	(36)	-	**(1,590)**	644	(26)	-	**(972)**
	HRA Sub-Total	**(12,640)**	**2,597**	**(550)**	**-**	**(10,593)**	**1,471**	**(1,903)**	**-**	**(11,025)**
	Total	**(184,173)**	**75,325**	**(62,506)**	**-**	**(171,354)**	**25,484**	**(18,966)**	**-**	**(164,836)**

4b. Earmarked Reserves Description

The main purpose of each earmarked reserve is explained below:

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 Year 3 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 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	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 supporting the Managed Services project and for the implementation of the new Hampshire IBC system.
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 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 High Needs Block 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	Homlessness 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	Inflation Risk Reserve	This is reserve is to provide for risks associated with inflationary pressures.
22	Other Funds	This comprises a number of smaller reserves, existing to fund various projects and potential future commitments.
23	S106 - Revenue Schemes	These reserves exist to fund various projects and potential future commitments in line with the requirements of the agreements.
24	Revenue Grants	These are grants which have been transferred as an earmarked reserve due to the implementation of International Financial Reporting Standards (IFRS).
25	HRA Efficiency Reserve	This reserve is to provide funding for the one off costs associated with implementing MTFS savings.
26	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.
27	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.
28	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.
29	Disrepairs Compensation and Legal costs	This is a reserve to provide for the further and continuing impact of Welfare Reform.
30	Other HRA Funds	This reserve is to fund various smaller projects specific to the HRA.

5. Material Items of Income and Expense

Transactions in 2022/23
HRA Dwellings have been revalued downwards in-year. The downward revaluation is approximately 0.97%. The size of the asset base means that this revaluation is a material amount. The gross revaluation decrease recognised in CIES is £36m.

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.

6. Other Operating Expenditure

	2022/23 £000	2021/22 £000
Levies	2,429	2,393
Payments to the Government Housing Capital Receipts Pool	2,195	3,954
(Gains)/losses on the disposal of non-current assets	(7,491)	8,705
Other Operating Income and Expenditure	(201)	10
Total	**(3,068)**	**15,062**

7. Financing and Investment Income and Expenditure

	2022/23 £000	2021/22 £000
Interest payable and similar charges	11,209	11,250
Net interest on the net defined benefit liability (asset)	13,000	13,400
Interest receivable and similar income	(6,808)	(290)
Income and expenditure in relation to investment properties	(6,754)	(6,973)
Net (gains)/losses from fair value adjustments on investment properties	(4,710)	2,399
Schools converted to Academy Status	-	467
Total	**5,937**	**20,253**

8. Taxation and non-specific grant income and expenditure

	2022/23 £000	2021/22 £000
Non-domestic rates income	(71,827)	(59,570)
NDR Levy	655	60
Business rates tariff	17,965	17,148
Non-domestic rates income and expenditure	**(53,207)**	**(42,362)**
Council Tax Income	(66,976)	(67,603)
Non-ringfenced government grants	(53,717)	(70,940)
Capital grants and contributions	(38,483)	(16,938)
Total	**(212,383)**	**(197,843)**

9. Property, Plant and Equipment

(i) Movements on Balances

Movements in 2022/23

	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 2022	1,474,362	335,779	9,392	28,156	42,138	52,222	**1,942,049**	26,639
Additions	52,628	2,438	8,053	1,075	1	25,206	**89,401**	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(22,337)	1,773	-	-	(1,861)	-	**(22,425)**	(6)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(44,827)	158	-	-	-	-	**(44,669)**	-
Derecognition – disposals	(3,588)	-	-	-	-	-	**(3,588)**	-
Derecognition – other	(627)	-	-	-	-	-	**(627)**	-
Assets reclassified (to)/from PPE	4,465	(48)	-	48	-	(4,465)	**-**	-
At 31 March 2023	**1,460,076**	**340,100**	**17,445**	**29,279**	**40,278**	**72,963**	**1,960,141**	**26,633**
Accumulated Depreciation and Impairment								
At 1 April 2022	-	(705)	(4,166)	(20,340)	-	-	**(25,211)**	-
Depreciation charge	(17,061)	(3,631)	(1,524)	(1,272)	(47)	-	**(23,535)**	(388)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	8,658	3,008	-	-	45	-	**11,711**	388
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	8,354	642	-	-	2	-	**8,998**	-
Derecognition – disposals	42	-	-	-	-	-	**42**	-
Derecognition – other	7	-	-	-	-	-	**7**	-
At 31 March 2023	**-**	**(686)**	**(5,690)**	**(21,612)**	**-**	**-**	**(27,988)**	**-**
Net Book Value								
At 31 March 2023	**1,460,076**	**339,414**	**11,755**	**7,667**	**40,278**	**72,963**	**1,932,153**	**26,633**

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

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)

Infrastructure Assets	**2022/23 £000**	**2021/22 £000**
Net book value (modified historical cost) at 1st April	77,277	82,597
Additions	23,656	7,710
Depreciation	(12,995)	(13,030)
Net book value at 31st March	**87,938**	**77,277**

	2022/23 £000	**2021/22 £000**
Infrastructure Assets	87,938	77,277
Other PPE Assets	1,932,154	1,916,837
Total PPE Assets	**2,020,092**	**1,994,114**

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)	53 - 56 years
Other Land and Buildings (Building element only – land not depreciated)	41 – 55 years
Surplus Assets (Building element only – land not depreciated)	51 – 55 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 2022/23 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 2023.

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	1,520,965	226,715	87,938	11,755	7,667	76,271	72,963	**2,004,274**
Carried at Historical Cost	-	-	87,938	11,755	7,667	-	72,963	**180,323**
Valued at current value as at:								**-**
31 March 2023	1,460,077	319,610	-	-	-	40,277	-	**1,819,964**
31 March 2022	-	3,222	-	-	-	-	-	**3,222**
31 March 2021	-	5,662	-	-	-	-	-	**5,662**
31 March 2020	-	10,921	-	-	-	-	-	**10,921**
	1,460,077	**339,415**	**87,938**	**11,755**	**7,667**	**40,277**	**72,963**	**2,020,092**

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 2022/23 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:

Service Department	31 March 2023 £000	31 March 2022 £000
Housing Revenue Account	18,567	15,892
Regeneration and Community Projects	101,101	115,382
Affordable Housing Schemes	102,723	63,616
Environment	8,468	-
	230,859	**194,890**

10. Investment Properties

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

	2022/23 £000	2021/22 £000
Rental income from investment property	(7,210)	(7,433)
Direct operating expenses (including repairs and maintenance) arising from investment properties	456	460
Net (gain)/loss	**(6,754)**	**(6,973)**

(i) Revaluation

In 2022/23 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 2023. 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 2023 £000	31 March 2022 £000
Balance at start of the year	81,131	82,608
Additions:		
• Subsequent expenditure	482	666
Derecognition	(845)	-
Net gains/(losses) from fair value adjustments	4,710	(2,399)
Transfers:		
• (to)/from Property, Plant and Equipment	-	256
Balance at end of the year	**85,478**	**81,131**

(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 2022/23.

11. Heritage Assets

	Art Collections £000	Books & Printed Materials £000	Ceramics & Glass £000	Other Heritage Assets £000	Total Assets £000
Cost or Valuation					
At 1 April 2022	7,688	131	118	86	8,023
Movement on balance	-	-	-	-	-
At 31 March 2023	**7,688**	**131**	**118**	**86**	**8,023**

There have been no movements on Heritage Assets in 2022/23.

12. Assets Held for Sale

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

	31 March 2023 £000	31 March 2022 £000
Balance outstanding at start of year	13,229	13,229
		-
Additions:		
Assets newly classified as held for sale:		
• Property, Plant and Equipment	-	-
Assets sold	(13,229)	-
Net gains/(losses) from fair value adjustments	-	-
Balance outstanding at year-end	**-**	**13,229**

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.

	2022/23 £000	2021/22 £000
Opening Capital Financing Requirement	423,053	385,614
Capital Investment		
Property, Plant and Equipment	113,058	77,576
Investment Properties	482	666
Intangible Assets	390	-
Revenue Expenditure Funded from Capital under Statute	5,521	5,212
Capital Funding of third-party capital loans	26,759	11,573
Sources of Finance		
Capital receipts – used to fund Capital Expenditure	(6,332)	(7,572)
Government grants and other contributions	(53,241)	(43,106)
Sums set aside from revenue:		
Direct revenue contributions	(3,475)	(743)
MRP/loans fund principal	(2,225)	(2,000)
Voluntary Application of Capital Receipts & Grants	(43)	(4,288)
Deferred costs of capital disposals	(417)	122
Closing Capital Financing Requirement	**503,530**	**423,054**
Explanation of movements in year		
Increase in underlying need to borrow	74,899	41,669
(Decrease) in underlying need to borrow	(63)	(63)
Voluntary application of Capital Receipts and Grants to repay debt	(43)	(4,288)
Increase/(Decrease) in Deferred costs of capital disposals	(417)	122
Assets acquired under finance leases	6,100	-
Increase/(decrease) in Capital Financing Requirement	**80,476**	**37,440**

14. Leases (Finance and Operating)

Council as Lessee

Finance Leases

The Council engaged into a new Refuse Removal contract in 2022/23. As part of this contract LBHF has effective control of the contractor's fleet of vehicles and is deemed to be implied finance leases.

The assets acquired under these implied leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2023 £000	31 March 2022 £000
Vehicles, Plant, Furniture and Equipment	6,100	-
	6,100	**-**

The implied minimum lease payments are made up of the following amounts:

	31 March 2023 £000	31 March 2022 £000
Finance lease liabilities (net present value of minimum lease payments):		
• current	699	-
• non-current	5,292	-
Finance costs payable in future years	846	-
Minimum lease payments	**6,837**	**-**

The Council has not sub-let any of the vehicles held under the implied finance leases.

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 2023 £000	31 March 2022 £000
Not later than one year	2,457	3,568
Later than one year and not later than five years	4,166	5,849
Later than five years	5,895	6,711
	12,518	**16,128**

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

	31 March 2023 £000	31 March 2022 £000
Minimum lease payments	3,578	4,602
Contingent rents	-	-
Sublease payments receivable	-	(52)
	3,578	**4,550**

The Council has not sub-let any of the properties held under the operating leases.

Council as Lessor

Finance Leases

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

Operating Leases

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

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

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

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

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

	31 March 2023 £000	31 March 2022 £000
Not later than one year	4,396	4,457
Later than one year and not later than five years	13,687	15,193
Later than five years	12,561	9,093
	30,644	**28,743**

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

2022/23 was the eighteenth 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 2023 (excluding the effect of changes in market conditions and availability/performance deductions) are as follows:

	Payment for Services	Liability	Interest	Total
	£000	£000	£000	£000
Payable in 2023/24	6,194	519	897	7,610
Payable within two to five years	26,863	2,923	2,741	32,527
Payable within six to ten years	17,500	2,704	754	20,958
	50,557	6,146	4,392	61,095

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:

	2022/23	2021/22
	£000	£000
Balance outstanding at start of year	6,601	7,001
Payments during the year	(455)	(400)
Capital expenditure incurred in the year	-	-
Balance outstanding at year-end	**6,146**	**6,601**

16. Debtors

	31 March 2023 £000	31 March 2022 £000
Council Tax Receivable from Taxpayers	22,826	18,733
Non Domestic Rates Receivable from Taxpayers	21,374	19,685
Business Rates Supplement Debtor	1,725	1,574
Trade Debtors	27,150	27,785
Other Debtors	39,290	31,290
VAT Debtors	7,183	6,770
Prepayments and Accrued Income	16,988	18,610
Impairment Allowance for Doubtful Debts	(75,246)	(70,493)
Total	**61,290**	**53,954**

17. Cash and Cash Equivalents

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

	31 March 2023 £000	31 March 2022 £000
Cash held by the Council	108	87
Bank current accounts	1,432	146
School bank accounts	7,343	10,118
Short-term deposits	151,610	204,420
Total	**160,493**	**214,771**
Bank overdraft*	(8,968)	(5,916)
	(8,968)	**(5,916)**
Net Cash and Cash Equivalents	**151,525**	**208,855**

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

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

18. Creditors

	31 March 2023 £000	31 March 2022 £000
Council Tax Creditor	(1,595)	(1,801)
NDR Retained Income Creditor	(89,330)	(112,520)
NDR Taxpayers Receipts not yet Paid to Government	(53)	(53)
Council Tax Refundable to Taxpayers	(7,022)	(5,607)
Non Domestic Rates Refundable to Taxpayers	(14,301)	(12,966)
Other Tax and Social Security Payable	(3,071)	(3,416)
Trade Creditors	(273)	(2,818)
Other Creditors	(66,244)	(75,905)
Short Term PFI Lease Liability	(519)	(455)
Short Term Finance Lease Lease Liability	(699)	-
Total	**(183,107)**	**(215,541)**

19. Other Long-Term Liabilities

	31 March 2023 £000	31 March 2022 £000
Net Pensions Liability	(89,961)	(477,078)
Finance Lease Liability	(5,292)	-
Private Finance Initiative (PFI) Liability	(5,627)	(6,146)
TOTAL	**(100,880)**	**(483,224)**

20. Provisions

	Insurance	NDR - Losses on Appeals	Other Provisions	Total
	£000	£000	£000	£000
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)**
Additional provisions	(903)	(15,871)	-	(16,774)
Amounts used	-	-	908	908
Unused amounts reversed	-	21,731	4,087	25,818
Balance at 31 March 2023	**(3,133)**	**(10,948)**	**(8,039)**	**(22,120)**
Of which:				
Next twelve months	(3,133)	(10,948)	(2,039)	(16,120)
Over twelve months	-	-	(6,000)	(6,000)
Balance at 31 March 2023	**(3,133)**	**(10,948)**	**(8,039)**	**(22,120)**

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.

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 £989k 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, and a dilapidation claim provision.

21. Financial Instruments

(i) Financial Instruments – Balances

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

	Long Term		Current	
	31 March 2023 £000	31 March 2022 £000	31 March 2023 £000	31 March 2022 £000
Financial assets at amortised cost				
Investments	295	195	120,625	124,658
Cash and Cash Equivalents	-	-	160,493	214,771
Long Term Debtors	500	1,330	-	-
Trade Debtors	-	-	27,872	18,487
Total	**795**	**1,525**	**308,990**	**357,916**
Financial liabilities at amortised cost				
Borrowings	(267,737)	(272,011)	(6,846)	(2,581)
Bank overdraft	-	-	(8,968)	(5,916)
Long Term Creditors	(100)	(100)	-	-
Trade Creditors	-	-	(67,735)	(178,601)
Total	**(267,837)**	**(272,111)**	**(83,549)**	**(187,098)**
Other Liabilities:				
PFI & Finance Lease liabilities	**(10,919)**	**(6,146)**	**(1,217)**	**(455)**

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

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 2022/23 or previous years.

21. Financial Instruments (cont'd)

(iii) Income, Expense, Gains and Losses

	2022/23			2021/22		
	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	11,209	-	11,209	11,250	-	11,250
Total expense in Surplus or Deficit on the Provision of Services	**11,209**	**-**	**11,209**	**11,250**	**-**	**11,250**
Interest income	-	(6,808)	(6,808)	-	(290)	(290)
Total income in Surplus or Deficit on the Provision of Services	**-**	**(6,808)**	**(6,808)**	**-**	**(290)**	**(290)**
Net gain/(loss) for the year	**11,209**	**(6,808)**	**4,401**	**11,250**	**(290)**	**10,960**

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21. Financial Instruments (cont'd)

(iv) Fair Values of Assets and Liabilities

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

• Public Works Loan Board (PWLB) loans have been valued using the standard new loan rates published by the Debt Management Office (DMO) on 31st March 2023.
• 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 2022) 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 2023		31 March 2022	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities				
Borrowings				
PFI & Finance Lease Liabilities	(12,137)	-	(6,601)	-
PWLB Debt	(274,583)	(225,106)	(274,592)	(362,656)
Total	**(286,720)**	**(225,106)**	**(281,193)**	**(362,656)**
Financial Assets				
Loans and receivables				
Money market loans less than one year	120,625	120,625	124,658	124,658
Money market loans greater than one year	295	295	195	195
Total	**120,920**	**120,920**	**124,853**	**124,853**

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 £255.562m as at 31 March 2023.

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 2023, 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 2023 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 £16.69 million at 31 March 2023 (£15.71 million at 31 March 2022). 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 2023 £000	31 March 2022 £000
Less than three months	17,801	17,717
Three to six months	2,017	1,302
Six months to one year	1,741	1,859
More than one year	11,876	11,356
	33,435	**32,234**

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 2023 £000	31 March 2022 £000
Less than one year	(4,279)	-
Between one and two years	(15,689)	(4,279)
Between two and five years	(9,984)	(21,395)
Between five and ten years	(39,937)	(29,952)
More than ten years	(201,843)	(216,106)
Total	**(271,732)**	**(271,732)**

21 Financial Instruments (cont'd)

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

	31 March 2023 £000	31 March 2022 £000
Less than one year	118,600	124,500
Between one and two years	195	195
Between two and three years	-	-
More than three years	100	-
Total	**118,895**	**124,695**

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

	2022/23 £000	2021/22 £000
Adjustment for items included elsewhere in the Cash Flow Statement:		
Capital Grants	(46,665)	(26,681)
Adjustment for 'non-cash' items included in the Income and Expenditure Statement:		
Depreciation and Amortisation of non-current assets	36,719	37,183
Impairments and revaluations	30,961	(15,228)
Value of non-current assets derecognised on disposal	5,011	23,309
Value of 'Assets Held for Sale' derecognised on disposal	13,229	-
Assets transferred to/(from) Assets Held for Sale	-	-
Net adjustment made in respect of IAS 19 (Pensions)	40,417	43,068
Revaluations of Available for Sale Financial Assets	-	-
Amortisation of Premia and Discounts	5	5
Impairment of Financial Instruments	-	-
Movement in non-cash assets and liabilities:		
(Increase)/decrease in short-term Debtors*	(9,203)	8,722
add/less: (Increase)/decrease in Capital Debtors	(225)	(2,849)
(Increase)/decrease in Long-term Debtors	(8,396)	(5,978)
Increase/(decrease) in short-term Creditors*	(79,603)	10,354
add/less: Increase/(decrease) in Capital Creditors	(3,255)	6,154
Assets transferred to 'Assets Held for Sale'	-	-
Increase/(decrease) in Long-Term Finance Leases	5,401	-
(Increase)/decrease in Inventories	40	(30)
Increase/(decrease) in Provisions	(9,950)	(99)
Increase/(decrease) in Grants and Contributions Receipts in Advance	21,833	9,761
Adjustments to net surplus or deficit on the provision of services for non-cash movements	**(3,681)**	**87,691**

*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:

	2022/23 £000	2021/22 £000
Interest Received	4,942	423
Interest Paid	(11,223)	(11,241)

22c. Reconciliation of Liabilities Arising from Financing Activities

	Opening Balance	Cash (Inflow)/ Outflow	Transfers between ST and LT	Other Non-Cash changes	Closing Balance
2022/23	**£000**	**£000**	**£000**	**£000**	**£000**
Long-Term Borrowing	(272,011)	-	4,279	-	**(267,732)**
Short-Term Borrowing	(2,582)	2,582	(4,279)	(2,568)	**(6,847)**
Finance Lease Liabilities	-	109	-	(6,100)	**(5,991)**
PFI	(6,601)	455		-	**(6,146)**
Total	**(281,194)**	**3,146**	**-**	**(8,668)**	**(286,716)**
2021/22					
Long-Term Borrowing	(272,006)	-	-	(5)	**(272,011)**
Short-Term Borrowing	(2,576)	-	-	(6)	**(2,582)**
Finance Lease Liabilities	-	-	-	-	**-**
PFI	(7,001)	400	-	-	**(6,601)**
Total	**(281,583)**	**400**	**-**	**(11)**	**(281,194)**

23. Agency Services

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

24. Members’ Allowances

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

	2022/23	2021/22
	£000	**£000**
Members' Allowances	959	835

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.

Post	Notes	Year	Salary, fees and allowances	Bonuses	Expenses allowances	Compensation for loss of office	Pension Contribution	Total
			£	£	£	£	£	£
Chief Executive - Sharon Lea	1	**2022/23**	**187,603.98**	**-**	**-**	**-**	**-**	**187,603.98**
		2021/22	176,610.00	-	-	-	-	176,610.00
Chief Executive - Kim Smith	2	**2022/23**	**62,869.45**	**-**	**-**	**-**	**10,750.64**	**73,620.09**
		2021/22	211,657.00	-	-	-	36,193.00	247,850.00
Strategic Director of Childrens Services - Jacqueline McShannon		**2022/23**	**161,925.00**	**-**	**-**	**-**	**27,689.11**	**189,614.11**
		2021/22	150,455.00	-	-	-	25,859.00	176,314.00
Strategic Director of Economy		**2022/23**	**144,027.00**	**-**	**-**	**-**	**24,628.52**	**168,655.52**
		2021/22	83,274.00	-	-	-	14,240.00	97,514.00
Director of Resources (Monitoring Officer)	3	**2022/23**	**14,299.30**	**-**	**-**	**90,460.00**	**2,445.18**	**107,204.48**
		2021/22	141,840.00	-	-	-	24,255.00	166,095.00
Director of Finance (Section 151)	4	**2022/23**	**40,965.58**	**-**	**-**	**-**	**7,005.11**	**47,970.69**
		2021/22	141,840.00	-	-	-	24,255.00	166,095.00
Director of Finance (Section 151)	4	**2022/23**	**106,665.10**	**-**	**-**	**-**	**19,171.22**	**125,836.32**
Strategic Director - Social Care - Lisa Redfern		**2022/23**	**166,971.00**	**-**	**-**	**-**	**28,552.01**	**195,523.01**
		2021/22	173,998.00	-	-	-	31,129.00	205,127.00
Strategic Director - Environment		**2022/23**	**145,407.54**	**-**	**-**	**-**	**24,864.62**	**170,272.16**

Notes

1. Sharon Lea served as acting Chief Executive in 2022/23 (and confirmed as permanent by Council on 24 May 2023); In 2021/22 Sharon Lea served as Strategic Director – Environment
2. Kim Smith left the Council in July 2022.
3. The original postholder left the Council in May 2022 and the role has since been occupied on an external interim basis (see further details of the interim arrangement in Note 31).
4. There were two postholders who occupied this post during 2022/23 - the original postholder left the Council in July 2022 and the post was subsequently occupied on an acting basis.

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

Remuneration Band	2022/23 Number of Employees	2021/22 Number of Employees
£165,000 - £169,999	1	0
£160,000 - £164,999	0	1
£140,000 - £144,999	1	1
£135,000 - £139,999	0	4
£130,000 - £134,999	1	1
£125,000 - £129,999	3	0
£120,000 - £124,999	3	3
£115,000 - £119,999	3	2
£110,000 - £114,999	1	4
£105,000 - £109,999	4	2
£100,000 - £104,999	19	14
£95,000 - £99,999	10	11
£90,000 - £94,999	10	17
£85,000 - £89,999	25	21
£80,000 - £84,999	16	15
£75,000 - £79,999	23	15
£70,000 - £74,999	41	32
£65,000 - £69,999	50	45
£60,000 - £64,999	120	83
£55,000 - £59,999	181	155
£50,000 - £54,999	261	206
Total	**773**	**632**

Of the 773 employees listed above in 2022/23, 173 (22%) were employees where pay decisions rest with the School Governing Body and not the Council. The corresponding figure for 2021/22 was 155 (25%). 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 (£)	
	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22
£0 - £20,000	15	44	17	22	32	66	240,530	470,259
£20,001 - £40,000	2	19	5	11	7	30	189,446	827,055
£40,001 - £60,000	1	5	-	2	1	7	40,414	322,112
£60,001 - £80,000	1	1	-	1	1	2	61,048	137,404
£80,001 - £100,000	-	2	1	3	1	5	90,460	445,133
£100,001 - £150,000	-	2	-	1	-	3	-	387,035
£150,001 - £200,000	1	1	-	1	1	2	179,687	309,721
Total	**20**	**74**	**23**	**41**	**43**	**115**	**801,585**	**2,898,719**

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 2022/23, the Council paid £5.56 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 23.68% of pensionable pay. The figures for 2021/22 were £5.47 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 2022/23 the costs arising from additional benefits amounted to £332.6k (2021/22: £352.8k).

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**	
	2022/23 £000	**2021/22 £000**	**2022/23 £000**	**2021/22 £000**
Comprehensive Income and Expenditure Statement				
Cost of Services:				
• current service costs	50,958	52,035	116	123
• past service costs including curtailments	440	23	-	-
• administration expenses	-	-	16	62
• unfunded pension payments	(1,507)	(1,632)	(14)	(27)
• employer's pension contributions adjustment	1,507	1,632	14	27
Financing and Investment Income and Expenditure:				
• net interest expense / (income)	13,239	13,443	(1)	(2)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**64,637**	**65,501**	**131**	**183**
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)	57,828	(85,141)	(49)	(6,042)
• Actuarial gains and losses arising on changes in demographic assumptions	(12,078)	(30,287)	(1,445)	-
• Actuarial gains and losses arising on changes in financial assumptions	(572,591)	(84,447)	(11,311)	(1,044)
• Experience loss/ (gain) on defined benefit obligation	99,165	(23,975)	3,078	100
• Other actuarial gains/ (losses)	-	-	14	-
• Impact of asset ceiling	-	-	9,855	6,952
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**(427,676)**	**(223,850)**	**142**	**(34)**
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	(64,637)	(65,501)	(131)	(183)
Actual amount charged against the General Fund Balance for pensions in the year:				
• employers' contributions payable to scheme	22,530	20,853	62	63

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	
	2022/23 £000	2021/22 £000	2022/23 £000	2021/22 £000
Opening balance 1 April	**1,690,777**	**1,725,464**	**42,978**	**45,224**
Current service cost	50,958	52,035	116	123
Interest cost	45,802	34,661	1,089	838
Remeasurement (gains) and losses:				
- Change in financial assumptions	(572,591)	(84,447)	(11,311)	(1,044)
- Change in demographic assumptions	(12,078)	(30,287)	(1,445)	-
- Experience	99,165	27,690	3,078	100
Estimated benefits paid net of transfers in	(44,418)	(40,059)	(2,208)	(2,256)
Past service costs, including curtailments	440	23	-	-
Contributions by Scheme participants	8,141	7,329	20	20
Unfunded pension payments	(1,507)	(1,632)	(14)	(27)
Closing balance at 31 March	**1,264,689**	**1,690,777**	**32,303**	**42,978**

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

	2022/23 £000	2021/22 £000	2022/23 £000	2021/22 £000
Opening balance 1 April	**1,213,697**	**1,067,550**	**52,127**	**47,439**
Interest on assets	32,563	21,218	1,328	881
Remeasurement gain/ (loss):				
- Return on assets less interest	(57,828)	85,141	49	6,042
- Experience	-	51,665	-	-
Other actuarial gains/(losses)	-	-	(14)	-
Administration expenses	-	-	(16)	(62)
Contributions by employer including unfunded	24,037	22,485	76	90
Contributions by scheme participants	8,141	7,329	20	20
Estimated benefits paid plus unfunded net of transfers in	(45,925)	(41,691)	(2,222)	(2,283)
Closing balance at 31 March	**1,174,685**	**1,213,697**	**51,348**	**52,127**

Pension Assets and Liabilities Recognised in the Balance Sheet

	31 March 2023 £000	31 March 2022 £000
Present Value of Liabilities		
LBHF Local Government Pension Scheme (Funded)	1,247,448	1,669,349
LBHF Local Government Pension Scheme (Unfunded)	17,241	21,428
LPFA Local Government Pension Scheme (Funded)	32,253	42,853
LPFA Local Government Pension Scheme (Unfunded)	50	125
Fair Value of Assets		
LBHF Local Government Pension Scheme	(1,174,685)	(1,213,697)
LPFA Local Government Pension Scheme	(51,348)	(52,127)
Impact of Asset Ceiling		
LBHF Local Government Pension Scheme		
LPFA Local Government Pension Scheme	19,002	9,147
Net liability arising from defined benefit obligation		
LBHF Local Government Pension Scheme	90,004	477,080
LPFA Local Government Pension Scheme	(43)	(2)
Total	**89,961**	**477,078**

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 £90m 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 2023 is estimated to be -2.1% for LBHF Local Government Pension Scheme and 2.69% 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 2023		31 March 2022	
	£000	%	£000	%
Equities	132,949	11.3	88,493	7.3
Investment Funds and Unit Trusts	950,935	81.0	1,012,252	83.4
Cash Plus Funds	-	-	-	-
Cash	18,738	1.6	32,202	2.6
Property	72,063	6.1	80,750	6.7
Total	**1,174,685**	**100**	**1,213,697**	**100**

	LPFA Local Government Pensions Scheme			
	31 March 2023		31 March 2022	
	£000	%	£000	%
Equities	30,196	58.8	28,942	55.5
Target Return Portfolio	9,547	18.6	11,453	22.0
Infrastructure	6,497	12.7	5,329	10.2
Property	5,042	9.8	4,668	9.0
Cash	66	0.1	1,735	3.3
Total	**51,348**	**100**	**52,127**	**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	
	2022/23	2021/22	2022/23	2021/22
Mortality Assumptions				
Life expectancy from age 65 - retiring today				
Men	21.8	22.1	20.5	21.1
Women	24.5	24.7	23.6	24.0
Life expectancy from age 65 - retiring in 20 years				
Men	22.8	23.2	21.3	22.3
Women	25.8	26.1	26.1	25.9
Financial Assumptions				
Rate of Inflation - CPI	3.00%	3.20%	2.90%	3.40%
Rate of Increase in Salaries	4.00%	4.20%	3.90%	4.40%
Rate of Increase in Pensions*	3.00%	3.20%	2.90%	3.40%
Discount Rate	4.75%	2.70%	4.80%	2.60%

*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 2023.

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 2023/24 are £24.2m (LBHF) and £0.068m (LPFA).

	Impact on the Defined Benefit Obligation of the Scheme			
	LBHF Local Government Pension Scheme		LPFA Local Government Pension Scheme	
	Increase in Assumption	Decrease in Assumption	Increase in Assumption	Decrease in Assumption
	£000	£000	£000	£000
Adjustment to:				
Discount Rate (+/-0.1%)		20,145		304
Long term salary increase (+/-0.1%)	1,366		4	
Pension increases & deferred revaluation* (+/-0.1%)	19,076		310	
Mortality age rating assumption (+/- 1 year)	50,588		1,809	

*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 2024 are £23.729m to the LBHF Local Government Pension Scheme. The LPFA Local Government Pension Scheme was certified to pay a minimum of 11.6% employer pension contributions and total contributions are expected to be immaterial.

The actuary's estimate of the duration of the Employer's liabilities is 16 years for LBHF Local Government Pension Scheme and 10 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:

	2022/23 £000	2021/22 £000
Fees payable to the External Auditor with regard to external audit services carried out by the appointed auditor for the year	231	213
Additional fee relating to the previous year's audit work	-	21
Fees payable to External Audit for the certification of grant claims and returns for the year	63	51
Non-Audit Services	13	12
Total	**307**	**297**

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

29. Dedicated Schools Grant

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

Details of the Schools Budget funded by DSG receivable for 2022/2023 are as follows:

	Central expenditure	Individual schools budget	Total 2022/23	Total 2021/22
Final DSG for 2022/23 before academy and high needs recoupment			161,865	157,150
Academy and high needs figure recouped for 2022/23			77,217	74,967
Total DSG after academy and high needs recoupment for 2022/23			84,648	82,183
Plus: Brought forward from 2021/22			2,985	-
Less: Carry-forward to 2023/24 agreed in advance			(2,985)	-
Agreed initial budgeted distribution in 2022/23	**28,604**	**56,044**	**84,648**	**82,183**
In-year adjustments	7,080	(55)	7,025	4,055
Final budget distribution for 2022/23	35,684	55,989	91,673	86,238
Less: Actual central expenditure	28,456	-	28,456	7,396
Less: Actual ISB deployed to schools	-	55,979	55,979	76,227
Plus: Local authority contribution for 2022/23	424	-	424	370
In-year carry-forward to 2023/24	**7,652**	**10**	**7,662**	**2,985**
Plus: Carry-forward to 2023/24 agreed in advance			2,985	-
Carry-forward to 2023/24			10,646	2,985
DSG unusable reserve at the end of 2021/22			(14,505)	(14,505)
Addition to DSG unusable reserve at the end of 2022/23			**-**	**-**
Total of DSG unusable reserve at the end of 2022/23			**(14,505)**	**(14,505)**
Net DSG position at the end of 2022/23			**(3,859)**	**(11,520)**

The DSG has a cumulative deficit of £3.9 million. The cumulative DSG deficit as of March 2021 of £14.5m has been accounted for as an unusable reserve and any surpluses on the DSG, since that date, has been put in an earmarked 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 2022/23:

	2022/23 £000	2021/22 £000
Credited to Taxation and Non Specific Grant Income		
S31 Grant - Business Rates Retention Scheme Relief	(10,400)	(26,004)
Revenue Support Grant	(18,046)	(17,506)
Adult Social Care Support Grant	(10,717)	(7,994)
Services grant	(4,264)	-
New Homes Bonus	(2,750)	(5,274)
Other Non-ringfenced grants	(4,087)	(4,464)
Capital grants - S106	(20,647)	(8,743)
Capital Grants - Hammersmith Bridge	(5,430)	-
Capital grants - Transport for London	(3,807)	(1,038)
Capital Grants - Electric Vehicle Charging Points	(3,245)	-
Capital grants - Schools Condition Allocations	(1,308)	(1,473)
Capital Grants - Right to Buy grant	(1,084)	-
Capital grants - Other	(2,962)	(5,684)
COVID-19 - Additional Relief Grant	(3,453)	-
COVID-19 - Other grants	-	(9,698)
Total	**(92,200)**	**(87,878)**
Credited to Services		
Dedicated Schools Grant	(91,592)	(86,238)
Housing & Council Tax Benefit Subsidy	(91,016)	(92,491)
Public Health Grant	(22,345)	(22,139)
Developer Contributions (inc Section 106)	(17,972)	(15,101)
Improved Better Care Fund	(9,377)	(9,183)
Post 16 (EFA 16-19 Grant)	(5,048)	(4,844)
Homelessness Prevention-Flexible Homelessness Support Grant	(4,432)	(3,774)
Pupil Premium Grant	(3,473)	(3,458)
Adult Learning	(2,853)	(2,684)
Unaccompanied Asylum Seeking Children Leaving Care	(1,756)	(1,218)
Disabled Facilities Grant	(1,700)	(1,445)
Mental Health Hospital Discharge and Admission Avoidance grant	(1,628)	-
Unaccompanied Asylum Seeking Children (U18)	(1,627)	(2,392)
PFI Grants	(1,429)	(1,429)
Schools Supplementary Grant	(1,099)	-
Other grants and contributions	(15,623)	(14,985)
COVID-19 - Household Support Fund	(2,733)	(1,306)
COVID-19 - Other grants	(1,924)	(31,166)
Total	**(277,627)**	**(293,853)**

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:

	2022/23 £000	2021/22 £000
Grants and Contributions Receipts in Advance (Current)		
Homes for Ukraine Tariff Grant	(4,033)	-
Home for Ukraine Education & Childcare Grant	(1,652)	-
Public Health Grant	(1,593)	(680)
Improved Better Care Fund Grant	(1,200)	(550)
Adult & Community Learning	(1,106)	(1,159)
Other revenue grants	(5,121)	(3,962)
COVID-19 - Additional Relief Grant	(7,712)	-
COVID-19 - Sales, Fees & Charges Support grant	(1,097)	-
COVID-19 - Other grants	(503)	(4,023)
Total	**(24,017)**	**(10,374)**

	2022/23 £000	2021/22 £000
Grants and Contributions Receipts in Advance (Non-Current)		
Right to Buy Grant	(14,487)	(7,204)
High Needs Provision Grant	(7,125)	(2,330)
Developer contributions (inc. section 106)	(7,063)	(7,994)
Transport for London Grant	(1,056)	(1,117)
Other capital grants	(1,671)	(4,567)
Total	**(31,402)**	**(23,212)**

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 2022/23 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 2022/23 are set out below.

Name of body	2022/23				
	Loan	Expenditure	Income	Income outstanding to LBHF (LBHF debtor balance)	Balance outstanding (LBHF creditor balance)
	£000	£000	£000	£000	£000
Action on Disability	-	376	-	-	-
Hammersmith and Fulham Citizen Advice Bureau	-	624	(20)	-	-
Hammersmith and Fulham Community Law Centre	-	106	(20)	-	-
Hammersmith and Fulham Volunteer Centre	-	146	-	-	-
London Councils	-	1,156	(2)	5	-
Lyric Hammersmith	-	242	-	14	-
LBHF Family Support Services Ltd	-	-	-	-	-
Old Oak and Park Royal Development Corporation	-	-	(105)	105	-
Sands End Arts and Community Centre	-	151	(30)	7	-
Western Riverside Waste Authority	-	10,835	(1)	-	-
West King Street Renewal LLP	32,918	-	(1,963)	22,396	-
Total	**32,918**	**13,636**	**(2,141)**	**22,527**	**-**

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	-	-	-
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	-
Western Riverside Waste Authority	-	10,298	-	-	-
West King Street Renewal LLP	15,484	-	(4,252)	13,172	-
Total	**15,484**	**13,429**	**(4,359)**	**13,216**	**-**

In addition to the above, there are instances where 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, Housing Joint Ventures, 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.

Provision of key management personnel

Amounts were incurred by the Council for payments to employment agencies for the services of key management personnel. For the post of Director of Resources the cost was £115k (from May 2022 to March 2023).

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 2023/23:

	2022/23	2021/22
	£000's	£000's
Contributions to the Pooled Budget:		
London Borough of Hammersmith & Fulham	(19,757)	(18,150)
Hammersmith and Fulham Clinical Commissioning Group	(34,533)	(32,259)
Total Contributions	**(54,290)**	**(50,409)**
Expenditure Met by the Pooled Budget:		
Costs relating to the reablement of residents	5,620	5,758
Costs relating to supporting residents to remain in their own homes	-	-
Costs relating to care provided in residential settings or in community settings	51,979	42,960
Support Services and programme management relating to the BCF	2,152	2,108
Total Expenditure	**59,751**	**50,826**
Net (surplus)/deficit arising on the pooled budget in the year	5,461	417
Net (surplus)/deficit split by:		
Share of the net (surplus)/deficit due to the London Borough of Hammersmith & Fulham (Includes capital resources)	79	191
Share of the net (surplus)/deficit due to the Northwest London Integrated Care Board (NWL ICB)	5,383	225

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 2021/22, show net assets of £10,270k (£10,948k in 2020/21) and net loss on its activities in that year of £678k (net income of £744k in 2020/21). The Funding agreement also provides the financial arrangements and responsibilities of the Council and Theatre respectively as a consequence of the Company occupying its premises on the basis of a sub under lease from the Council. Copies of the accounts may be obtained from the Executive Director, Lyric Theatre, King Street, London W6 0QL.

(ii) Housing Joint Ventures

HFS Developments LLP is a joint venture between the Council (50%) and Stanhope Plc (50%) which was incorporated on 27 March 2014.

HFS Development 2 Limited is a joint venture between the Council (50%) and Stanhope Plc (50%) which was incorporated on 19 July 2016. The latest audited accounts available, those relating to 2021/22 show loss for the period amounted to £127k (loss £155k in 2020/21).

(iii) LBHF Ventures Limited

LBHF Ventures Limited is a company wholly owned by the Council which was incorporated 9 June 2016. The Council invested £95,000, by way of share capital in LBHF Ventures Limited.

(iv) LBHF Joint Ventures Limited

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

(v) LBHF Family Support Services Limited

LBHF Family Support Services Limited is a Limited Company wholly owned by the Council, which was incorporated on 18 August 2017. The latest 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) 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

Contingent Assets

The council does not have any material contingent assets.

Contingent Liabilities

The council does not have any material contingent 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 2023 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 2023/24 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 £1.46 billion) would result in a reduction of £146 million (Revaluation Reserve of £41.6 million and a £104.4 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	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. The estimates of the net liability to pay pensions depends on several judgements and assumptions. In particular, those relating to the discount rate, the rate at which salaries are projected to increase, change in retirement ages, mortality rates and expected returns on the Fund's assets. The total pension liability as at 31 March 2023 is £90.0m.	A change in the key assumptions can be illustrated as follows: • 0.1% decrease in the discount rate assumption would result in an increase in promised retirement benefits of £20m • 0.1% increase in assumed earnings would increase the value of the liabilities by approximately £1m • 0.1% increase in pension increases would increase the liability by approximately £19m • A one-year increase in life expectancy would increase the liability by approximately £51m

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:

	2022/23 £000	2021/22 £000
Balance at 1st April	**(6,031)**	**(5,938)**
Income	(1,331)	(1,170)
Sub total	**(7,362)**	**(7,108)**
Less:		
Expenditure and Transfers	904	1,077
Balance at 31 March	**(6,458)**	**(6,031)**

37. Events after the Reporting Period

The Statement of Accounts have been prepared up to 31 March 2023. 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 2022/23 (the Code) supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts summarises the Council's transactions for the 2022/23 financial year and its position at the year-end of 31 March 2023.

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

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

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

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

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

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

iii. ACCRUALS OF INCOME AND EXPENDITURE

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

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

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

iv. OVERHEADS AND SUPPORT SERVICES

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

v. GOVERNMENT GRANTS AND CONTRIBUTIONS

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

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

38. Statement of Accounting Policies (cont'd)

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

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

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

Community Infrastructure Levy

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

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

vi. CHARGES TO REVENUE FOR NON-CURRENT ASSETS

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

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

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

vii. COUNCIL TAX AND NON-DOMESTIC RATES

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

Accounting for Council Tax and NDR

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

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

38. Statement of Accounting Policies (cont'd)

viii. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

ix. PROPERTY, PLANT AND EQUIPMENT

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

Recognition

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

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

Measurement

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

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

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

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

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

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

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

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

38. Statement of Accounting Policies (cont'd)

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

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

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

Impairment

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

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

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

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

Depreciation

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

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

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

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

Disposals and Non-Current Assets Held for Sale

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

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

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

38. Statement of Accounting Policies (cont'd)

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

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

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

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

x. HERITAGE ASSETS

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

Valuation Policy

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

Depreciation, amortisation and impairment policy

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

The Council has reported four categories of heritage assets:

(i) Art Collections
This category consists of pictures and works of art including historical paintings, sketches and other artwork including the Cecil French Bequest and is reported in the balance sheet at market valuation.

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

(iii) Ceramics & Glass

(iv) Other Heritage Assets
This category consists of clocks, watches, coins, general items, jewellery, silver items, vertu, other decorative arts and the Mylne Bequest.

These valuations are reviewed periodically as appropriate. These are deemed to have indeterminate lives and high residual values. Hence the Council does not deem it appropriate to charge depreciation for these assets.

xi. INVESTMENT PROPERTY

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

38. Statement of Accounting Policies (cont'd)

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

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

xii. LEASES

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

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

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

38. Statement of Accounting Policies (cont'd)

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

xiii. PRIVATE FINANCE INITIATIVE (PFI) AND SIMILAR CONTRACTS

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

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

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

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into the following elements:

- fair value of the services received during the year – debited to Adult Social Care service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge between 8-17% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

38. Statement of Accounting Policies (cont'd)

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

xiv. INTANGIBLE ASSETS

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

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

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

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

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

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

xv. INVENTORIES

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

xvi. CASH AND CASH EQUIVALENTS

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

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

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

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

xvii. FINANCIAL INSTRUMENTS

Financial Liabilities

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

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

38. Statement of Accounting Policies (cont'd)

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

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

Financial Assets

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

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

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

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

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

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

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

38. Statement of Accounting Policies (cont'd)

xviii. EMPLOYEE BENEFITS

Benefits Payable During Employment

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

Termination Benefits

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

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

Post-Employment Benefits

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

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

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

However, the arrangements for the Teachers' Pension Scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

Pension funds under the Local Government Scheme are accounted for as defined benefits schemes.

The liabilities of the Funds attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 4.75% (2.70% in 2021/22). 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.

38. Statement of Accounting Policies (cont'd)

The assets of the Funds attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities and pooled investment vehicles – current bid price
- fixed interest securities net market value based on current yields at the balance sheet date
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

The change in the net pensions liability is analysed into the following components:

- **Service Cost** comprising:
    - **current service cost**: the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
    - **past service cost**: the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier year – debited to the Surplus or Deficit on the Provision of Services line in the Comprehensive Income and Expenditure Statement as part of Centrally Managed Budgets.
    - **net interest on the net defined benefit liability/(asset)**: i.e. net interest expense for the Council – the change during the period in the net defined benefit liability/ (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- **Remeasurement** comprising:
    - **Re-measurement of the return on plan assets**: excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
    - **Actuarial gains and losses**: changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions debited to the Pensions Reserve.
    - **Contributions paid to the Funds**: cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

xix. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions

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

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

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

38. Statement of Accounting Policies (cont'd)

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

Contingent Liabilities

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

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

Contingent Assets

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

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

xx. RESERVES

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

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

xxi. INTERESTS IN COMPANIES AND OTHER ENTITIES

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

The Council has interests in a number of companies and other entities however, based on consideration of criteria to determine what constitutes a material interest, the Council has determined that Group Accounts is not required for 2022/23. 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.

xxiii. FOREIGN CURRENCY TRANSLATION

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

38. Statement of Accounting Policies (cont'd)

xxiv. VAT

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

xxv. EXCEPTIONAL ITEMS

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

xxvi. FAIR VALUE MEASUREMENT

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

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

The Council uses external valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant. Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.

39. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 38, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

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

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

- Recognises school assets for community schools on its balance sheet because the rights and obligations associated with such schools rests with the Council; and
- Assesses that the assets relating to academies, voluntary aided (VA), voluntary controlled (VC) or free schools are not controlled by the Council but, following consultation and review, the VA and VC schools have been deemed to be owned by the relevant dioceses.

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

Group Accounts
With respect to the policy on Interest in Companies and Other Entities (Note 38. xxi), the group boundaries have been estimated using the criteria associated with the Code of Practice. In line with the Code the Council has not identified any companies within the group boundary that would require it to complete Group Accounts on grounds of materiality.

40. Accounting Standards not yet adopted

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

- 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.

	2022/23			2021/22			
	Business Rates	**Council Tax**	**Total**	**Business Rates**	**Council Tax**	**Total**	
	£000	£000	£000	£000	£000	£000	Notes
Income							
Council Tax	-	(101,984)	(101,984)	-	(102,047)	(102,047)	1
Council Tax Hardship Fund/S13A Funding	-	(3,631)	(3,631)	-			
Business Rates	(224,387)	-	(224,387)	(177,529)	-	(177,529)	2
Business Rate Supplement	(7,537)	-	(7,537)	(5,009)	-	(5,009)	
Transitional Protection Payment	1,893	-	1,893	597	-	597	
Total Income	**(230,031)**	**(105,615)**	**(335,646)**	**(181,941)**	**(102,047)**	**(283,988)**	
Expenditure							
Precepts and Demands:							
Central Government (CLG)	64,564	-	64,564	74,956	-	74,956	
LB Hammersmith & Fulham	58,694	68,440	127,134	68,142	67,331	135,473	
Greater London Authority	72,389	32,542	104,931	84,042	29,431	113,474	
Business Rate Supplement							
Payment to the Greater London Authority	7,525	-	7,525	4,997	-	4,997	2
Cost of collection	13	-	13	12	-	12	
Charges to Collection Fund							
Write-offs of uncollectable amounts	3	610	613	265	852	1,116	
Increase/ (Decrease) in Allowance for Doubtful Debts	2,018	6,080	8,098	-	4,074	4,074	
Increase/ (Decrease) in Provision for Appeals	(19,535)	-	(19,535)	(12,324)	-	(12,324)	
Distribution/(Recovery) of prior year surplus/(deficit)	(41,995)	671	(41,324)	(129,437)	(1,533)	(130,969)	
Cost of collection	587	-	587	589	-	589	
Total Expenditure	**144,263**	**108,343**	**252,606**	**91,240**	**100,155**	**191,397**	
Movement on Fund balance	**(85,769)**	**2,728**	**(83,041)**	**(90,701)**	**(1,891)**	**(92,592)**	
(Surplus)/Deficit as at 1 April	39,887	(419)	39,466	130,587	1,472	132,058	
(Surplus)/Deficit as at 31 March	**(45,882)**	**2,309**	**(43,575)**	**39,887**	**(419)**	**39,466**	3

Notes to the Collection Fund Account

1. Income from Council Tax

Council Tax Income is the amount payable by council taxpayers, 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 2022/23 it was calculated as follows:

Band	Number of Dwellings 2022/23	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 2022/23	Band D equivalents 2021/22
A	4,094	3,046	6/9	2,031	(14)	(498)	1,519	1,159
B	6,637	4,915	7/9	3,823	(31)	(1,090)	2,702	2,306
C	14,318	12,344	8/9	10,972	(27)	(2,466)	8,479	8,003
D	25,448	22,655	1	22,655	171	(3,279)	19,547	18,908
E	16,643	15,145	11/9	18,511	(99)	(2,035)	16,377	16,555
F	10,503	9,673	13/9	13,972	(94)	(870)	13,009	13,078
G	11,708	11,014	15/9	18,357	(18)	(567)	17,772	17,980
H	2,797	2,710	18/9	5,420	2	(20)	5,402	5,279
Total	**92,148**	**81,502**		**95,741**	**(110)**	**(10,825)**	**84,807**	**83,268**

The 2022/23 Council Tax Base after allowing for adjustments for non-collection was 82,263

The Council set a 2022/23 Band D charge of £831.96 (£831.96 in 2021/22), inclusive of the Adult Social Care Precept set at 3%. The GLA's Band D charge for 2022/23 was £395.59 (£363.66 in 2021/22) making a total Band D Council Tax charge for 2022/23 of £1,227.55 (2021/22 of £1,195.62).

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 2023 was £568.1m (£574.9m as at 31 March 2022). The standard NNDR multiplier for 2022/23 was 51.2 pence (51.2 pence in 2021/22). The Small Business Rate Relief multiplier for 2022/23 was 49.9 pence (49.9 pence in 2021/22).

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.

	2022/23			**2021/22**		
	Business Rates	**Council Tax**	**Total**	**Business Rates**	**Council Tax**	**Total**
	£000	£000	£000	£000	£000	£000
LBHammersmith and Fulham	(13,765)	1,633	(12,132)	11,966	(279)	11,688
Greater London Authority	(16,977)	675	(16,302)	14,758	(141)	14,617
Central Government (DLUHC)	(15,141)	-	(15,141)	13,163	-	13,163
	(45,883)	**2,308**	**(43,575)**	**39,887**	**(420)**	**39,468**

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	2022/23 £000	2021/22 £000
Income			
Dwelling Rents		(70,437)	(68,740)
Non-dwelling rents		17	(24)
Charges for services and facilities		(14,563)	(13,870)
Contributions towards expenditure		(686)	(1,063)
		(85,669)	**(83,697)**
Expenditure			
Repairs and maintenance and management			
Repairs and maintenance		18,329	18,984
Supervision and management		50,928	44,376
Rents, rates, taxes and other charges		1,103	605
Depreciation and impairment of non-current assets	6	17,305	17,012
Depreciation and impairment of non-current assets - dwelling revaluatioı	6	36,473	(13,996)
Debt management costs		109	151
Movement in the allowance for bad debts		1,158	1,746
		125,405	**68,878**
Net Cost of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement		**39,736**	**(14,819)**
HRA services' share of Non Distributed Costs		4,370	4,482
Net (Income)/Cost for HRA Services		**44,106**	**(10,337)**
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		(7,551)	(11,276)
Net (gains)/losses from fair value adjustments on investment properties		(755)	2,157
Income and expenditure in relation to investment properties		(3,084)	(3,464)
Interest payable and similar charges		9,423	8,262
Interest and investment income		(790)	-
Net interest on the net defined benefit liability (asset)		1,968	1,925
Capital grants and contributions		(2,734)	(4,010)
(Surplus)/deficit for the year on HRA services		**40,583**	**(16,743)**

Movement on the HRA Statement

	Notes	2022/23 £000	2021/22 £000
Balance on the HRA at the end of the previous year		**(15,564)**	**(17,562)**
(Surplus)/deficit for the year on the HRA Income and Expenditure Statement		40,583	(16,743)
Adjustments between accounting basis and funding basis under statute	1	(35,471)	20,788
Net (increase)/decrease before transfers to/(from) reserves		5,112	4,045
Transfers to/(from) reserves			
Earmarked Reserves*		432	(2,047)
(Increase)/decrease in year on the HRA		**5,544**	**1,998**
Balance on the HRA at the end of the current year		**(10,020)**	**(15,564)**

* 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

	2022/23 £000	2021/22 £000
Charges for depreciation of non-dwellings	(244)	(238)
Charges for depreciation of dwellings	17,305	16,774
Reversal of Major Repairs Allowance credited to the HRA	(17,061)	(15,981)
Impairment/Revaluation gains, losses (charged to the I&E)	(36,473)	13,996
Revenue expenditure funded from capital under statute (REFCUS)	(246)	(1,065)
Movements in the market value of investment properties	-	-
Capital Funding	4,589	7,319
Gain or loss on sale of HRA non-current assets	7,072	10,639
HRA Self-Financing Resettlement	-	-
Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	-	-
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	-	-
HRA share of contributions (to)/from the Pensions Reserve	(10,413)	(10,656)
	(35,471)	**20,788**

2. Housing Stock

The Council has overall responsibility for managing the housing stock. The average number of dwellings during 2022/23 was 11,977. 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 2022	11,990	67	11	12,068
Adjustment to opening balance	-	-	-	-
Additions	3	-	-	3
Transfers	10	-	-	10
Disposals	(40)	-	-	(40)
Number at 31 March 2023	**11,963**	**67**	**11**	**12,041**

3. Stock Valuation

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

	2022/23 £000	2021/22 £000
Operational Assets		
Housing Dwellings	1,460,077	1,474,362
Other Land and Buildings	10,796	10,772
Vehicles, Plant, Equipment	113	191
Intangible Assets	217	15
Non Operational Assets		
Surplus Assets	8,360	8,968
Investment Properties	51,939	51,482
	1,531,502	**1,545,790**

The open market, vacant possession fair value of houses and flats within the HRA as at 31 March 2023 was £5.82 billion. This compares to the balance sheet value of £1.46 billion for the Council's dwelling stock and hostels as at 31 March 2023. This is an indication of the economic and social cost of providing Council housing at less than full market rents.

4. Capital Expenditure Financing

	2022/23 £000	2021/22 £000
Borrowing	41,650	23,921
Major Repairs Reserve	17,860	17,012
Other Grants and Contributions	4,700	7,775
Capital Receipts	1,566	6,744
Total	**65,776**	**55,452**

5. Capital Receipts

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

	2022/23 £000	2021/22 £000
Dwelling & Hostels	(9,089)	(7,966)
Non-Dwellings	(3,414)	(6,185)
Total	**(12,503)**	**(14,151)**

6. Depreciation and Impairment

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

	2022/23 £000	2021/22 £000
Operational Assets		
Depreciation		
Dwellings	(17,061)	16,774
Other Land and Buildings	(159)	153
Vehicles, Plant, Equipment and Intangible Assets	(85)	85
Sub-total depreciation and impairment of non-current assets	(17,305)	17,012
Revaluation (Gain) / Loss - dwellings	36,473	(13,996)
Total	**19,168**	**3,016**

7. Rent Arrears and Allowance for Doubtful Debts

Gross rent arrears were as follows:

	2022/23 £000	2021/22 £000
Main Council Stock	7,382	7,031
Hostels	215	202
Total	**7,597**	**7,233**

Allowances for Doubtful Debts at 31 March were:

	2022/23 £000	2021/22 £000
Main Council Stock	(6,856)	(5,987)
Hostels	(214)	(207)
Total	**(7,070)**	**(6,194)**

Pension Fund Accounts

FUND ACCOUNT

	Notes	2022/23		2021/22	
		£000	**£000**	**£000**	**£000**
Dealings with members, employers and others directly involved in the scheme					
Contributions					
From Employers	7	27,421		25,568	
From Members	7	9,539	36,960	8,735	34,303
Transfers In from other Pension Funds			6,847		8,617
Benefits					
Pensions	8	(40,045)		(37,839)	
Commutation & Lump Sum Retirement Benefits	8	(7,792)		(10,097)	
Payment in respect of tax		(210)	(48,047)	(271)	(48,207)
Payments to and on account of leavers					
Transfers Out to other Pension Funds			(6,738)		(5,737)
Refunds to members leaving service			(84)		(152)
Net Additions (Withdrawals) from dealings with members			**(11,062)**		**(11,176)**
Management expenses	9		**(8,283)**		**(9,915)**
Returns on Investments					
Investment Income	10		24,673		11,170
Other Income	10		21		26
Profit and losses on disposal of investments and changes in value of investments	12		(39,819)		115,585
Net Return on Investments			**(15,125)**		**126,781**
Net Increase (Decrease) in the net assets available for benefits during the year			**(34,470)**		**105,690**
Opening Net Assets of the Scheme			**1,324,913**		**1,219,223**
Closing Net Assets of the Scheme			**1,290,443**		**1,324,913**

NET ASSET STATEMENT

	Notes	31 March 2023 £000	31 March 2022 £000
Investment Assets			
Equities	11	150	150
Pooled Property Vehicles	11	78,572	87,987
Pooled Investment Vehicles	11	1,118,138	1,127,189
Private Equity / Infrastructure	11	63,531	72,202
Cash Deposits	11	20,245	32,104
Other Investment Balances			
Investment Income Due	11	39	7
Net Investment Assets	11	**1,280,675**	**1,319,639**
Current Assets	19	3,911	4,525
Current Liabilities	20	(1,979)	(2,118)
Cash Balances (held directly by Fund)		7,836	2,867
Net assets of the Fund available to fund benefits at the period end		**1,290,443**	**1,324,913**

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 2023. 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 seven members, five 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 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 605 undecided leavers, who are no longer paying contributions or in receipt of benefits.

	31 March 2023	31 March 2022
Number of Active Employers	48	55
Contributing employees	5,150	4,856
Pensioners receiving benefit	5,960	5,804
Deferred members	6,218	6,232
Total members	**17,328**	**16,892**

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 2022/23 and its position at year end as at 31 March 2023. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (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 105% 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.

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 £20m • 0.1% increase in assumed earnings would increase the value of the liabilities by approximately £1m • 0.1% increase in pension increases would increase the liability by approximately £19m • A one-year increase in life expectancy would increase the liability by approximately £51m

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

a) Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary with annual updates in the intervening years. The methodology used follows generally agreed guidelines and is in accordance with IAS 19. These assumptions are summarised in Note 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. Management has agreed a reasonable set of actuarial assumptions in consultation with the actuary which derives the total pension fund liability

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 2023, the assets invested with Partners Group were valued at £45.6m (£53.5m in 2021/22).

The same applies to the Aviva Infrastructure which has a quarterly valuation cycle. As at 31 March 2023, the value of the investment was £26.0m (£26.6m in 2021/22). 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	
	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22
	£000	£000	£000	£000	£000	£000
Administering Authority	18,687	17,061	3,844	3,792	8,141	7,329
Scheduled Bodies	3,821	3,478	24	-	1,092	1,006
Admitted Bodies	1,060	1,253	(15)	(16)	306	400
Total	**23,568**	**21,792**	**3,853**	**3,776**	**9,539**	**8,735**
Total Contributions			**27,421**	**25,568**	**9,539**	**8,735**

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	
	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22
	£000	£000	£000	£000	£000	£000
Administering Authority	(36,543)	(34,701)	(5,662)	(8,294)	(598)	(791)
Scheduled Bodies	(599)	(502)	(529)	(74)	(290)	(96)
Admitted Bodies	(2,903)	(2,636)	(528)	(712)	(185)	(130)
Total	**(40,045)**	**(37,839)**	**(6,719)**	**(9,080)**	**(1,073)**	**(1,017)**
Total Lump Sum Benefits					**(7,792)**	**(10,097)**

NOTE 9. MANAGEMENT EXPENSES

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

	2022/23	2021/22
	£000	£000
Administrative costs	(962)	(1,225)
Investment management expenses	(7,014)	(8,406)
Oversight and governance costs	(307)	(284)
	(8,283)	**(9,915)**

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

	2022/23 £000	2021/22 £000
Management fees	(5,428)	(6,431)
Performance fees	(107)	(79)
Transaction costs	(1,377)	(1,845)
Custody fees	(102)	(51)
	(7,014)	**(8,406)**

NOTE 10. INVESTMENT INCOME

The table below shows a breakdown of investment income.

	2022/23 £000	2021/22 £000
Pooled investments - unit trusts and other managed funds	22,386	8,037
Income from Alternative Investments	1,982	3,129
Interest on Cash Deposits	305	4
Other Investment Income	21	26
Total	**24,694**	**11,196**

NOTE 11. INVESTMENT STRATEGY

During 2022/23 the Fund's investment strategy had the following developments:

- In June 2022, the Fund had its first capital call from Alpha Real Capital and has since fulfilled the initial total commitment of £60m.
- In February 2023, the Pension Fund committee agreed a top up of 2.5% (£37m) into the Alpha Real Capital (Commercial Ground Rents) fund. This is due to be funded in May 2023.

In August 2015, the Fund made a commitment to the Partners Group Direct Infrastructure fund. As at 31 March 2023 €8.3m (£7.3m) 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 2023, the Fund had £908m invested with the London CIV, which accounts for 70.9% of the fund's total assets.

The market value and proportion of investments managed by each fund manager at 31 March 2023 was as follows:

	31 March 2023		31 March 2022	
	Market Value	Total	Market Value	Total
	£000	%	£000	%
Investments manager by the London CIV asset pool				
LGIM - MSCI Low Carbon (Passive)	399,782	31.3%	405,364	30.7%
Ruffer - Absolute Return (Active)	232,271	18.1%	270,935	20.5%
PIMCO - Global Bonds (Active)	90,078	7.0%	99,766	7.6%
Morgan Stanley - Global Sustain Fund	185,900	14.5%	188,554	14.3%
	908,031	**70.9%**	**964,619**	**73.1%**
Investments managed outside of the London CIV asset pool				
Darwin Alternatives - Leisure Fund	34,694	2.7%	32,582	2.5%
Alpha Real Capital - Ground Rents	55,930	4.4%	-	0.0%
Man Group - Affordable Housing	24,027	1.9%	18,231	1.4%
Oak Hill Advisers - Secured Income (Active)	65,179	5.1%	66,283	5.0%
Abrdn - Long Lease Property	54,545	4.3%	69,756	5.3%
Aviva - Private Infrastructure	25,965	2.0%	26,596	2.0%
Partners Group - Infrastructure	37,536	2.9%	45,468	3.4%
Partners Group - Multi Asset Private Credit	8,094	0.6%	7,986	0.6%
Invesco - Private Equity	-	0.0%	-	0.0%
Unigestion - Private Equity	30	0.0%	138	0.0%
Inhouse Cash - Cash	20,284	1.6%	32,111	2.4%
London CIV Ltd	150	0.0%	150	0.0%
NT Ultra Short Bond Fund	1	0.0%	1	0.0%
Abrdn - MSPC	46,209	3.6%	55,718	4.2%
	372,644	**29.1%**	**355,020**	**26.9%**
	1,280,675	**100.0%**	**1,319,639**	**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 2023		31 March 2022	
	Market Value	Total	Market Value	Total
	£000	%	£000	%
LGIM - MSCI Low Carbon (Passive)	399,782	31.2%	405,364	30.7%
Ruffer - Absolute Return (Active)	232,271	18.1%	270,935	20.5%
PIMCO - Global Bonds (Active)	90,078	7.0%	99,766	7.6%
Oak Hill Advisers - Secured Income (Active)	65,179	5.1%	66,283	5.0%
Morgan Stanley - Global Sustain Fund	185,900	14.5%	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 2022/23

Fund Manager	Value at 1 April 2022 £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 2023 £000
Equities	150	-	-	-	**150**
Pooled equity investments	1,127,189	67,000	(74,963)	(1,088)	**1,118,138**
Pooled property investments	87,987	6,999	(1,998)	(14,416)	**78,572**
Private equity/infrastructure	72,202	28,261	(12,580)	(24,352)	**63,531**
Sub-total	**1,287,528**	**102,260**	**(89,541)**	**(39,856)**	**1,260,391**
Cash Deposits	32,104			152	**20,245**
Investment income due	7			-	**39**
Spot FX contracts	-			(115)	**-**
Totals	**1,319,639**	**102,260**	**(89,541)**	**(39,819)**	**1,280,675**

The equivalent analysis for 2021/22 is provided below:

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 Investment Vehicles	1,081,786	32,000	(83,896)	97,299	**1,127,189**
Pooled property investments	61,162	24,598	(6,112)	8,339	**87,987**
Private equity/infrastructure	71,863	6,717	(16,321)	9,943	**72,202**
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**

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	Investment Manager	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Investments - Equity funds UK and Overseas Managed Funds	LGIM – MSCI Low Carbon Ruffer – Absolute Return Fund Morgan Stanley – Global Sustain Fund	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	PIMCO – Global Bonds Oak Hill Advisors NT - Ultra Short Bond	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	Abrdn- Long Lease Property	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	Unigestion	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	Partners Group – Infrastructure Aviva Infrastructure	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	Darwin Alternatives Man Group Alpha Real Abrdn – MSPC Partners - MSPC	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

Aviva Infrastructure

One of the LBHF Pension Fund's infrastructure investment managers, Aviva, were facing legal challenge from a former construction contractor relating to a contractual dispute on one of their biomass infrastructure projects.

Within the manager's financial statements at 31 December 2019, 31 December 2020, 31 December 2021, and 31 December 2022, 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 were qualified by the auditors.

The full and final value of the legal dispute has now been settled and with an additional amount of associated costs the total impact for the investment will be c.£46.7m.

On the 20th of June 2022, the committee voted to disinvest from the Aviva fund with the redemption documents being submitted prior to the 30th of June 2022 deadline for redemptions. The disinvested monies are anticipated to be received by LBHF Pension by the end of 2024 with the first tranche of redemption monies paid in January 2024. The carrying value of the total infrastructure portfolio in the LBHF Pension Fund is £26m.

Having carefully considered this fund's financial statements, audit opinion and LBHF Pension Fund's holding in the fund being under redemption procedure, 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 3% of the total portfolio value of the underlying Aviva fund and officers do not consider that there will be any further legal challenge/ claims that could result in a material uncertainty both in terms of containment within this particular investment and disclosures in the wider financial statements.

Cash Classification

For the Fund, cash at custodian is simply a sweep from the custodian into a nominated Money Market Fund and an overnight rate paid. The full cash amount needs to be available for potential investment/withdrawal the next morning and is purely there to service investment and payment of pensions. It is therefore understood that this cash should be amortised cost. It is however not correct to assume cash would always be amortised cost. When an investment committee has taken an active decision to hold cash as part of its asset allocation and invests in a liquidity fund there would almost certainly be duration and variable NAV, in this circumstance we would expect the IFRS9 treatment to be Fair Value at Profit and Loss.

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 2023			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	Level 3	Level 1	Level 2	Level 3
	£000	£000	£000	£000	£000	£000
Financial Assets						
Designated at fair value through profit and loss	-	1,027,756	232,635	-	1,100,659	186,869
Total Financial Assets	**-**	**1,027,756**	**232,635**	**-**	**1,100,659**	**186,869**
Financial Liabilities						
Designated at fair value through profit and loss	-	-	-			
Total Financial Liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Net Financial Assets	**-**	**1,027,756**	**232,635**	**-**	**1,100,659**	**186,869**
			1,260,391			**1,287,528**

NOTE 14b. TRANSFERS BETWEEN LEVELS 1 AND 2

In 2022/23, 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 2022 £000	Transfers in/out of Level 3	Purchases £000	Sales £000	Unrealised gains / (losses) £000	Realised gains / (losses) £000	Market Value as at 31 March 2023 £000
Overseas venture capital	45,607	-	3,261	(10,782)	(696)	176	37,566
UK Infrastructure	26,596	-	-	-	(631)	-	25,965
UK Venture Capital	26,216	-	66,942	(3,900)	(1,206)	-	88,052
London LGPS CIV	150	-	-	-	-	-	150
Private Credit Funds	55,718	-	-	(1,387)	(8,122)	-	46,209
Overseas Equity Funds	32,582	(32,000)	-	-	(582)	-	(0)
UK Equity Funds	-	32,000	-	-	2,694	-	34,694
Total	**186,869**	**-**	**70,203**	**(16,069)**	**(8,543)**	**176**	**232,635**

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 2023 has been estimated to be accurate within the following ranges:

			£000	£000	£000
Aviva - Private Infrastructure	6.90%	7.80%	25,965	27,757	23,940
Partners Group - Infrastructure	8.73%	8.73%	37,536	40,813	34,259
Partners Group - Multi Asset Private Credit	9.73%	9.73%	8,094	8,882	7,306
Darwin Alternatives - Leisure Fund	7.90%	6.90%	34,694	37,435	32,300
Abrdn MSPC	3.28%	3.28%	46,209	47,725	44,693
Alpha Real Capital - Ground Rents	10.10%	8.00%	55,930	61,579	51,456
Man Group - Affordable Housing	9.50%	8.80%	24,027	26,310	21,913
Total			**232,455**	**250,499**	**215,867**

*Three assets (totalling £0.180m) 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 2023			31 March 2022		
	Designated at fair value through profit & loss	Financial assets at amortised cost	Financial Liabilities at amortised cost	Designated at fair value through profit & loss	Financial assets at amortised cost	Financial Liabilities at amortised cost
	£000	£000	£000	£000	£000	£000
FINANCIAL ASSETS						
Index Linked Securities						
Pooled Investment Vehicles:						
UK equity funds	817,953	-	-	864,853	-	-
UK fixed income fund	144,382	-	-	163,471	-	-
UK property fund	113,266	-	-	120,569	-	-
UK infrastructure	81,895	-	-	26,596	-	-
Overseas fixed income fund	65,179	-	-	66,283	-	-
Overseas infrastructure	37,536	-	-	45,468	-	-
Overseas venture capital	30	-	-	138	-	-
London LGPS CIV	150	-	-	150	-	-
Investment income due	-	39	-	-	6	-
Cash deposits with managers	-	20,245	-	-	32,105	-
Debtors	-	3,911	-	-	4,525	-
Cash balances (held by fund)	-	7,836	-	-	2,867	-
	1,260,391	32,031	-	1,287,528	39,503	-
FINANCIAL LIABILITIES						
Creditors	-	-	(1,979)	-	-	(2,118)
	-	-	(1,979)	-	-	(2,118)
GRAND TOTALS	**1,260,391**	**32,031**	**(1,979)**	**1,287,528**	**39,503**	**(2,118)**
			1,290,443			**1,324,913**

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 2023	31 March 2022
	£000	£000
Financial Assets		
Fair value through profit and loss	(39,856)	115,581
Loans and receivables	152	5
Financial Liabilities		
Fair value through profit and loss	(115)	(1)
	(39,819)	**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
Market risk is the risk of loss emanating from general market fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investment activities. To manage excessive volatility in market risk, 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 2023, 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 9.25% higher or 9.25% lower.

Assets exposed to price risk

	Value	Price Risk	Positive increase	Negative increase
	£000		£000	£000
At 31st March 2023	1,288,511	9.3%	1,407,552	1,169,170
At 31st March 2022	1,322,506	9.4%	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.

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 2023 and what the value would have been if interest rates had been 1% higher or 1% lower.

Assets exposed to interest rate risk

	Value	+ 1%	- 1%
	£000	£000	£000
At 31st March 2023	328,483	318,649	344,299
At 31st March 2022	341,107	331,880	348,737

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	Currency Risk	Positive increase	Negative increase
	£000		£000	£000
At 31st March 2023	676,661	7.2%	725,540	627,782
At 31st March 2022	739,360	6.8%	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.

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 16.8% of the Fund's Net Assets at 31 March 2023 (13.2% at 31 March 2022). The remaining assets can all be liquidated within days.

Manager	**Portfolio**	**31 March 2023**	**31 March 2022**
		£000	**£000**
Standard Life	Property	54,545	69,756
Partners Group	Infrastructure	37,536	45,468
Partners Group	Multi Asset Credit	8,094	7,986
Invesco	Private Equity	-	-
Unigestion	Private Equity	30	138
Darwin Alternatives	Illiquid Alternatives	34,694	32,582
Alpha Real Capital	Ground Rents	55,930	-
Man Group	Property	24,027	18,231
		214,856	**174,161**

NOTE 17. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

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

	31 March 2023 £000	**31 March 2022 £000**
Alpha Real Capital	37,000	60,000
Man Group - Affordable Housing	8,013	9,969
Partners Group Direct Infrastructure Fund 2015	7,320	10,193
	52,333	**80,162**

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 was carried out by the Fund's actuary Hyman's Robertson as at 31 March 2022 and will set contribution rates for the period 1 April 2023 to 31 March 2026. The 2022 Triennial valuation has now been signed off and is publicly available.

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 2023. 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 2023	31 March 2022
	£000	£000
Present Value of Promised Retirement Benefits*	(1,339)	(1,808)
Fair Value of Scheme Assets (bid value)	1,290	1,325
Net Liability	(49)	(483)

The assumptions applied by the actuary are set out below:

Financial Assumptions	31 March 2023	31 March 2022
	£000	£000
Salary increases	4.00%	4.20%
Pension increases	3.00%	3.20%
Discount Rate	4.75%	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:

Life Expectancy from age 65		31 March 2023	31 March 2022
Retiring today	Males	21.8	22.1
	Females	24.5	24.7
Retiring in 20 years	Males	22.8	23.2
	Females	25.8	26.1

NOTE 19. CURRENT ASSETS

Debtors	31 March 2023 £000	31 March 2022 £000
Contributions due - employers	1,627	1,620
Contributions due - employees	678	704
London Borough of Hammersmith and Fulham	50	96
Sundry Debtors	1,556	2,105
	3,911	**4,525**

Analysis of debtors	31 March 2023 £000	31 March 2022 £000
Local authorities	50	96
Other entities and individuals	3,393	4,087
Central Government	468	342
	3,911	**4,525**

NOTE 20. CURRENT LIABILITIES

Creditors	31 March 2023 £000	31 March 2022 £000
Unpaid Benefits	(659)	(562)
Management Expenses	(901)	(843)
Sundry creditors	(419)	(713)
	(1,979)	**(2,118)**

Analysis of creditors	31 March 2023 £000	31 March 2022 £000
Other entities and individuals	(1,979)	(2,118)
	(1,979)	**(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.

Scottish Widows Workplace Savings	31 March 2023 £000	31 March 2022 £000
Market Value at 31st March	857	917
Contributions during the year	7	11
Utmost Life and Pensions		
Market Value at 31st March	154	176

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 £0.777m in 2022/23 (£0.637m in 2021/22) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses. The Council made £18.7m of contributions in year (£20.9m in 2021/22).

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 £0.183m in 2022/23 (£0.174m in 2021/22) 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 2023 £000	31 March 2022 £000
Short-term benefits	30	32
Post-employment Benefits	(179)	(30)
	(149)	**2**

NOTE 23. EXTERNAL AUDIT COSTS

The external audit fee payable to Fund's external auditors, Grant Thornton LLP, was £36,556 (£33,000 in 2021/22).

Draft Annual Governance Statement 2022/23

1.0 Introduction

Hammersmith & Fulham is a wonderful place in which to live, work and do business. The borough has recovered well from the disastrous effects of the global pandemic. But this year, many residents and local businesses have faced hardship and worry from the significant rise in everyday costs, with high inflation, rising interest rates and the fastest acceleration of food prices in 45 years.

Our urgent priority has been to support residents hit hardest by the cost-of-living crisis. Whilst government support for energy bills was welcome, these measures did not go far enough, forcing many residents to reach out for support for basic essentials such as food, clothing, and heating their homes.

Over the past year, we have brought people together to rise to the challenges of the time and build a stronger, safer and kinder borough for everyone. We have responded with urgency to the cost-of-living crisis, in keeping with our commitment to be a compassionate council. We have moved to ensure support is available to vulnerable residents, and to those who find themselves and their families needing support – perhaps for the first time.

Our dedicated Cost-of-Living Advice Team has provided support to thousands of residents. We have supported residents by delivering welcome warm spaces, and funding for foodbank and fuel voucher support. And we have continued to support families by providing free breakfasts to every primary school child in the borough and free homecare, the only local authority to do this. But we know the crisis is unlikely to abate in the near future - and support will need to be available for the year ahead. We have forged a Cost-of-Living Alliance with local partners and stakeholders, many from the excellent local voluntary and community sector, to continue to work together in helping residents and businesses through the crisis.

Our residents and businesses deserve high-quality services from the Council on which they can rely. In line with our commitment to Ruthless Financial Efficiency, we manage our finances responsibly and compassionately, but also effectively. We will keep listening and working with residents in the pursuit of progress – responding to local, national and international challenges which affect us all.

Our vision for the borough 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.

Our vision is underpinned by six values that inform how H&F operates:

- 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.

In recent years, we have a fantastic record of keeping council tax and charges to residents' low. However, in 2022/23, we have faced some of the most difficult financial circumstances the Council has faced, with central government funding cut by £48m between 2010-11 and 2023-24.
We have had little choice but to raise council tax by 2.99% for 2023/24, as the majority of local authorities have done during this period of extreme financial pressure. This will ensure that we continue to provide and support essential services for residents at this time.

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

- 56% cut in government funding between 2010/11 to 2023/24 and an increase in our costs due to the effects of inflation and high interest rates.
- Climate change, global warming and extreme weather events.
- Devastation of Russia's illegal war in Ukraine – with impacts which continue to be felt globally.
- Significant increases in fuel and energy costs leading to higher levels of fuel poverty and the cost-of-living crisis.

Our Annual Governance Statement (AGS) demonstrates how we continually prioritise strong governance arrangements, ensuring robust and accountable delivery toward the priorities of local residents, service users and businesses. We do this by co-producing services and policies with residents, service users and partners, 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 our 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.

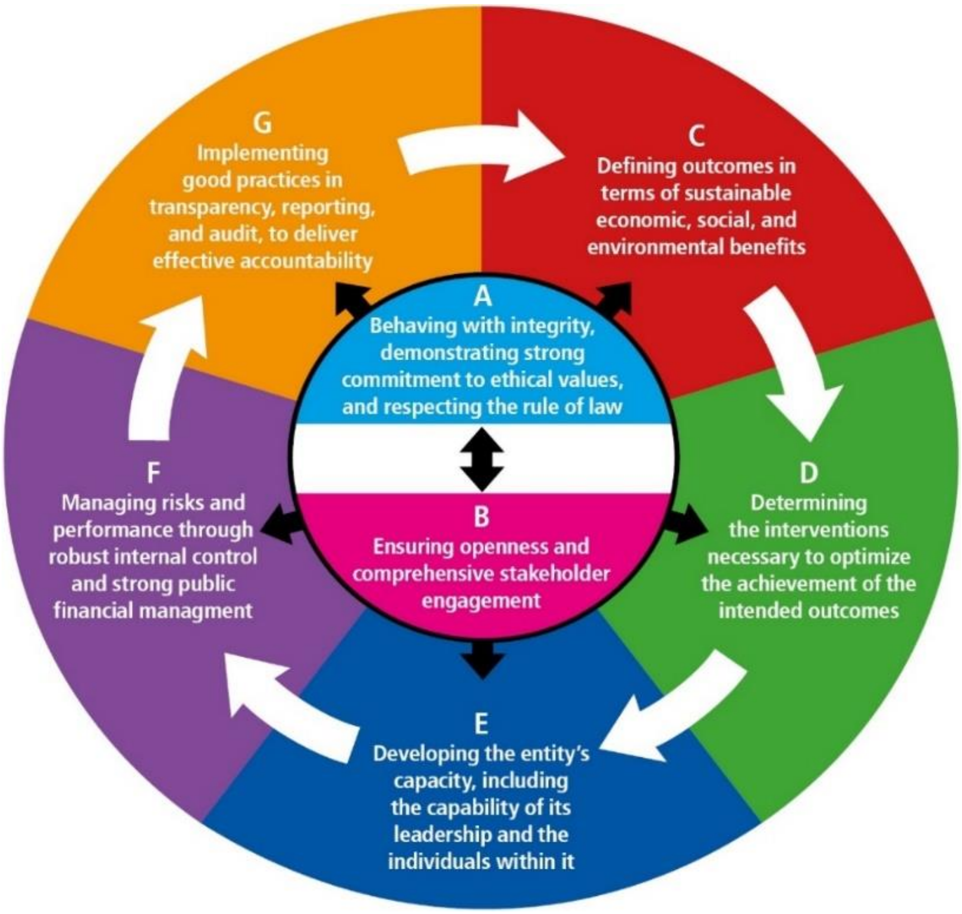
The AGS has been prepared in accordance with guidance and principles produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE), the 'Delivering Good Governance in Local Government Framework'. The main, 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 at H&F.

3.0 What this Statement tells you

The AGS describes how H&F has, for the year ended 31 March 2023, 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 2023/24.

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 at H&F 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. It also contains the rules, protocols and codes of practice under which H&F, its Members and officers operate. We continue to monitor and, where necessary, amend the constitution.

The Member code of conduct was reviewed in 2021/22. 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.

- **Scrutiny** – Full Council established the new Policy and Oversight Board in May 2022, with a purpose to oversee H&F's overview and scrutiny function, which is delivered through six Policy and Accountability Committees (PACs), covering all of our major service areas. The Policy and Oversight Board and PACs are part of our commitment to public engagement and working with residents in developing policy and strengthening H&F's decision-making process.

- **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 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. The corporate risk register was reviewed during 2022/23, with the number of corporate risks recorded being reduced. This was in line with a recommendation made by the external auditor as part of their Value for Money conclusion work.

The Strategic Leadership Team (SLT) has a regular focus on departmental risks to ensure the right risks are recorded and tracked in the corporate register. Thematic or programme risk registers are created in respect of emerging risk areas. In 2022/23, this included important areas such as the cost-of-living crisis, increasing inflation and economic uncertainty, enhancing H&F's cyber security resilience, and its preparedness for severe weather and terrorist incidents. The invasion of Ukraine towards the end of 2022/23 continued to impact on some risks, including economy/ supply chain and cyber security.

- **Audit and external inspection assurances** – H&F is externally audited. The Internal Audit service is also a key means of assurance and reviews the adequacy of the controls throughout all areas of H&F. Council services are also subject to statutory external inspections.

- **Strategic leadership and assurance** - H&F's most senior management team is the 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 H&F, providing leadership on standards, expectations and strengthening assurance regimes, ways of working and approaches. This has been done through management boards and regular thematic SLT meetings focussed on business, assurance and finance issues. SLT 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. A new sourcing strategy is now in place to enhance how we manage our procurement, our forward planning and how we secure added value including social value and good environmental impacts. A new procurement and commercial function has been developed to support our objectives.

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 2022/23 and are described in this section.

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. During the year, dedicated monthly Finance SLT meetings provided oversight of financial planning, management and reporting against our major programmes and projects.
To meet the long-term reduction in grants from central government, rising inflation and interest rates, alongside the wider impact of the cost-of-living crisis, our value of being ruthlessly financially efficient is helping to drive efficiency in our services, whilst maintaining our commitment to the most vulnerable and being 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 we face.

External audit

H&F'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.

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 completed in early 2023/24, with the outcome to be reported to the Audit Committee.

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 Policy and Oversight Board and PACs.

Resident-led commissions have been central to our value to do things with residents, not to them. We have commissioned numerous 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. 2022/23 saw the implementation of two Resident Commissions that reported in 2021/22; the Parks Commission, with work underway on the development of a new parks strategy to enhance the vision, strategy and management of parks and open spaces; and the Arts Commission, with a new Cultural Strategy under development.

We are ambitious to be the country's leading borough for co-production, expanding co-production across council departments and services so that residents are fully involved from the earliest stage in shaping the services that affect their lives. This includes co-producing a new digital inclusion strategy and a new vision for independent living. We also continue to work closely with the Disabled Residents team to ensure the new Civic Campus is the most inclusive and accessible space, for all to enjoy.

Business and change planning and performance management

In 2022/23, Cabinet agreed Business Objectives for progress or delivery in 2022/23. The objectives responded to the Administration's manifesto pledges following the local election in May 2022 and business priorities, identifying key outcomes for H&F in terms of sustainable economic, social and environmental benefits, with robust performance reporting to SLT and Cabinet members. The Business Objectives plan set out an intention to develop a longer-term plan in 2023/24.

The shorter-term ambitions in the Business Objectives plan formed part of a much wider programme of statutory delivery, policy development, business planning and change and transformation activities in the Council.

The Council has established arrangements for the management of its objectives and optimising the achievement of intended outcomes. 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.

A corporate performance framework has been in place throughout 2022/23, with quarterly performance reports to SLT and Cabinet members, and beneath this, 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. Progress against the Business Objectives in 2022/23 has also been reported on a six-monthly basis.

SLT and Cabinet members have continued to have close oversight of H&F's major change and transformation activities. Monthly Finance SLT meetings agree business cases and assure delivery of a portfolio of major projects and programmes. The Development Board has oversight of major development and regeneration schemes 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.

Children's Services

H&F has continued to build on the strong outcomes of the 2019 inspection of social care and the January 2022 focused visit of the Front Door; seeking continuous development and improvement as reflected in our Self-Assessment which was discussed with Ofsted Her Majesty's Inspectors (HMI) leads, in November 2022. A full inspection is expected every three years of an authority graded Good. As Ofsted are running about 12 months behind due to the pandemic, we anticipate a full inspection in late 2023 or early 2024.

The quality of Children's Services practice was recognised and celebrated in our Youth Justice inspection in July 2022 where we received an Outstanding rating by Her Majesty's Inspectorate of Prisons (HMIP). The Chief Inspector described the service as, "a dedicated, capable and confident service where children have every opportunity to move away from crime. We were impressed with how staff at the service work with children under their supervision, and their parents or carers, to understand their circumstances and drive them toward positive futures." We have subsequently had our annual education and children social care conversations with Ofsted. Discussions were positive and highlighted our continued strengths, and our ability to identify and respond to challenges quickly.

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 H&F's continuous improvement agenda.

As of April 2023, 100% of schools in the borough were rated good or outstanding. This has been delivered through positive work by the schools themselves, and supported by effective advice and guidance from the School Effectiveness team. During the last year we have seen four schools improve their grading from requires improvement or inadequate, to good.

Some challenges have been faced across the service, including Placements Sufficiency, which is a national issue, especially in local foster care and specialist placements providing complex support. We are working with the Commissioning Alliance to build market options and refreshing our fostering recruitment strategy, as part of our Fostering Review. Other national challenges include the recruitment of Social Workers and Occupational Therapists, where we have experienced impact to service delivery and continue to monitor potential future risks.

Finance processes within Children's Services continues to be reviewed to improve and assure authorisation processes and robust audits. Children's Leadership Team (CLT) regularly horizon scan for policy and legislation changes, new ideas and opportunities that may influence or change the way we deliver services. In line with this, the risk register is regularly reviewed and updated, with risks added and removed as needed, for example, trees in schools, in order to manage current and future risks.

Children's Services has worked to develop and embed strong governance with partners through many different boards and strategies. These boards include:

- The H&F Local Safeguarding Children Partnership (LSCP)
- Corporate Parenting Board (CPB)
- The Children's Education, Health and Social Care Board (CHESC)
- Special Educational Needs and Disabilities (SEND) Delivery Group
- The High Needs Block (HNB) Board
- The Early Intervention Steering Group.

These boards are multi-agency or cross council partnerships providing accountability and oversight of Children's priorities. For example, performance of the SEND transformation programme has been monitored by the HNB Board and reported to the Department for Education (DfE) on a quarterly basis as part of the Safety Valve Agreement. To date £17.5m of the £20.5m funding allocation has been released by the DfE following delivery against the agreed programme and milestones. The 2023/24 allocation of £3m has also been released in advance, in recognition of our achievements with regards to the targets in our Safety Valve agreement.

Our robust commissioning approach ensures we understand the needs of our community and we use data and feedback to inform our strategies and service developments. Working effectively in partnership with finance, Children's Services has achieved a balanced budget for a third year running, despite increasing demand for our services. This has been achieved whilst continuing to strengthen our financial standing, working hard to mitigate and prioritise statutory services, including investing in services despite an extremely challenging economic situation.

Adult Social Care and Public Health

In 2022/23, the Care Quality Commission (CQC) inspections of adult service providers visited our provided services. The in-house Reablement Service and Rivercourt respite services both achieved an outstanding rating for the last three years. Planning is ongoing for a CQC inspection of Adult Social Care in 2023 which will include lessons learned from an internal mock inspection held in November 2022. An external inspector will undertake a second mock inspection, scheduled for May 2023. The official inspection will ultimately take place anytime from September 2023 onwards. 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 have continued to respond strongly to the lessons learned from the pandemic and have safeguarded our residents well. Strong governance was put in place throughout the pandemic. This included daily monitoring calls with social care providers with rapid and active management of Covid-19 outbreaks in care and nursing homes, in line with Public Health England guidance. Care homes remain subject to guidelines to help stop the spread of the virus going forward. A specialist infection control advisor continues to support our commissioned providers to manage infection control and any outbreaks of Covid-19 going forward.

We are in the process of re-procuring home care packages of up to 100,000 hours, to increase choice and drive up quality alongside the development of a joint workforce plan with the National Health Service (NHS) to create a career structure, with a view to attract local residents.

The Hammersmith and Fulham Health & Care Partnership (HCP) is now in its second year, jointly chaired by the Council and NHS. Good progress is being made on the campaigns, the relationships are maturing and lots of work has happened to agree priorities across North-West London.

We continued to embed co-production across services, ensuring continued resident involvement in policy development and decisions. This has involved working with residents on the Emlyn Gardens and Minterne Gardens supported housing development for people with learning disabilities, and with Dementia Action Alliance in the co-production of 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.

Housing

We have experienced significant issues in relation to complaints handling, primarily in respect of our Housing Repairs Service. This has resulted in delays to complaint responses and cases escalating to the Housing Ombudsman. We have received a high percentage of maladministration findings, and five cases where findings of severe maladministration have been made.

Improving our Repairs Service and related complaints handling is a key priority for H&F, and a significant amount of work has been completed to review processes with our contractors to ensure timely responses and resolution to complaints. This remains a key focus for H&F and there remains work to be completed to ensure that we are responding on time, and that repairs are resolved at the earliest opportunity. We are still encountering delays with responses from our contractors, which in turn delays our turnaround in responses to residents, and completion of works. Improvements have been delivered in compliance with the Housing Ombudsman's complaint handling code. Our most recent self-assessment, which has been presented to Members, can be found here. This self-assessment is currently being further updated and reviewed (ahead of the annual assessment) and once complete this will again be reported to Members.

In addition, the housing service was facing considerable financial pressures relating to the national economic conditions from September 2022. This resulted in significant cost pressures and the mitigations and recovery actions that were implemented are set out in more detail in Tables 1 and 2.

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. Member induction and training is coordinated by Governance Services.

The health, safety and wellbeing of staff remain a priority alongside equity, diversity and inclusion. Our aim is to be the most inclusive borough, and with this aim we are delivering actions identified in H&F's Equality Action Plan. Our Race Equality groups are firmly embedded across H&F - reaching both our workforce and our residents. We have introduced a number of staff diversity networks under the umbrella of 'The H&F Way' with co-production continuing to be a focus. During 2022, we won the London Councils Best Contribution by a New Apprentice and the Race Equality Matters (REM) Trailblazer Award for our Tea break Tuesday initiative. This year, we have won several awards and have been shortlisted for an LGC award for our Diversity and Inclusion Programme 2023.

In terms of ensuring a capable and creative workforce, The H&F Academy aims to develop inclusive employment pathways for our residents, and internal development and progression for our workforce with a focus on skills for future resilience. The H&F Academy consists of apprenticeships, inclusive apprenticeships, supported interns, work experience opportunities, promoting the achievement of Care Experienced residents (focused on our work with care leavers), and our Get Ahead Programme, which promotes internal staff progression and development opportunities.

Additionally, we are investing in a number of initiatives to ensure we can remain competitive in a challenging marketplace. With a tight labour market, attracting the best talent is more important than ever, and ensuring that we have a diverse and inclusive recruitment process puts us in the best place to do this. We've signed up to and are accredited with a number of key charters and partner organisations to support our inclusive recruitment and retention strategies. Most recently we have joined Timewise (an accreditation to demonstrate that we are a fair and flexible employer) and we've pledged our commitment to the Age Friendly Employer Pledge, as we recognise the value of older workers. We're also members of the Opening Doors Campaign and Race at Work Charter, demonstrating our commitment to removing barriers to recruitment from disadvantaged groups and reach out to untapped talent and a more diverse talent pool.

To help address the challenges faced with the recruitment of Social Workers, we're partnering with the London Innovation and Improvement Alliance, supporting London to recruit Social Workers. We are also working in partnership with other boroughs and educational establishments to develop innovative approaches to address attraction and retention of 'hard to fill roles' such as, but not limited to, Environmental Health, Regulatory Compliance, Trading Standards and Planning.

H&F has maintained a focus on workforce planning, workforce effectiveness, and staff wellbeing and resilience in 2022/23. Workforce resilience remains strong despite the turbulence of the marketplace, and we continue to closely monitor our position. We continue to measure our performance through staff engagement, regular communications strategies and benchmarking against key metrics.

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 2022, and shortlisted finalists in 2023.

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 2022/23, the Director of Audit, Fraud, Risk and Insurance's opinion on H&F's control environment, governance arrangements and risk management arrangements is 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.

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 generally indicated that management systems were viewed as effective or very effective, with actions being implemented in specific areas where the need for improvement in controls had been identified.

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 2022/23 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.

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. H&F's 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.

However, the Monitoring Officer has noted the position regarding housing repairs and has taken action to hold the responsible officers to account in support of instructions given by the Chief Executive, to target priorities and ensure that appropriate resources and monitoring arrangements are more fully in place to facilitate service delivery and recognise the urgent need for service improvement for our tenants.

Managing information

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.

H&F has continued to meet the requirements of the General Data Protection Regulations (GDPR) and the Data Protection Act 2018 in 2022/23. Formal assessments of data privacy and security risk have been completed for projects involving personal data and to assess the security of applications and third-party connections to the H&F corporate network.

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. A new National Cyber Security Centre (NCSC) training module 'staying safe online' has been added to the employee induction programme. Training is extended to Members to support their handling of personal data which is held either by H&F or shared directly by residents. All officers and Members 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, providing greater oversight of the information held. This further increases H&F's resilience to cyber security threats through enhanced risks assessments, data mapping and incident response capabilities. The register has been populated and has improved H&F's ability to comply with data protection law through the ability to produce a Record of Processing Activity.

H&F has implemented additional technical controls and cyber security solutions in 2022 to further protect H&F from the every-present cyber threat landscape that affects all organisations.

On 31st January 2023, H&F was advised that one of its external care service providers CareTech had suffered a ransomware attack. Digital Services took immediate action to block the providers email domains to prevent phishing messages originating from compromised CareTech systems. The National Crime Agency was contacted, and the Information Commissioners Office was notified of the breach due to the potential loss of personal data resulting from the incident. A review of files was undertaken by Children's Services, and Digital Services and appropriate action taken. Phase 1 of the CareTech incident has identified no personal data from H&F which has been compromised, however this investigation is ongoing.

On 3 April 2023, Capita plc announced that it had experienced a cyber incident which primarily impacted access to their internal Microsoft Office 365 applications. H&F was subsequently alerted to media reports that indicated there had been data loss from Capita systems and that the data is for sale on the dark web. Actions were taken to block Capita domains and to review any open ports or connections between H&F and Capita systems. Capita has assured H&F that no customer data was compromised in the incident.

H&F has continued to work with other London Boroughs and partners to produce pan-London data sharing agreements (DSA) to support joined-up working through the lawful sharing of personal data. This work is being led by the Information Governance for London (IGfL) group, supported by the London Office of Technology and Innovation (LOTI).

Significant issues in 2022/23

Table 1: Progress against significant issues for the year 2022/23

Response to Covid-19 pandemic Continuing close management and control of infection
In 2022/23, we gradually stood down our formal emergency planning structures and moved Covid-19 management into 'business as usual', regarding Covid-19 as a disease we now live with in society. It was accordingly removed from the corporate risk register in November 2022. During 2022/23, we continued to have close management and control of infection and monitoring of government guidelines. We had effective governance and control arrangements in place, including our Local Outbreak Management Plan, to ensure they could react to any changes in terms to infection rates. Over the year, we continued to monitor the threat of other infections, including Novo-virus, Flu variants, Monkeypox, Polio, Strep A and Measles. We provided vulnerable residents with specialist infection protections support and maintained our data monitoring for health surveillance, to facilitate any need to step up services in an emergency response. We also continued to work closely with the voluntary and community sector, including neighbourhood and community groups who helped form our Community Aid Network during the pandemic. These partners have continued to offer valuable targeted support, advice, teaching and guidance. We also continued to work closely with – and build the trust of – black and ethnic minority communities, as well as "hard to reach" and transient communities, to encourage take-up of vaccinations and support individuals to self-care. A senior group of officers is ensuring H&F is ready to participate in the Covid-19 Public Inquiry as and when required.
Hammersmith Bridge Working towards securing a fair, affordable funding solution to enable the re-opening and refurbishment of this important national heritage infrastructure asset
Hammersmith Bridge Stabilisation Work is progressing well and is programmed to be completed this summer. 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. In 2022/23, we submitted the Outline Business Case – Stage 2, for Strengthening and Restoration Works. We hope to receive a decision from the Department for Transport (DfT) on the Outline Business Case soon. H&F will continue to work with the DfT and Transport for London (TfL) to progress the Strengthening and Restoration Bridge Work. But we will remain clear that any contribution from H&F will need to be funded through a Toll Order/ Road User Charging Scheme (RUCS) to ensure that an unfair burden is not placed on our residents and is instead funded by those who use the bridge. The Hammersmith Bridge Programme Board (H&F officers and key external advisors) has continued to meet regularly to 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 continues to meet regularly, to assess all matters relating to the safety and stability of the bridge. The CCSO is responsible for making recommendations to H&F on the protocols and management controls required, to ensure the Continued Case for Safe Operation. This provides the necessary engineering/technical assurances with regards to the safety of the bridge.

Securing assurance for residents on the quality and value for money of housing repairs

Over the past year, we have worked commercially and operationally with our general repairs patch contractors in an effort to enhance performance, decrease the backlog of repairs, and address new issues as they enter the system. We have also expanded our repairs capacity by hiring additional contractors and more tradespeople directly employed by the Council and have undertaken business planning to take this further in 2023/24.

We are continuing to develop and implement a Repairs Improvement Plan, detailed in our forward look for 2023-2024. This includes improved delivery and prioritisation of works, customer care, systems management, and complaint handling. This follows receiving an unacceptable number of maladministration and severe maladministration findings from the Housing Ombudsman due to contractor shortcomings and inadequate case management by Council officers.

We have committed to investing £600 million in our stock over the next decade. This investment will help to improve resident safety and reduce the volume of future repairs and carbon emissions. We've already invested £53 million of this funding in 2022 and plans to invest £235 million over the next four years were approved by Cabinet in February 2023. Works are already on-going across several large estates and street properties with £60 million of investment targeted to start during 2023.

Our housing team has been working closely with the regeneration team to develop a retrofit strategy, aiming to further enhance our housing stock to ensure it meets H&F's Net Zero target by 2030.

However, the increase in spending has impacted the Housing Revenue Account (HRA). We have observed rising costs and limited availability of materials and labour within the construction industry, due to inflation, labour market, and supply chain pressures in the broader economy. To address this, we have established an HRA Budget Board to monitor expenditures closely and facilitate effective collaboration between Finance and Housing departments, ensuring that any savings and spending targets are met.

Securing assurance on delivery of the Civic Campus Programme

The build programme for the Civic Campus (restoration of the Town Hall element – 'Contract A') has been affected by the impact of the site incident in May 2022. A recovery programme was agreed and works recommenced on the affected part of the site in October 2022.

Robust governance is in place for the programme and is delivered in accordance with H&F's Programme Management Office standards. In addition to the build workstream, resources and plans are in place for delivering workstreams relating to establishing operations, digital solutions, place shaping, and commercial activities.

Housing Fire Safety

The new Fire Safety Regulations went live on 23 January 2023, setting out prescriptive requirements dependent on building height, and frequency of checks for the design and materials of external walls, floor plans, fire doors, firefighting equipment, lifts, wayfinding signage and communication with residents. Systems are in place to undertake and report accordingly.

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 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). There are currently circa 1,297 actions, with over 20,000 actions thus far either completed or superseded. All actions are programmed as either capital works, or via internal fire safety teams. Higher priority actions, P1s, are monitored weekly with interim mitigation measures in place as required.

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

The HNB element of the Dedicated Schools Grant has continued to be under pressure in supporting children with special educational needs. The HNB is expected to return a slight surplus in 2022/23 financial year after mitigations including budgeted transfers from both the Schools Block and Central Services Schools Block agreed at Schools Forum. In the medium term, there are uncertainties around future legislative changes and levels of government funding.

The HNB programme seeks to reduce the underlying overspend in this area. This is overseen by H&F's HNB Board, and reported to the DfE on a quarterly basis as part of the Safety Valve Agreement. The full Safety Valve funding allocation has been received in the first three financial years of the agreement to 2022/23 following satisfactory performance against the agreed programme and milestones. Additionally, the DfE has advanced the profiled payment for 2023/24 early in recognition of positive progress against the Safety Valve agreement.

Housing Revenue Account – Financial Sustainability
The financial position of the HRA in 2022/23 was challenging with a base budget deficit of £4.1m that was funded from reserves. To strengthen resilience, a supplementary rent increase was implemented in November 2022 (that resulted in an overall rent increase of 3.1% compared to the maximum limit of 4.1%). In addition, a policy for the full recovery of service charges was implemented at the same time (reports available from Cabinet October 2022). These actions, and other service mitigations, resulted in an improved outturn on the HRA for 2022/23 (a further use of only £1.5m of reserves compared to the anticipated 2.3m). The overall position on reserves was therefore improved with a general balance reserve of £10m at the end of March 2023, compared to an anticipated reserve of £9.2m. These actions also resulted in an improvement of the medium-term position for future years. These matters will continue to be kept under close review and will continue to be considered through the Annual Governance Statement process for 2023/24. This matter will also be monitored with regard to the findings of the External Audit Annual Report.

Significant issues for 2023/24

Table 2: Significant issues for the year 2023/24

Hammersmith Bridge Working towards securing a fair, affordable funding solution to enable the re-opening and refurbishment of this important national heritage infrastructure asset
During 2023/24, we hope to receive a decision on the business case from the DfT and TfL. This will be followed by a procurement exercise (lasting 18-24 months) to award the Design, Build, Finance and Maintain (DBFM) contract. We will also be working closely with DfT and TfL to progress a Toll Order or a Road User Charging Scheme (RUCS) so that it is available before the award of the above contract. Meanwhile, we will progress the project by submitting a planning application for the reference design of a temporary truss solution, undertaking detailed geotechnical investigations, and diverting the Cadent Gas mains away from the bridge in preparation for the strengthening and restoration works.
Securing assurance for residents on the quality and value for money of housing repairs
Acknowledging that the current state of H&F's Repairs Service is not meeting expectations, we are dedicated to implementing improvements in the upcoming year. The insufficient reduction in Work in Progress (WIP) cases highlights the need for a thorough transformation plan to address these issues. To ensure residents receive quality and value for money in housing repairs, we have devised a four-pronged approach focusing on cultural changes and service enhancements: • Proactive maintenance: We plan to invest in our housing stock, allocating £63 million for major estate investment schemes starting this financial year, with the goal of reducing repair needs and maintaining properties efficiently. A long-term asset management strategy will be developed to support future investment planning. • Capacity and quality enhancement: We aim to procure £41.1 million of additional capacity over the next three years to tackle the backlog, enabling us to address complex works and ensure greater resilience for general repairs. Our focus will be on improving the performance of our main patch contractors and expanding our specialist contractor and DLO capacity. We have also begun planning our long-term repairs model for post August 2025, when our main contracts expire. • Management improvement: By strengthening our management structure, we intend to promote a resident-centric approach, fostering a culture of transparent communication and dedication to delivering high-quality repairs. Key changes will include the creation of a new Assistant Director for Repairs and the recruitment of additional operational managers. We will also work to improve our communication with residents, surveyor capacity, and post-inspection of works. • Focus on related functions: We will maintain a continuous emphasis on monitoring and evaluation, damp and mould, and complaints management to contribute to better service delivery. We have made progress in managing damp and mould cases and will implement a strategic plan to address complaints more effectively. Our aim is to cultivate a culture of accountability and collaboration, achieving improved interdepartmental coordination, and open communication with external stakeholders and contractors.

By executing this comprehensive strategy and fostering cultural changes, we strive to ensure that residents receive quality and value for money in housing repairs, ultimately increasing tenant trust in the Housing Service, and generating longer-term reductions in HRA revenue pressures for H&F.

Securing assurance on delivery of the Civic Campus Programme

Following the site incident (May 2022) and recommencement of works (October 2022), safety tests have taken place and remedial ground works are underway, and the recovery programme is scheduled to be completed by mid-2023. An updated programme was received from the contractor in April 2023 and arrangements are now in place for close monitoring of progress on site in accordance with it.

Robust governance is in place for the programme and is delivered in accordance with H&F's Programme Management Office standards. In addition to the build workstream, resources and plans are in place for delivering workstreams relating to establishing operations, digital, place shaping and commercial activities.

Clear governance arrangements are also in place for the Joint Venture company – between H&F and A2Dominion – delivering the new build works under 'Contract B'.

Housing Fire Safety

As of April 2023, The Building Safety Act requires H&F to register our 49 high-rise buildings and supply basic fire and structural safety information by September 2023. From October 2023, safety case reports and safety case files for each building are required to be submitted.

Major capital work enhancement programmes continue including external works, installation of suppression systems, and upgrading of fire doors.

We will continue to offer Personal Emergency Evacuation Plans (PEEPs) to our housing residents with priority focus on higher rise premises, and persons known to adult social care.

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

Delivery against the Safety Valve plan will be a priority in 2023/24 to ensure the HNB continues to move towards a position of structural balance by the end of the agreement in 2025/26. The £3m profiled Safety Valve payment for 2023/24 was paid early in 2023/24 in recognition of progress with respect to the Safety Valve plan.

Following consultation with Schools in Autumn 2022 further contributions to support High Needs were agreed in the schools' budget for 2023/24. Budget work for 2024/25 will commence through Schools Forum in Autumn 2023 once provisional funding allocations have been advised by the DfE.

Housing Revenue Account – Financial Sustainability

The financial position on the HRA will continue to be reviewed and monitored as part of the financial planning and budget setting processes of the Council. It is anticipated that the base deficit of £4.1m in 2022/23 will be reduced considerably in part due to the mitigations implemented in 2022/23 and the reliance on the use of reserves to balance the annual budget will be reduced. Further, it is expected that a strategy to maintain minimum balances on the HRA will be agreed in consultation with our External Auditors.

In addition, the HRA Business Plan that was approved in February 2022 will be scrutinised and updated and reported to a future Cabinet meeting.

6.0 Review conclusion

H&F is satisfied that the governance arrangements continue to be regarded as fit for purpose. A good 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 cost-of-living crisis. These will continue to be monitored to ensure that they remain effective and legally compliant throughout 2023/24 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

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 Corporate Resources), 'Director of Children's Services' (DCS) (Strategic 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)

Full Council established the new Policy and Oversight Board in May 2022, to oversee H&F's overview and scrutiny function. In 2022/23 this was delivered through six Policy and Accountability Committees (PACs), covering all of our major service areas. This included some changes to the PACs to reflect Cabinet Member portfolios. The PACs in 2022/23 were:

- Children and Education Policy and Accountability Committee
- Climate Change and Ecology Policy and Accountability Committee
- Health and Adult Social Care Policy and Accountability Committee
- Housing and Homelessness Policy and Accountability Committee
- Social Inclusion and Community Safety Policy and Accountability Committee
- The Economy, Arts, Sports and Public Realm Policy and Accountability Committee.

The members of the Policy and Oversight Board include each of the Chairs of the PACs. The PACs 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.

Committee members had access to the list of Key Decisions (a rolling list of Key Decisions which the Cabinet and individual Cabinet Members 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. Through the PACs, 30 non-executive members and 7 co-opted members participate in scrutinising Council business, external organisations such as the NHS, the Police, and other statutory bodies.

The Chair of the Health and Adult Social Care PAC is also a member of the North West London Joint Health Overview & Scrutiny Committee, alongside representatives from the boroughs of Brent, Camden, Ealing, Harrow, Hounslow, Kensington and Chelsea, Richmond, Wandsworth and Westminster. It meets with representatives of NHS inner North West London to consider matters concerning health care subject to consultation.

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 audit of the 2020/21 accounts was signed off by the external auditor on 26 May 2023

The Internal Audit service is a key means of assurance. It is responsible for reviewing the adequacy of the controls throughout all areas of H&F 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)[1]. 2022/23 has seen some changes to the external inspection framework, with a new local area inspection framework for Special Education Needs (SEND), a new framework for the inspection of Adult Social Services by CQC, new regulatory for high-rise buildings and enhancements to the inspection powers of the Regulator of Social Housing.

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. SLT meets weekly on thematic topic to ensure rigour extends across assurance, business matters and financial focus.

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. H&F's Sourcing Strategy sets out the approach to secure resident outcomes; value for money; modern and efficient operations through our forward plan; the operational procedures and training; and by securing added value.

Pillars of governance framework

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

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

Table 3: Pillars of H&Fs governance framework in 2022/23

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, Policy and Oversight Board 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 • Ombudsman reports • Electoral Commission reports • Policy and Oversight Board and PAC reviews • Effectiveness reviews of Audit Committee, Policy and Oversight Board, PACs and Internal Audit • Employee performance • Compliance with procurement regulations • Stakeholder engagement • Evaluation of benefits gained from investments and projects.

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 2022/23 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 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 will be discussed with management and the Audit Committee.

Name: Paul Dossett
For Grant Thornton UK LLP
Date:

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of the London Borough of Hammersmith and Fulham Council ('the Council') and the 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 2023 for the attention of those charged with governance.

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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 work was completed through a combination of on site and remote working during October 2023 to February 2024. Our findings are summarised on pages 6 to 23. We have identified no adjustments to the Council's financial statements. We have identified no adjustments to the Pension Fund financial statements. We have identified a number of potential adjustments (numerical/accounting errors) in both sets of financial statements which are below the materiality level; we invite management to make these adjustments, but management have concluded that as they are immaterial individually and cumulatively that they would not adjust these as they would not significantly impact users understanding of the accounts. We also identified a number of misclassification and disclosure issues which were highlighted during the audit and agreed to be updated in the financial statements. Audit adjustments are detailed in Appendix C.

We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B.

Our work is substantially complete on both the Council and Pension Fund audits and there are no matters of which we are aware that would require modification of our audit opinions [Appendix F and Appendix G) or material changes to the financial statements, subject to the following outstanding matters;

Council financial statements

- 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

- 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.

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. We were satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in the General Fund use of resources. We have not been able to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources within the Housing Revenue Account (HRA). A significant weakness was identified in the Council's arrangements which was reported to those charged with governance on 27 November 2023 and is summarised on page 25.

Our anticipated audit report opinion for the Pension Fund will be unmodified.

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 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	We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which was presented to those charged with governance in November 2023. We were satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in the General Fund use of resources. We identified a significant weakness in the Council's arrangements within the HRA and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of HRA resources. Our findings are summarised in the value for money arrangements section of this report (Section 3, page 24-25).
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 our audit work on: • The completion of procedures required to ensure the consistency of the financial statements with the pension fund annual report • The completion of procedures required for Whole of Government Accounts
Significant matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Council for their support in working with us to complete the 2022/23 audit in a timely manner, before the backstop date. There was a delay in signing off the Council's 2021-22 financial statements, 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 was a national rather than local issue. This has now been resolved and the 2021-22 audit has been reported to Audit Committee and the opinion was signed on 22 February 2024.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. We are satisfied from our VFM and audit work that this has been well managed by the Council. In reality the Council has one of the lowest levels of unsupported borrowing in London.

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 will be discussed with management and the Audit Committee].

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

Audit approach

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 September 2023.

Conclusion

We have substantially completed our audit of the Council and Pension Fund financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinions following the Audit Committee meeting on 11 March 2024, as detailed in Appendix F and Appendix G. These outstanding items include:

- Completion of senior management review of the completed audit work
- Receipt of management representation letter; and
- Review of the final set of financial statements.

Acknowledgements

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

2. Financial Statements

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Our approach to materiality

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

Financial Statement materiality for the Council and Pension Fund audits has increased since our audit plan was reported in September 2023. The Council's materiality continued to use the same benchmark of 1.5% of gross expenditure and was increased to reflect higher gross expenditure in the draft financial statements.

The Pension fund materiality was increased due to a change in the benchmark applied that increased from 0.95% to 1.5% of net assets. We have also introduced a separate Fund materiality in 2022/23 for the first time.

We set out in this table our determination of materiality for the Council and Pension Fund.

	Council Amount (£)	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	11,100,000	19,300,000	
Materiality for the Fund Account	-	6,300,000	
Performance materiality	7,700,000	9,375,000	
Trivial matters	600,000	625,000	
Materiality for senior officers' remuneration and key management personnel disclosures	100,000	-	There is a high level of stakeholder interest in these disclosures

2. Financial Statements: Significant risks

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

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

Risks identified in our Audit Plan	Risk relates to	Commentary
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; • For the Pension Fund audit, gained an understanding of the accounting estimates and critical judgements applied by management in the financial statements; • For the Council audit, 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 accounting between the General Fund and the Housing Revenue Account; and • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. In prior year audits we have identified that there is no two-stage authorisation process for journal entries in place. We have made recommendations in our Audit Findings Reports for the audits of 2020/21, 2021/22 and now 2022/23. Our audits to date have not identified any material misstatements or instances of management override of controls from our testing of journal entries. 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 B. 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 second 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 have not identified any issues arising from our work on the significant risk of management override of controls.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
ISA240 fraudulent revenue recognition (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Council and Pension Fund	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.
Fraud in expenditure recognition (rebutted) 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.	Council and Pension Fund	As reported in our Audit Plan, we 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 2022/23 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, at the planning stage we did not consider this to be a significant risk at 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.

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 £85m investment property at 31 March 2023) 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 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.	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 £85.5m 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 have not identified any issues arising from our work on the significant risk of the valuation of land and buildings.

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 £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 have been 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. Our audit plan identified the requirement for work to be performed on the triennial valuation as at 31 March 2022 to allow us to gain assurance on 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. As the valuation was finalised before the 2021/22 audit had completed, we requested that the Council obtained an updated IAS19 valuation based on the triennial valuation and the updated membership data. As this provided a material increase to the pension fund liability, the work planned for the 2022/23 audit was completed as part of the 2021/22 audit. We were satisfied from our testing of the updated membership data that it was complete and accurate, and we were also satisfied from our work and challenge (including use of an auditor's expert actuary) that the assumptions used in the triennial valuation are reasonable. We have not identified any issues arising from our work on the significant risk of the pension fund net liability.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of Level 3 Investments The Fund revalues 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 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.	Pension Fund	We have: • fund managed an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls; • reviewed the nature and basis of estimated values and considered 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; • considered the competence, expertise and objectivity of any management experts used; • reviewed the qualification of the expert used to value Level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached; and • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts at the latest date for individual investments and agreeing these to the manager reports at that date. Reconcile those values to the values at 31 March 2023 with reference to known movements in the intervening period. During the testing performed, we identified variances totalling £3.201m between the value of the Level 3 Investments included within the Accounts and the year-end confirmations received from the relevant Fund Managers. These variances were due to the Fund Managers valuations considering more up to date information relating to the value as at 31 March 2023 than was available when the draft Accounts were produced. As these variances are not material, management has decided not to amend the Accounts, and these variances have been reported as an unadjusted misstatement later in the Report. This is consistent with prior year, due to timing of the statements and the production of the accounts. We have not identified any issues arising from our work on the significant risk of the pension fund's valuation of level 3 investments.

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2. Financial Statements: Other risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Minimum Revenue Provision 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.	Council	We have: • Understood and documented the Council's current policy for calculating the MRP charge for the year and evaluated whether this is in accordance with the statutory guidance; • Confirmed that the MRP policy has been appropriately understood and approved by Council's members; and • Substantively tested the inputs into the MRP calculation back to supporting evidence and the financial statements. • Formed a judgement that MRP provision made by the Council is prudent and in compliance with DLUHC/CIPFA requirements. We have not identified any issues arising from our work on the Minimum Revenue Provision.
Breach of the HRA ringfence 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.	Council	We have: • Specifically identified and tested any unusual journals which impact the HRA and General Fund in unexpected transactions; and • Tailored 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. We have not identified any issues arising from our work on the Housing Revenue Account ringfence

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2. Financial Statements: key judgements and estimates

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 – £339.4m Investment properties - £85.5m	Other land and buildings comprises £262m 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 (£57.8m) 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. 98.5% of total land and buildings assets were revalued during 2022/23. 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 £339.4m, a net increase of £4.3m from 2021/22 (£335.1m). Investment properties comprising £85.5m of assets (garages, car parks and retail units predominantly) are required to be valued at fair valuer at the year end. The valuer has based the revaluation movements for the Council's investment portfolio on capitalising the rental income by an appropriate yield, which is referred to as the 'investment method'. The rental income was provided to the Valuer and the yields adopted were based on comparables and the valuer's opinion of value in relation to the variety of investments assets.	• 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, EUV for non-specialised properties and FV for investment properties. • 98.5% of properties have been valued as at 31 March 2023. • 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. • We have considered the Council's response to recent findings about RAAC (Reinforced Autoclaved Aerated Concrete) and whether its presence would cause a material misstatement to the value of their land and buildings. No significant findings were identified from our audit of the accounting estimate relating to valuation of Land and Buildings.	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
Net pension liability - £89.9m	The Council's total net pension liability at 31 March 2023 is £89.9m (PY £447.1m) 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.	• 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 2022/23 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 our comparison of actuarial assumptions:	Light Purple

Assumption	Actuary Value	PwC Range	Assessment
Discount rate	4.75%	4.75%	●
Pension increase rate	3.00%	2.95% - 3.00%	●
Salary growth	4.00%	1.00% above CPI	●
Life expectancy – Males currently aged 45/65	21.8 / 22.8	PwC state the actuary's approach gives a reasonable best estimate life expectancy (by use of Club Vita table)	●
Life expectancy – Females currently aged 45/65	24.5 / 25.8		●

- 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 2022/23 to the valuation method.
- Our work confirms that the decrease in the IAS 19 estimate is reasonable.

No significant findings were identified from our audit of the accounting estimate relating to valuation of the net pension liability.

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
Net pension liability - £89.9m		See below	Light Purple

- We have assessed the actuary, Hymans Robertson, 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 2022/23 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 our comparison of actuarial assumptions:

Assumption	Actuary Value HR	PwC Range	Assessment
Discount rate	4.80%	4.8 – 4.85%%	
Pension increase rate	2.90%	2.65% - 2.95%	
Salary growth	3.90%	1.00% above CPI	
Life expectancy – Males currently aged 45/65	20.5 / 21.3	PwC state the actuary approach gives a reasonable best estimate life expectancy (by use of Club Vita table)	
Life expectancy – Males currently aged 45/65	23.6 / 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 2022/23 to the valuation method.
- Our work confirms that the decrease in the IAS 19 estimate is reasonable.

No significant findings were identified from our audit of the accounting estimate relating to valuation of the net pension liability of the London Pension Fund Authority as determined by Hymans Robertson.

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

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2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings valuation – Council housing - £1,460.0m	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 £1,460.0m, a net decrease of £14.4m from 2022/23 (£1,474.4m).	• 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 2023 No significant findings were identified from our audit of the accounting estimate relating to valuation of Council Housing.	Light Purple
Provision for NNDR appeals - £10.9m	The Council is responsible for repaying a proportion of successful rateable value appeals. In 2022/23, 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

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 -	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 £2.2m, a net increase of £0.2m from 2021/22 (£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 2021/22 • 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

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
Pension Fund Level 3 Investments - £186.4m	The Pension Fund has Level 3 investments in private equity funds that in total are valued on the net assets statement as at 31 March 2023 at £186m. 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. Valuations are based on forward looking estimates by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. The value of the investment has increased by £55m in 2022/23.	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 at the closest date to 31 March 2023; • assessed the consistency of the estimate against peers and industry practice; • reviewed the reasonableness of the increase in the estimate; and • assessed the adequacy of disclosure of estimate in the financial statements. During the testing performed, we identified variances totalling £3.201m between the value of the Level 3 Investments included within the Accounts and the year-end confirmations received from the relevant Fund Managers. These variances were due to the Fund Managers valuations considering more up to date information relating to the value as at 31 March 2023 than was available when the draft Accounts were produced. As these variances are not material, management has decided not to amend the Accounts, and these variances have been reported as an unadjusted misstatement later in the Report. This is consistent with prior year, due to timing of the statements and the production of the accounts. Our audit procedures in this area are substantially complete, with no issues arising to date.	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
Pension Fund Level 2 Investments - £1,073.9m	The Pension Fund has Level 3 investments in private equity funds that in total are valued on the net assets statement as at 31 March 2023 at £186m. 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. Valuations are based on forward looking estimates by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. The value of the investment has decreased by £82m in 2022/23, largely driven by 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 at the closest date to 31 March 2023; • assessed the consistency of the estimate against peers and industry practice; • reviewed the reasonableness of the increase in the estimate; and • assessed the adequacy of disclosure of estimate in the financial statements. Our audit procedures in this area are substantially complete, with no issues arising to date.	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: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating			
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks
SAP **Covering general ledger, accounts payable, accounts receivable and payroll**	ITGC assessment (design and implementation effectiveness only) ISAE3402 Report Review	● (green)	● (green)	● (green)	● (green)	Management override of controls – no issues arising

Assessment

- ● (red) Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● (amber) Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● (green) IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● (grey) Not in scope for testing

2. Financial Statements: other communication requirements

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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 the 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 the Pension Fund in advance of the finalisation of the audit and the issue of our audit opinions on the financial statements.
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.
Significant difficulties	We encountered no significant difficulties during the Council and Pension Fund audits. Officers and the audit team have worked collaboratively to progress the audit in a shorter timeframe than the two prior years.

2. Financial Statements: other communication requirements

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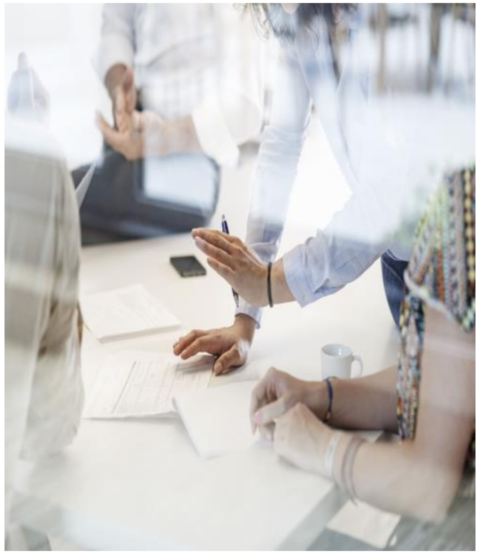
Our responsibility

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 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 Pension Fund and the environment in which they operate • 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 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 Council and Pension Fund 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 - Council	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 a significant weakness. As set out on pages 24-26, we have identified and reported a significant weakness in respect of arrangements to secure value for money. We have nothing further to report on these matters.
Matters on which we report by exception – Pension Fund	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. We propose to issue our 'consistency' opinion on the Pension Fund Annual Report on the same day we give our audit opinion, subject to review of the final version of this report. We are required to report if we have applied any of our statutory powers or duties as outlined in the Code. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. We note that work is not required as the Council does not exceed the threshold;
Certification of the closure of the audit	We intend to certify the closure of the 2022/23 audit of the London Borough of Hammersmith and Fulham Council in the audit report, as detailed in Appendix F and G.



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

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 completed our VFM work and our Auditor's Annual Report, covering both the 2021/22 and 2022/23 financial years was communicated to the Audit Committee as those charged with governance on 27 November 2023. Our findings are summarised in the table below. We identified a cross-cutting significant weakness in Housing (the Housing Revenue Account and service performance) which impacted the VFM themes Financial Sustainability (the financial sustainability of the Housing Revenue Account where reserves have been eroded significantly) and Improving Economy, Efficiency and Effectiveness (where the Council has not met the minimum service standard during 2021/22 and 2022/23 years, and the Housing Ombudsman has found Hammersmith and Fulham to be the worst performing landlord in the country with regard to its damp and mould in properties). We have made 2 key recommendations in our Auditor's Annual Report related to these issues.

Criteria	2021/22	Direction of travel	2022/23	Auditor Judgement
Financial sustainability ***(excluding the Housing Revenue Account)***				Generally appropriate arrangements in place with regard to financial sustainability but two improvement recommendations made with regard to savings identification, development and reporting and the capital programme. The Council enjoyed strong performance in 2021/22 and 2022/23. The medium-term financial forecast indicates a challenging position in common with much of local government with regard to savings identification and potential use of reserves. ***This is excluding the position on the financial sustainability of the Housing Revenue Account (HRA).***
Governance				No significant weaknesses in arrangements identified, but three improvement recommendations made relating to risk management, Audit Committee arrangements and the monitoring of Council-owned companies.
Improving economy, efficiency and effectiveness ***(excluding the service performance in Housing)***				Generally sufficient arrangements in place with regard to improving economy, efficiency and effectiveness but two improvement recommendations made. The Council has performed well in key service areas and can point to a number of successes during 2021/22 and 2022/23. ***This is excluding the service performance in Housing.***
Financial sustainability and Improving economy, efficiency and effectiveness **Cross-cutting weakness**				**Significant weakness in Housing (HRA and service performance)** Impacting VfM themes: ✓ Financial sustainability ✓ Improving economy, efficiency and effectiveness Significant weakness identified in Housing relating to (1) the financial sustainability of the Housing Revenue Account (HRA) and (2) the service performance in Housing. We have issued two key recommendations. The nature of the significant weakness and the key recommendation against that weakness has been fully set out and communicated in our Auditor's Annual Report which was taken to the Audit Committee meeting on 27 November 2023.

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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 and consider that an objective reasonable and informed third party would take the same view. 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in 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 Grant Thornton International Transparency report 2023.

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 as being provided for the 2022/23 financial year. We have set these out below, as well as 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 £218,106 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 £218,106 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.
Certification of Housing Benefit Subsidy Claim (Council)	43,000 (indicative fee, to be finalised)	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £43,000 in comparison to the total fee for the audit of £218,106 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 £218,106 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's policy on the allotment of non-audit work to your auditors.

None of the services provided are subject to contingent fees.

5. Independence and ethics

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 Council and Pension Fund 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 Council and Pension Fund
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 Council or Pension Fund 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 Council and Pension Fund
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, any Council Members, senior management or staff

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 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

Following this consideration, we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

Appendices

A. Communication of audit matters to 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	•	
Confirmation of independence and objectivity	•	•
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 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 involving management and/or which results in material misstatement of the financial statements		•
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 Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Follow up of prior year recommendations

We identified the following issues in the audit of the London Borough of Hammersmith and Fulham Council's 2021/22 and 2020/21 financial statements. The 2022/23 Audit Findings Report was agreed with management and presented to those charged with governance in November 2023. As such, there has been limited progress on the findings, that we will continue to follow up on as part of our 2022/23 audit. We have provided commentary on actions taken to address the issue and on whether the issue has arisen in the 2022/23 audit.

Assessment	Issue and risk previously communicated	Recommendation made and response	Update on actions taken to address the issue
X	**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. This issue was consistent in the 2022/23 audit.	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.	Raised as part of 2021/22 audit, and ongoing in the 2022/23 financial year.
X	**Bank reconciliation issues** In our review of the council's bank reconciliation to gain assurance over cash and cash equivalents we also found that a supplementary reconciliation was required to reconcile the core bank reconciliation to the closing Trial Balance. We were able to gain sufficient assurance that there was no significant issue which would lead to misstatement of the cash and bank balance in the general ledger and accounts but the bank reconciliation is a fundamental one, and we would recommend that this process is reviewed. This issue was consistent in the 2022/23 audit.	We would recommend for audit purposes, that the bank reconciliation provided should be the one that reconciles the amount in the closing TB to the bank statement as at 31/03/2023. **Management response** Agreed – the final bank reconciliation for the year is undertaken in two stages to allow for the accrual of the final income manager interface file for the year (which takes place after the completion of the core bank reconciliation). We will investigate opportunities to simplify this process and endeavour to produce a single, consolidated year-end bank reconciliation.	Raised as part of 2021/22 audit, and ongoing in the 2022/23 financial year.
X	**Missing Bank Account within Cash and Cash Equivalent Balance** Upon reviewing the completeness of the bank account, it was noted that 1 bank account amounting to £12k was not included in the Council's bank balance as at year end. Upon discussion with management with regards to the business process in ensuring the completeness of the bank accounts of the Council, it was noted that a review of the completeness of bank accounts held by the Council is not regularly undertaken. The account was used for funeral payments and emergency funds for residents referred to the Client Affairs (Social Care) service, and deposit money found from property searches and should have been included in the Council's cash balance. This issue was consistent in the 2022/23 audit. There were 3 such accounts amounting to 14k in 22/23.	We recommend that the completeness of the bank accounts are performed annually to avoid omission of bank balance. **Management response** Agreed.	Raised as part of 2021/22 audit, and ongoing in the 2022/23 financial year.

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Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Recommendation made and response	Update on actions taken to address the issue
X	**Housing Benefit Expenditure Reconciliation Issues** Whilst performing reconciliation of the year end Housing Benefit expenditure from the HB system to GL, there has been a variance of noted. As discussed with the Council, the variance is due to the timing difference as the data interfaced through 2 systems (Academy to NEC and NEC to SAP) which will contra out the following week as and when the specific cycle of interfaces complete the full interface circle. This transaction creates uncertainty on the completeness and may lead to potential misstatement of the Housing Benefit expenditure. This issue was consistent in the 2022/23 audit.	We recommend that the reconciliation between HB system and GL is completed each year, in order to keep a full audit trail. Also, that the underlying listings for the HB system including reliefs and exemptions, are retained as evidence for the system reconciliations and for sampling for the system at year end audit fieldwork. **Management response** Agreed	Raised as part of 2021/22 audit, and ongoing in the 2022/23 financial year.
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. This issue was consistent in the 2022/23 audit.	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.
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. We didn't find any issues or errors in our grants and contributions sample testing during the 2022/23 audit, but we note that the review is ongoing.	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.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Recommendation made and response	Update on actions taken to address the issue
X	**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. We identified some issues in our debtors testing which indicated that there are still some issues with legacy and older debtor balances which are not likely to be recoverable (including in collection fund debtors). We were satisfied from our testing of the expected credit loss/provision against debtors that this would not lead to any significant misstatement of the net debtor balance, but our view is that older unrecoverable gross debtors should be written out of the debtor ledger through regular housekeeping review.
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. This was an issue identified during the 2020/21 and 2021/22 audits and which was observed consistently during the 2022/23 audit. Whilst we are satisfied that this has not given rise to a material error in the 2022/23 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

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

The set of financial statements presented for audit included group accounts where West King Street Renewal LLP had been incorrectly treated as a subsidiary of the Council. Following discussion with management, the group accounts disclosures have been removed and West King Street Renewal LLP has been correctly accounted for as an investment.

Misclassification and disclosure changes

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

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
Cashflow Statement Other receipts from investing activities amened from £38,483k to £45,975k	Management have agreed to amend the disclosure note	✓
Note 25 – Officer's Remuneration Draft accounts included the salary earned for the full financial year by the incoming S151 Officer, not just the amount relating to their role as S151 officer.	Management have agreed to amend the disclosure note	✓
Note 21 - Financial Instruments The following disclosure amendments have been made: • Long-term investments balance amended from £195k to £295k • Trade overdraft amended from £8,986k to £0 • Cash and cash equivalents amended from £151,610k to £142,624k • Fair value of loans amended from £255,562k to £225,562k • Short term debtors balance amended from £25,865k to £27,872k • Short term creditors balance amended from £100,178k to £67,735k	Management have agreed to amend the disclosure note	✓
Note 27 – Defined Benefit Schemes Net remeasurement of assets/(defined liability) amended from (£427,772) to (£427,534) to incorporate the impact of the application of the pension asset ceiling for LPFA	Management have agreed to amend the disclosure note	✓
Note 31 – Related Parties Draft accounts included three related parties that did not meet the IAS24 requirements and should therefore not have been disclosed.	Management have agreed to amend the disclosure note	✓
Note 33 – Interest in Companies Two council subsidiaries have been declared dormant or dissolved during the 2022/23 year which was not noted in the disclosure note	Management have agreed to amend the disclosure note	✓
Note 23 – External Audit Costs The disclosure of external audit costs was updated (from £144k to £231k) to agree to the proposed fee per the plan. Note that there are further revisions to the final audit fee contained in this report Appendix D.	Management have agreed to amend the disclosure note	✓

C. Audit Adjustments (continued)

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Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 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	Balance Sheet £'000	Impact on total net expenditure £'000	Reason for not adjusting
Provision overstatement One of the provisions we tested was considered to be overstated by £970k.	(970) Provision expenditure	970 Provision	(970)	This is an immaterial change to the provision, adjusting the accounts would not materially change the financial position
Unrecorded liabilities Audit testing identified a number of 2022/23 payments made through the bank account that had not been accrued for in the 2022/23 financial statements. The potential error has been extrapolated	1,262 Other expenditure	(1,262) Short-term creditors	1,262	This was an immaterial projected misstatement therefore not appropriate for management to adjust the financial statements for but gives assurance that those accounts areas are not materially misstated based on the errors found in our testing.
Other expenditure Audit testing identified a number of 2021/22 items of expenditure that should have been accrued for, but were not, hence were recorded in 2022/23, overstating the 2022/23 expenditure. The potential error has been extrapolated.	(959) Other expenditure	959 Reserves	(959)	This was an immaterial projected misstatement therefore not appropriate for management to adjust the financial statements for but gives assurance that those accounts areas are not materially misstated based on the errors found in our testing.
Overall impact	(667)	667	(667)	

C. Audit Adjustments (continued)

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'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	3,900 Collection Fund Smoothing Reserve (3,900) 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.
Additions relating to the 20/21 Financial Year Within the sample testing aspect of additions work there were both factual and extrapolated errors. These were additions items that should have been accounted for within the 20/21 financial year, however, were instead accounted for in 21/22.	Nil	2,500 Additions SOA 20/21 (2,500) Additions SOA 21/22	Nil	This adjustment is not material, therefore not appropriate for a Prior Period Adjustment. We would not propose an extrapolated error for adjustment in the statements, but this gives assurance that those accounts areas are not materially misstated based on the errors found in our testing.
22/23 Expenditure in 21/22 Accounts An item was found within the 21/22 Expenditure Population that related to Expenditure incurred in relation to 22/23 financial year. This error was isolated to the year-end population, due to its nature and a projected error of an overstatement of expenditure and understatement of prepayments of £4,154,185.58, was calculated accordingly.	(4,100) Expenditure	4,100 Prepayments	(4,100)	This was an immaterial projected misstatement therefore not appropriate for management to adjust the financial statements for but gives assurance that those accounts areas are not materially misstated based on the errors found in our testing.
Expenditure Completeness During the invoice and bank completeness testing a projected error was calculated in relation to 5 failed sample items whereby an accrual should have been completed in the 21/22 Year but was not. The extent of this error has been projected to £3.6m of expenditure that was not accrued for within the closedown process.	£3.6m (Expenditure)	(£3.6m) (Creditors)	£3.6m	This was an immaterial projected misstatement therefore not appropriate for management to adjust the financial statements for. We would not propose an extrapolated error for adjustment in the statements, but this gives assurance that those accounts areas are not materially misstated based on the errors found in our testing.
Overall impact	(£0.5m)	(£2m)	(£0.5m)	

C. Audit Adjustments - Pension Fund

Impact of adjusted misstatements

No non-trivial misstatements have been identified in the financial statements, which management has adjusted for.

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 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 assets	Reason for not adjusting
<u>Triangulation testing of investments</u> In our triangulation testing of investments the Abrdn MSPC Level 3 investment was understated in value by £3.2m. This was due to timing differences in the availability of valuation information from the Fund Manager.	3,201 Change in market value	(3,201) Investment assets	£3.2m increase	Management do not consider the difference to be material.
<u>Allocation of contributions</u> Audit testing identified that £796k of deficit recovery contributions had been incorrectly classified as employee contributions. This has no impact on the total contribution payments.	796 Deficit recovery contributions (796) Employee contributions	Nil	Nil	Management do not consider the difference to be material.
Overall impact	**3,201**	**(3,201)**	**3,201**	

C. Audit Adjustments - Pension Fund

Misclassification and disclosure changes

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

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
During our substantive testing, we found that the fund manager classified "Abrdn MSPC" as a level 2 investment, but fund manager classified this investment under level 3 and we were unable to trace the unit price from external source, which led us to conclude that the investment should be classified as level 3 investment rather than level 2 investment. We recommended client to classify this investment under Level 3 rather than Level 2 investment.	Management have agreed to amend the disclosure note	✓

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

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.	(1,730)	1,730	(1,730)	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.	1,740	(1,740)	1,740	Management do not consider the difference to be material.
Overall impact	10	(10)	10	

D. Fees and non-audit services

We confirm below our final fees charged for the audit and provision of non-audit services:

Audit fees	Proposed fee	Final fee
Scale fee	144,367	22,420
Reduced materiality	5,625	-
Group consideration – additional work around the consideration and review of group entities, and the joint venture and the valuation of investment	4,000	-
Additional work due to the triennial pension valuation	5,000	5,000
Value for Money audit – new NAO requirements	20,000	-
PPE valuation expert	7,364	-
ISA 540	6,000	3,600
Additional journals testing	3,000	2,000
Quality review – response to FRC (additional file review)	1,500	-
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	-
Investment valuation work – additional focus on Level 3 valuation	-	5,036
Additional fee overruns – continuing consecutive running of the 2021/22 audit due to previous delays requiring additional audit team time input	5,000	3,000
Remote working	10,000	5,000
Council Audit	218,106	49,556
Total audit fees (excluding VAT)	**£218,106**	**£49,556**

D. Fees and non-audit services

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	**Proposed fee**	**Final fee** Note 1
Council Audit	£231,117	£218,106
Pension Fund Audit	£47,750	£49,556
Total audit fees (excluding VAT)	£278,867	£267,662

Non-audit fees for other services	**Proposed fee**	**Final fee**
Agreed upon procedures relating to pooling of housing capital receipts	£7,500	£7,500
Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate	£7,500	£7,500
Certification of Housing Benefit Subsidy Claim	£43,000 (indicative)	£TBC
CFO Insights Subscription	£12,500	£12,500
Total non-audit fees (excluding VAT)	**£60,125**	**£60,125**

Note 1 – note that our fee in our audit plan was proposed prior to completing the 21/22 audit and estimated through inputs used in that audit which were high due to some delays and technical/national issues encountered. We have since reviewed the fee elements and more granular way and this has led to the difference to the final fee.

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

E. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

F. 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 2023, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and 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.

F. Audit opinion - Council

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 other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon, and our auditor's report on the pension fund 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 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

In our opinion, based on the work undertaken in the course of the audit of the financial statements, 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.

Responsibilities of the Authority and the Director of Finance

As explained more fully in the Statement of Responsibilities for the Statement of Accounts [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 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.

F. Audit opinion - Council

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 they have been informed by the relevant national body of the intention to dissolve the Authority 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 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, the Local Government Act 1972, the Local Government and Housing Act 1989 and the 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 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 management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and the potential for management bias in determining accounting estimates for the valuation of land and buildings and the valuation of the defined benefit liability. We determined that the principal risks were in relation to:

- the propensity of external reporting pressures to exert influence on management's approach to the use of large and unusual manual journal entries;
- journal entries which impacted the general fund and housing revenue account which might manipulate the financial position of the housing revenue account;
- potential management bias in determining material accounting estimates which were subject to significant management judgement, a high level of estimation uncertainty and high sensitivity to small changes in assumptions.

Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on 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 defined benefit pension liability, and
- 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.

F. Audit opinion – Council

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including significant accounting estimates related to land and building valuations and accruals. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

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, except on 27 November 2023 we identified a significant weakness in how the Authority plans and manages its resources to ensure it can continue to deliver its services. This was in relation to the Authority's arrangements for managing and maintaining the ongoing financial sustainability of the Housing Revenue Account, and the Authority's arrangements for ensuring that the service performance in provision of housing meets the minimum core service standard. We recommended that:

- the Authority take immediate action to ensure that the Housing Revenue Account is returned to an operating surplus position and to increase the general reserves in the Housing Revenue Account;
- the Authority undertake a comprehensive exercise to improve the quality of stock condition survey data;
- the Authority continue its improvement journey with the operational performance of its housing service to ensure that it is meeting a minimum core service standard.

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.

F. Audit opinion – Council

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 – Audit certificate

We certify that we have completed the audit of 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.

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:

Paul Dossett, Key Audit Partner

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

G. Audit opinion – Pension Fund

Our audit opinion is included below.

We anticipate we will provide the Pension Fund with an unmodified audit report

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

Opinion on financial statements

We have audited the financial statements of the Hammersmith and Fulham Pension Fund (the 'Pension Fund') administered by the London Borough of Hammersmith and Fulham (the 'Authority') for the year ended 31 March 2023, 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 2022/23.

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 2023 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 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 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.

G. Audit opinion – Pension Fund

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.

G. Audit opinion – Pension Fund

Responsibilities of the Authority and the Director of Finance

As explained more fully in the Statement of Responsibilities for the Statement of Accounts [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 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 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 (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, the Local Government Act 2003, the Public Services 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, 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 Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating management's 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:

- The propensity of external reporting pressures to exert influence on management's approach to recognition of transactions in the Fund Account; 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
- potential management bias in determining accounting estimates made in respect of the valuation of assets and liabilities in the Net Assets Statement

G. Audit opinion – Pension Fund

Our audit procedures involved:

- evaluation of the design effectiveness of controls that management 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 Level 3 investments, and
- 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. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

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 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:

Paul Dossett, Key Audit Partner

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

Grant Thornton

grantthornton.co.uk

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

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

11 March 2024

Dear Grant Thornton UK LLP

London Borough of Hammersmith and Fulham

Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of London Borough of Hammersmith and Fulham for the year ended 31 March 2023 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 the valuation of land and buildings, including Council Dwellings and Investment Properties, the assumptions used in the valuation of the net defined benefit liability, the valuation and completeness of provisions, and expected credit loss allowances in respect of short- and long-term debtors. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the Council has been assigned, pledged or mortgaged

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. 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 Council's Audit Committee at its meeting on 11 March 2024.

Yours faithfully,

Name: Cllr. Patrick Walsh

Position: Chair, Audit Committee

Date :

Name: Sukvinder Kalsi

Position: Director of Finance

Date:

Signed on behalf of the Council

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

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

11 March 2024

Dear Sirs

Hammersmith and Fulham Pension Fund
Financial Statements for the year ended 31 March 2023

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 2023 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 the valuation of investments, in particular those held at level 3 in the fair value hierarchy which have significant unobservable inputs into the valuation techniques, and the disclosure of actuarial present value of promised retirement benefits. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the Fund has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

x. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. 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.

Approval

The approval of this letter of representation was minuted by the Fund’s Audit Committee at its meeting on 11 March 2024.

Yours faithfully,

Name: Cllr. Patrick Walsh

Position: Chair, Audit Committee

Date :

Name: Sukvinder Kalsi

Position: Director of Finance

Date:

Signed on behalf of the Fund

Annual Report

Hammersmith & Fulham Pension Fund 2022/23

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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 2022/23.

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 2023. 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 2022, with the funding level improving significantly from 97% in 2016, to 105%. This is primarily as a result of strong investment returns over the period. The 2022 Triennial Valuation completed in year, with the London Borough of Hammersmith and Fulham Pension Fund being 105% funded as at 31 March 2022.

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 through the use of a bespoke ESG Dashboard, which can now be found on the Pension Fund website - Investment Performance & ESG | Hammersmith and Fulham Pension Fund (lbhfpensionfund.org)

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.

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:

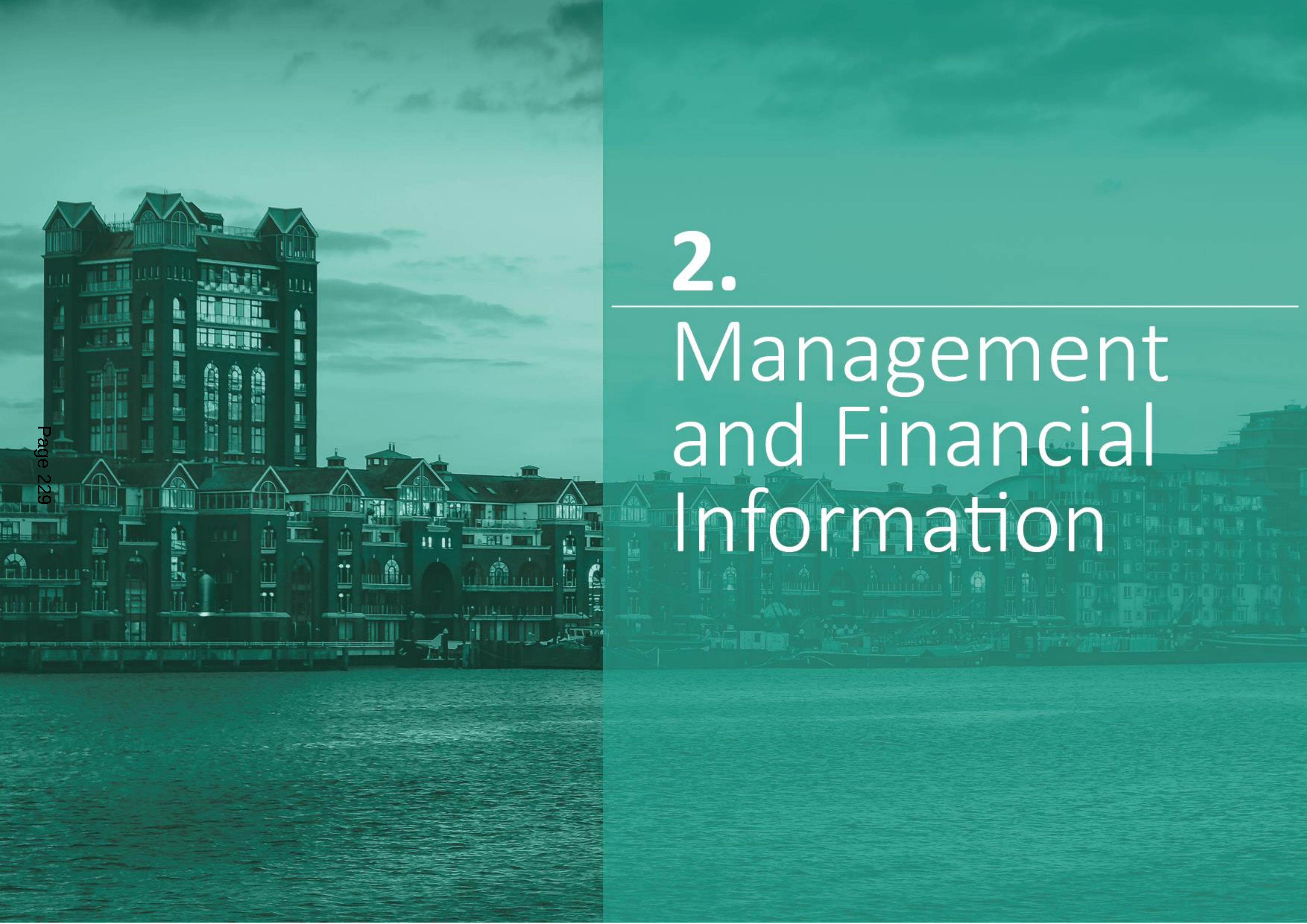
- **Management and Financial Performance** which explains the governance and management arrangements for the Fund, as well as summarising the financial position and the approach to risk management.
- **Investment Policy and Performance** which details the Fund's investment strategy, arrangements and 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 2023.

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

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



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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 five elected representatives of the council – four 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 2022/23 of the Pension Fund Committee is set out below.

Councillor	Committee Attendance 2022/23
Ross Melton (Chair)	6/6
Adrian Pascu-Tulbure (Vice Chair)	5/6
Lauren Janes	5/6
Adam Peter Lang	5/6
Florian Chevoppe-Verdier	6/6

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 2022/23 is set out below.

Board Member	Employer/Employee	Attendance 2022/23
Cllr Nikos Souslous (Chair)	Employer	2/2
Cllr Rory Vaughan	Employer	2/2
William O'Connell	Employee	1/2
Khadija Sekhon	Employee	0/2
Neil Newton	Employee	2/2

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 2022/23 knowledge was gained at various meetings with investment managers in addition to individual attendance at conferences and seminars.

Further relevant training is planned for 2023/24 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 22-23

EXTERNAL PARTIES

Investment Advisor	Deloitte		
Investment Managers	**Global Equities (Passive)** Legal & General Investment Management Morgan Stanley Investment Management **Private Multi-Asset Credit** Partners Group Aberdeen Standard **Infrastructure** Aviva Investors Partners Group	**Absolute Return** Ruffer **Fixed Income** Oakhill Advisors **Long Lease Property** Aberdeen Standard **Private Equity** Unigestion	**Ground Rents** Alpha Real **Illiquid Alternatives** Darwin **Affordable Housing** Man Group
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 (Until July 2022) Sukvinder Kalsi		
Tri-Borough Pensions Team	Phil Triggs Matt Hopson (Until September 2022) Mat Dawson	Patrick Rowe Julia Stevens Billie Emery	Alastair Paton Ruby Vuong Siân Cogley
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	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 Brexit factors, including ongoing supply chain issues and reduced trade and economic activity, as well as diminished UK financial and investment market activity.	Medium	Tri-Borough Director of Pensions and Treasury	Officers regularly consult and engage with advisors and independent managers.

THIRD PARTY RISKS

The Council has outsourced the following functions of the Fund:

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

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

To mitigate the risks regarding investment management and custodianship of assets, the Council obtains independent internal controls assurance reports from the reporting accountants to the relevant service providers. These independent reports are prepared in accordance with international standards. Any weaknesses in internal controls highlighted by the control's 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 2023.

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
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
Alpha Real Capital	AAF 01/20	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 decreased by £34m during 2022/23, to £1,290m as at 31 March 2023, this was largely as a result of negative performance within the global equity mandate, fixed income portfolios and long lease property, much of which relates to negative sentiments in global markets.

A triennial revaluation was completed in 2019/20 showing an improvement in the overall funding level to 97% compared to 88% in 2017. 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 2022 and set employer contribution rates from 1 April 2023 onwards and shows a further funding level of 105%.

ANALYTICAL REVIEW – FUND ACCOUNT

	2018/19	2019/20	2020/21	2021/22	2022/23
Fund account	£'000	£'000	£'000	£'000	£'000
Dealings with members					
Contributions	(36,386)	(37,869)	(41,534)	(42,920)	(43.807)
Pensions	48,846	52,660	52,088	54,096	54,869
Net (additions)/withdrawals from dealings with members	12,460	14,791	10,554	11,176	11,062
Management expenses	6,199	5,866	8,903	9,915	8,283
Investment Income	(11,967)	(14,642)	(12,327)	(11,170)	(24,673)
Change in market value	(49,142)	36,172	(215,444)	(115,585)	39,819
Net (increase)/decrease in the Fund	**(42,450)**	**41,187**	**(208,337)**	**(105,690)**	34,470

Over the five-year period, pensions paid have exceeded contributions received by £60m 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

	2018/19	2019/20	2020/21	2021/22	2022/23
Net Asset Statement	£'000	£'000	£'000	£'000	£'000
Bonds	-	-	-	-	-
Equities	150	150	150	150	150
Pooled investment vehicles	1,034,851	946,792	1,214,810	1,287,378	1,260,391
Commodities	-	-	-	-	-
Derivatives	-	-	-	-	-
Cash deposits	12,843	59,524	8	32,104	20,245
Other	34	26	13	7	39
Total Investment Assets	1,047,878	1,006,492	1,214,981	1,319,639	1,280,675
Current assets	5,396	5,572	3,664	4,525	3,911
Current Liabilities	(1,201)	(1,178)	(1,100)	(2,118)	(1,979)
Net (increase)/decrease in the Fund	**1,052,073**	**1,010,886**	**1,219,223**	**1,324,913**	**1,290,443**

The points to note are:

- 94% of pooled investment vehicles comprise equity shareholdings both domestic and overseas, while the remaining 6% is in property pooled funds.
- The overall value of pooled investment vehicles decreased by £27m (3%) during the year.

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

Financial Performance (continued)

ANALYSIS OF DEALINGS WITH SCHEME MEMBERS

	2018/19	2019/20	2020/21	2021/22	2022/23
Contributions Receivable	£'000	£'000	£'000	£'000	£'000
- Members	(7,157)	(7,408)	(8,004)	(8,735)	(9,539)
- Employers	(25,074)	(26,135)	(24,180)	(25,568)	(27,421)
- Transfers in	(2,934)	(4,326)	(9,350)	(8,617)	(6,847)
- Other	(1,221)	-	-	-	-
Total Income	**(36,386)**	**(37,869)**	**(41,534)**	**(42,920)**	**(43,807)**

	2018/19	2019/20	2020/21	2021/22	2022/23
Benefits Payable	£'000	£'000	£'000	£'000	£'000
- Pensions	32,912	34,916	36,363	37,839	40,045
- Lump sum retirements and death benefits	8,167	9,400	8,672	10,368	8,002
- Transfers out	7,726	7,225	7,013	5,737	6,738
- Refunds	41	119	40	152	84
Total Expenditure	48,846	51,660	52,088	54,096	54,869
Net Dealings with Members	**12,460**	**13,791**	**10,514**	**11,176**	**11,062**

The key variances were due to the following:

- Lump sums decreased due to less 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.

	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
Administration					
Employees	214	223	279	230	236
Supplies and services	132	139	254	354	314
Other Costs	2	3	3	2	2
Total Administration Costs	348	365	536	587	**552**
Governance and Oversight					
Employees	337	447	550	637	409
Investment advisory services	93	81	109	59	97
Governance and compliance	56	134	125	151	126
External audit	16	25	-4	40	45
Actuarial fees	50	79	54	35	40
Total Governance and Oversight Costs	552	766	834	922	**717**
Investment Management					
Management fees	4,763	4,250	5,446	6,431	5,428
Performance fees	244	36	257	79	107
Transaction costs	185	421	1,764	1,845	1,377
Custodian fees	107	28	66	51	102
Total Investment Management Fees	5,299	4,735	7,553	8,406	**7,014**
Total Operational Expenses	**6,199**	**5,866**	**8,903**	**9,915**	**8,283**

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. The onboarding process is now complete, so for 2022/23 the supplies and services costs have reduced from the previous year.

The Fund's investment management expenses decreased by 16% during the year. The main driver of this decrease in cost was the result of the Fund's managers achieving lower returns than in the previous 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 (LPPA)	Target	2020/21 Performance	2021/22 Performance	2022/23 Performance
Letter to new members	10 days	74%	100%	99%
Calculate transfer in calculations	10 days	90%	91%	90%
Calculate and pay transfer out calculations	10 days	79%	84%	93%
Calculate deferred benefit entitlement	15 days	73%	77%	96%
Calculate and pay retirement benefits	5 days	77%	58%	69%
Process refunds on contributions	5 days	75%	75%	91%
Letter acknowledging death of member and letter to next of kin	5 days	87%	83%	73%

The performance indicators continue to be monitored with the 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:

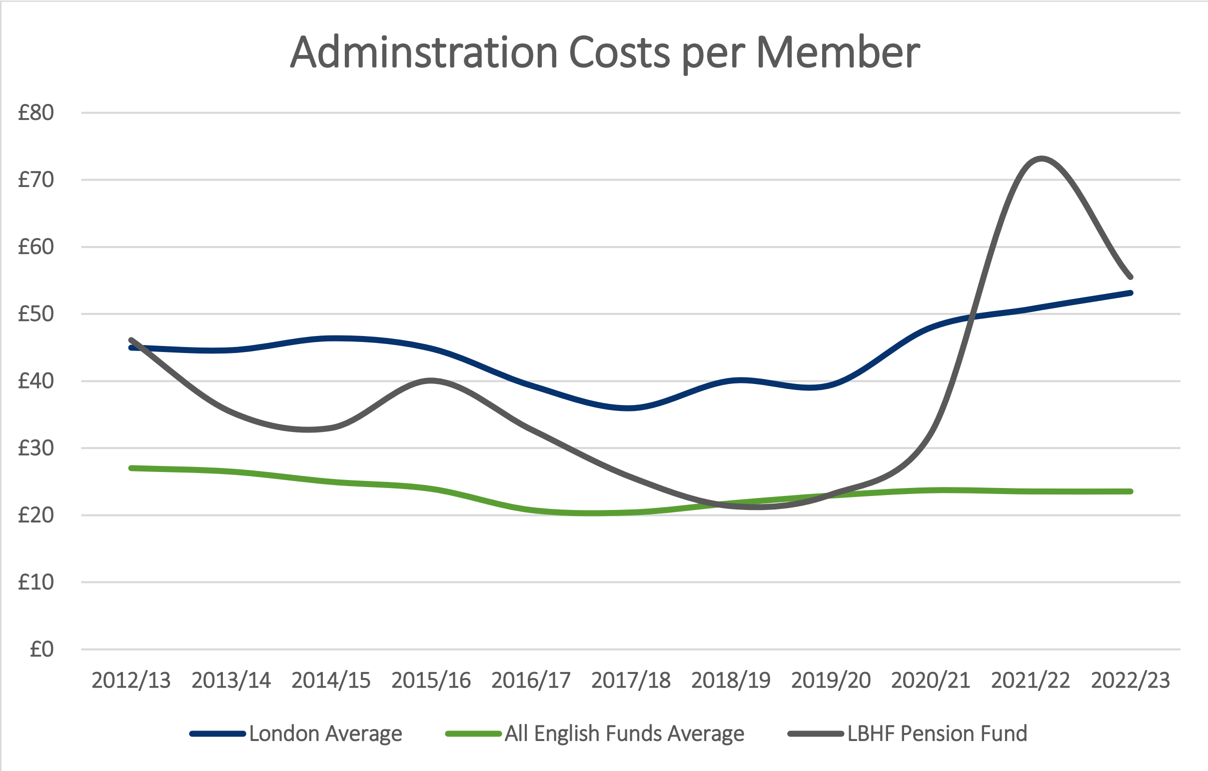
- Submit starter and leaver details and other changes online
- View and update employee details
- Run benefit calculations e.g. early retirements

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).

Two new complaints were lodged with the Ombudsman in 2022/23

Administration Management Performance (continued)



STAFFING INDICATORS

The Pension Fund's cost of administration per member remains above average for the London borough pension funds as shown in the chart but has decreased from 2021-22, which saw a significant increase due to changing administrative platform providers and bringing the admin team back in-house which resulted in several one-off costs during the year.

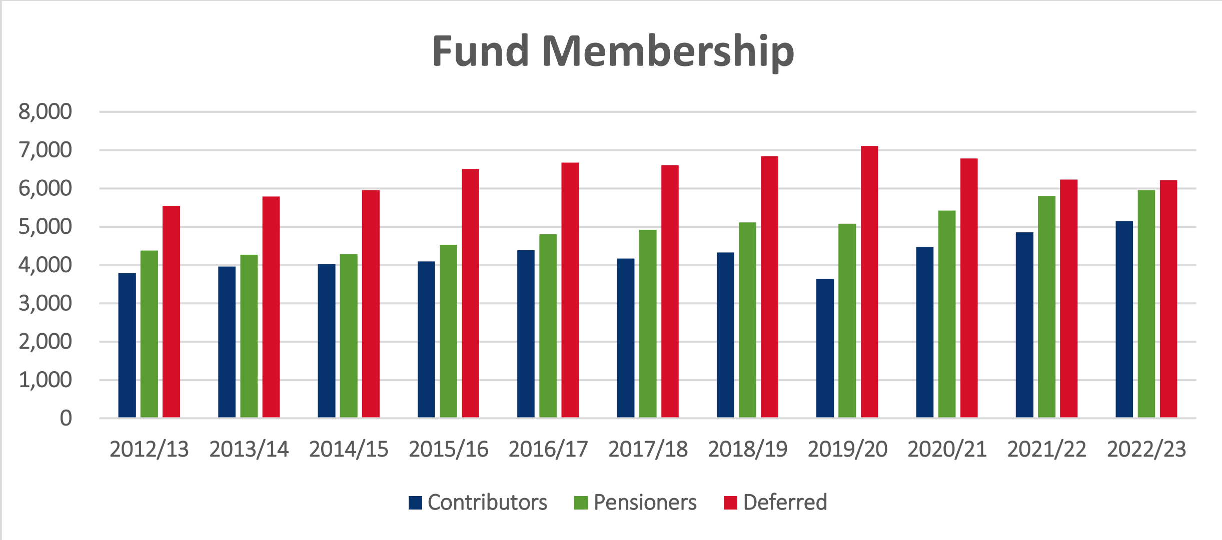
The administration of the Fund comprises of:

- 6 FTE Hammersmith and Fulham HR staff to oversee administration, operations, fund employers and compliance.
- 1.93 FTE Westminster Finance staff assigned to the oversight and governance of the Pension Fund.

MEMBERSHIP NUMBERS AND TRENDS

Overall membership has increased by about 6% over the past 5 years from 16,283 to 17,328.

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	2018/19	2019/20	2020/21	2021/22	2022/23
Ill health retirement	4	3	6	9	7
Early retirement	20	21	29	37	10
	24	**24**	**35**	**46**	**17**

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 2022/23. 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	7,182	19,094	26,276
Addison Primary School	26	94	119
All Saints CE Primary School	11	39	50
Avonmore Primary School	28	113	140
Bayonne Nursery School	17	62	79
Brackenbury Primary School	27	96	123
Cambridge School	49	172	221
Flora Gardens Primary School	28	98	126
Holy Cross RC Primary School	52	184	236
Jack Tizard School	62	226	289
James Lee Nursery School	14	49	63
John Betts Primary School	16	59	76
Kenmont Primary School	18	63	81
Larmenier & Sacred Heart RC Primary School	28	108	136
Melcombe Primary School	22	83	105
Miles Coverdale Primary School	35	127	162
Normand Croft Community School	35	120	154
Old Oak Primary School	26	96	122
Randolph Beresford Early Years Centre	43	137	180
Sir John Lillie Primary School	26	94	121

[1] Includes early retirement and deficit contributions

Administering Authority Employer	Employees Contributions £000	Employers Contributions[1] £000	Total Contributions £000
St Augustine's RC Primary School	19	67	86
St John XXIII RC Primary School	31	119	150
St John's Walham Green CE Primary School	24	87	111
St Mary's RC Primary School	29	105	134
St Paul's CE Primary School	24	87	111
St Peter's CE Primary School	18	67	85
St Stephen's CE Primary School	44	157	201
St. Thomas of Canterbury RC Primary School	10	35	44
The Good Shepherd RC Primary School	23	88	111
Vanessa Nursery School	18	63	81
Wendell Park Primary School	24	85	110
William Morris Sixth Form School	65	224	290
Wood Lane High School	32	109	141
Wormholt Park Primary School	37	125	162
Total Contributions from Administering Authority	**8,141**	**22,530**	**30,672**

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	11	50	61
Burlington Danes Academy	81	186	267
Conway Academy	19	81	100
Fulham Boys Academy	48	169	217
Fulham College Academy - Boys	57	203	260
Fulham College Academy Trust Girls	41	144	185
Greenside Academy	18	68	86
Hammersmith Academy - Dec	68	242	310
Hurlingham & Chelsea Academy	47	166	213
Lady Margaret Academy(L M A)	57	187	244
ARK Swift Primary Academy	15	66	81
Langford Academy	17	59	76
Mortlake Crematorium Board	24	60	84
Phoenix Academy (from October 2016)	35	131	166
Sacred Heart Academy (SHA)	61	221	282
The Bridge AP Academy (TBAP)	22	111	134
Thomas Academy	24	94	118
West London Free School	115	387	502
Queensmill Academy	188	737	926
The London Oratory School	70	182	252
Earls Court Free School	5	23	28
Brightwells Academy Fulham Primary School	29	117	146
Brightwells Academy Queens Manor Primary	21	84	105
Brightwells Academy Sulivan Primary School	19	79	98
Total Contributions from Scheduled Bodies	**1,092**	**3,845**	**4,937**

[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)	5	18	22
HCT (Jack Tizard School)	0	1	1
BT IT Services	7	20	27
Peabody Trust Family Mosaic	10	44	53
3BM	1	-44	-43
Disabilities Trust	1	3	3
Interserve (Eden Foods Ltd)	19	83	102
F M Conway Ltd (2009)	7	23	30
Medequip Assistive Tech (HF)	2	8	10
Pinnacle Estates Services (HF)	72	250	322
Serco (HF)	132	408	540
Urban Partnership Group	14	88	102
Caterlink (Hrlnghm and Chlsea)	-	3	3
Abelian UK (Wormholt Primary)	0	1	1
Birkin Clean	2	12	14
HCT (CT Plus H&F main contract)	3	14	17
F M Conway Ltd (2017)	3	11	15
London Hire Community Services	1	8	9
Caterlink (Langford Primary)	0	2	2
Morgan Sindall Property Services Ltd (lot 1)	5	21	26
Mears Group Contract 2	-	-12	-12
Morgan Sindall Property Services Ltd (lot 2)	11	31	43
Bee Services Randolph Beresford	1	6	7
Bee Services Vanessa Nursery	0	1	2
Churchill Contract Catering Ltd (Brackenbury)	1	6	7
The Pantry - (St John XXIII)	2	13	16
The Pantry - (St Marys)	2	9	11
Morgan Sindall Group Contract 3	3	17	20
Total Contributions from Admitted Bodies	**306**	**1,045**	**1,351**

[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	26	1	27
Admitted Bodies	24	48	72
Total number of bodies	**51**	**49**	**100**

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 2023 was as follows:

Asset Class	Actual Allocation	Target Allocation
Global Equities	45.7 %	40.0%
Dynamic Asset Allocation	25.2%	25.0%
Secure Income	17.0%	20.0%
Total Inflation Protection	12.1%	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.

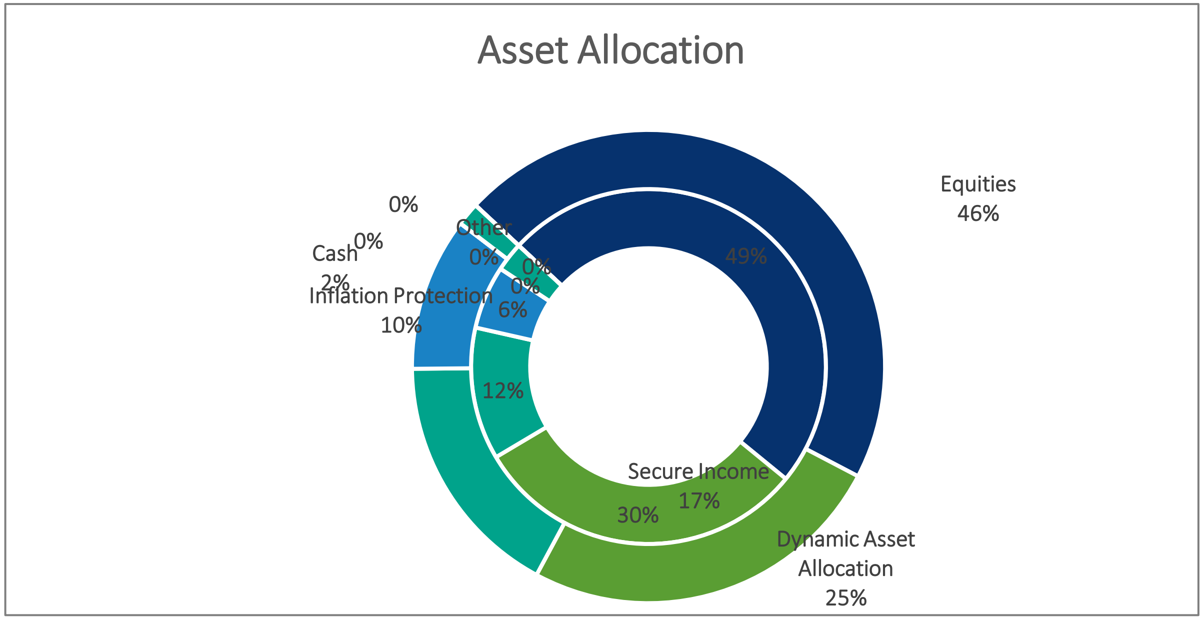
Investment portfolios are reviewed at each Committee meeting in discussion with the Investment Adviser and Officers, and Fund Managers are called to a committee meeting if there are issues that need to be addressed. Officers meet Fund Managers regularly and advice is taken from the Investment Advisor 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 2023, 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 2023/24.

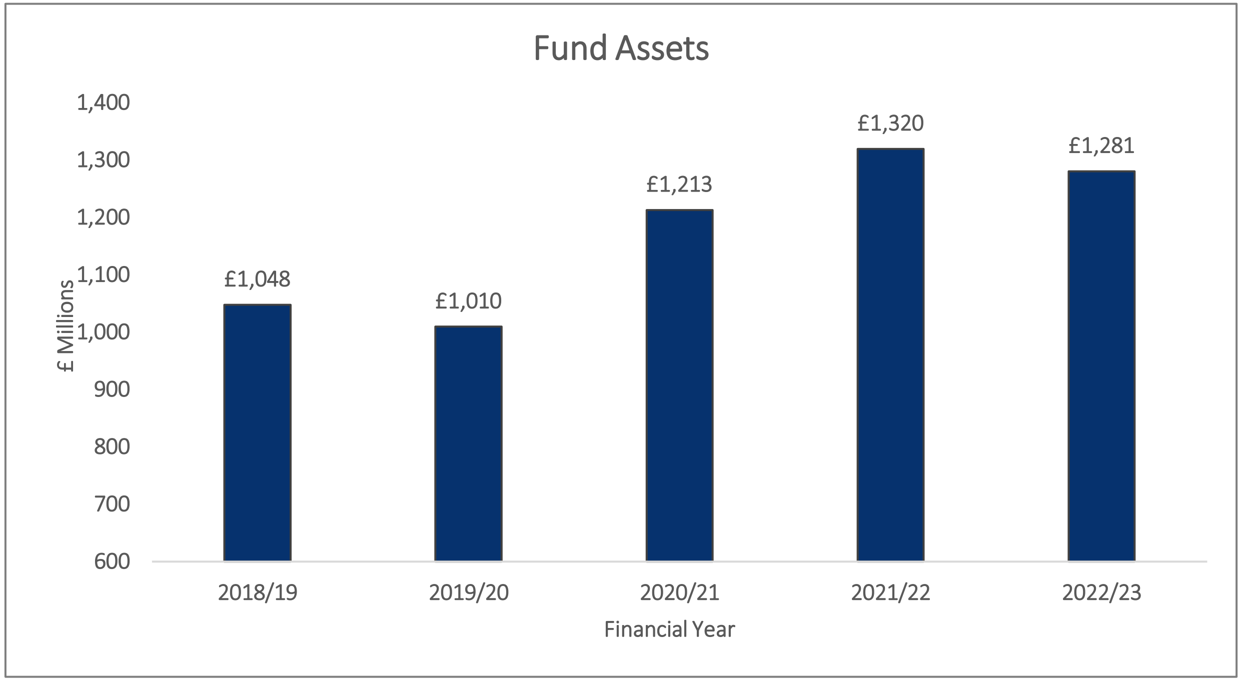


Asset Allocation (continued)

FUND VALUE

The net asset value of the Fund has almost doubled over the past ten years with 22.22% of this growth occurring over the last five years.

In 2022/23, the fund's net asset value fell by 2.95% to £1.28bn. 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.

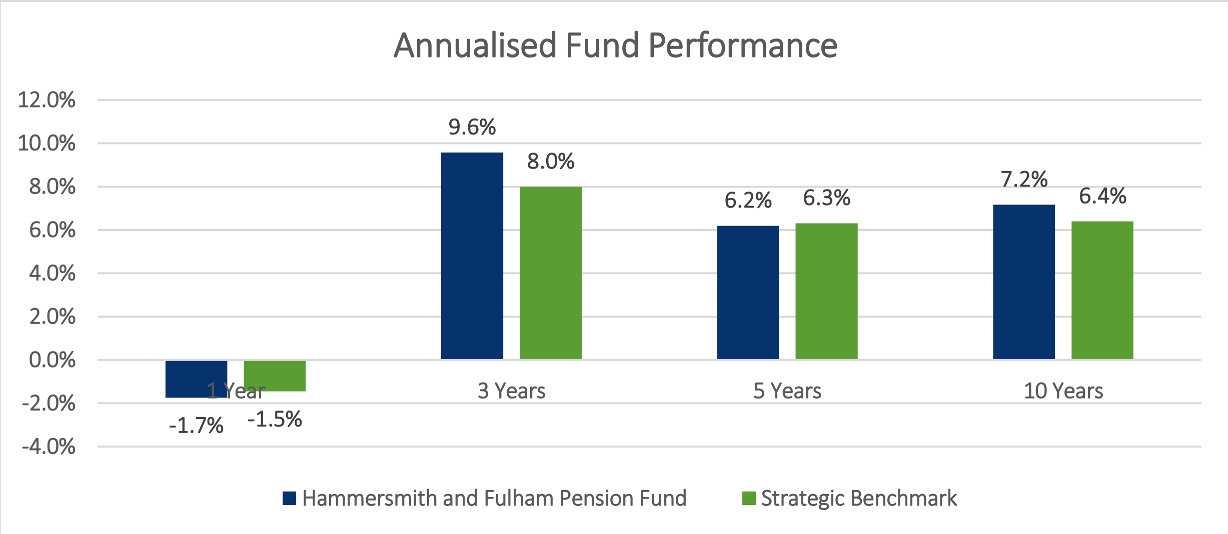


Investment Performance

In 2022/23, the Fund's investment performance was -1.7% (9.83% in 2021/22) to £1.28bn. This was below the average LGPS return of -1.5%.

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 10-year period with an overperformance of 0.8% in 2022/23.



Performance of fund managers is reviewed quarterly by the Pension Fund Committee, which is supported by the Fund's independent investment advisor.

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	
Alpha Real Capital Ground Rents	

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

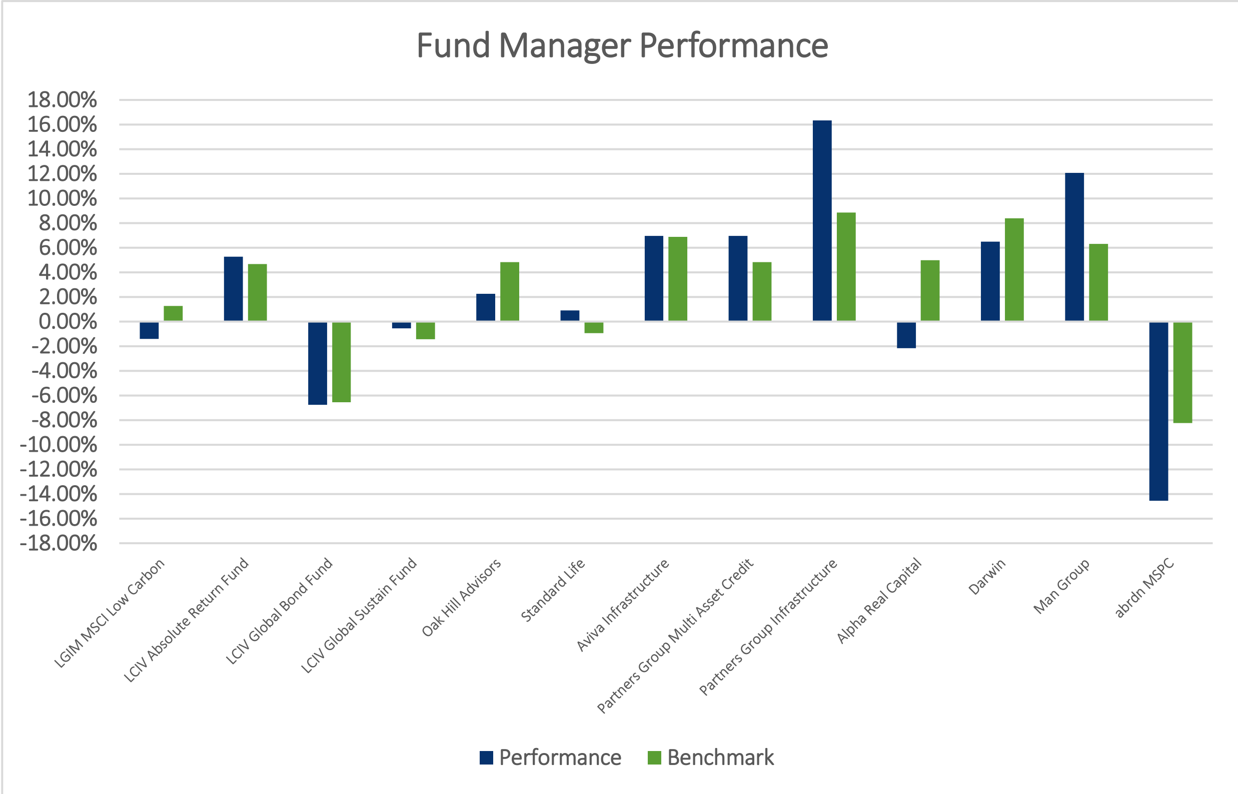
As there will inevitably there be short-term fluctuations in performance.

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

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

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

The table below shows the portfolio mixture of the fund:



Corporate Governance

RESPONSIBLE INVESTMENT POLICY

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

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

In 2019/20 the Fund drafted its first Responsible Investment Statement which was approved later in 2020. This has since been updated and approved by Committee in June 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 71% of assets invested with the pool as at 31 March 2023.

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.

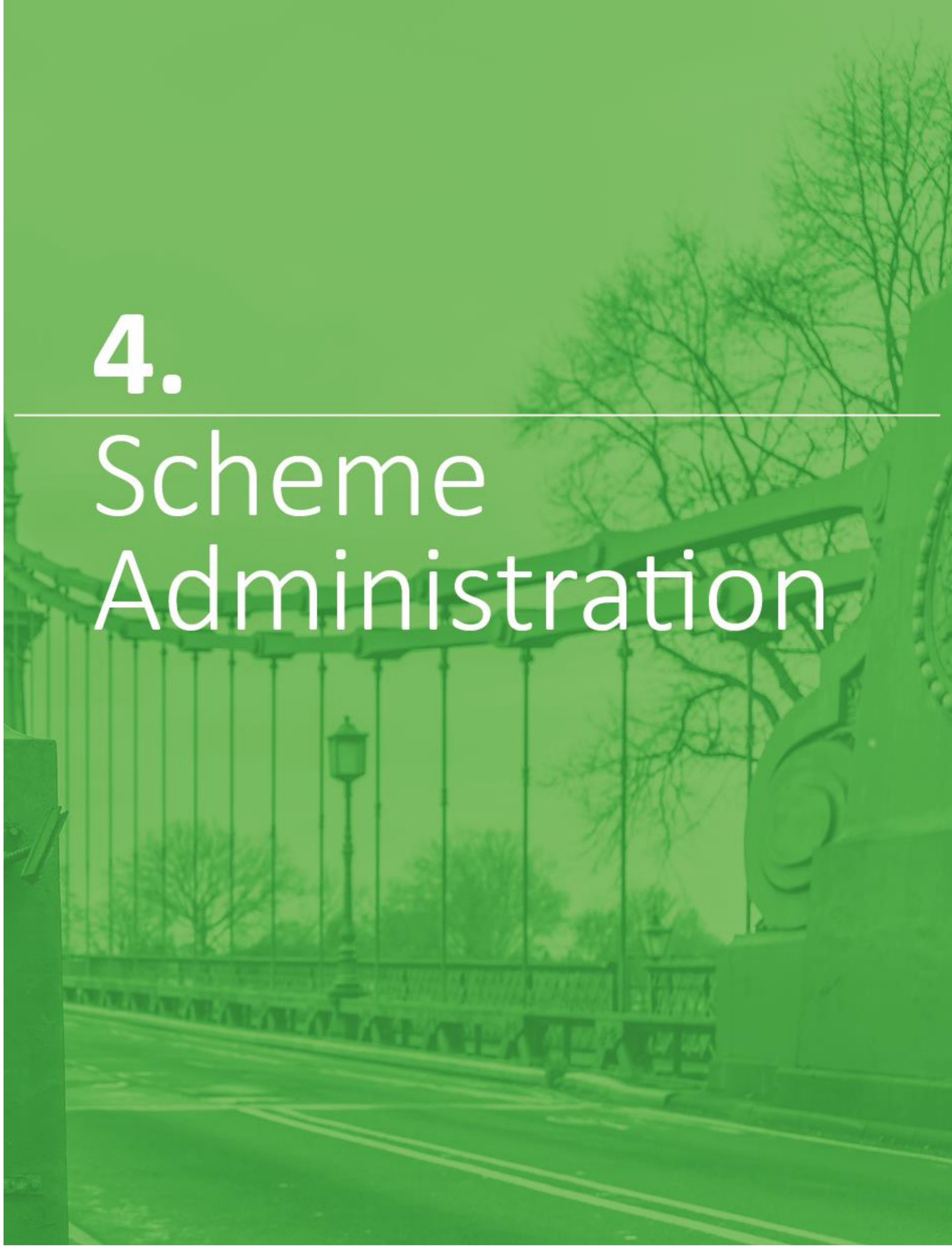
The Pension Fund Committee's role is not to micro-manage companies but provide perspective and share with boards and management our priorities for investment and approach to corporate governance. The aim is to work with management, shareholders and stakeholders to bring about changes that enhance long-term 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 81 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 18. 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. 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.

Two new complaints referred to the Pensions Ombudsman in 2022/23.

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 2023 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 was carried out as at 31 March 2022 with new contribution rates set from 1 April 2023. The results were published in the Triennial Valuation Report dated March 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 2022/23 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 2023 and income and expenditure for the year for the financial year 2022/23.

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

RESPECTIVE RESPONSIBILITIES OF THE STRATEGIC DIRECTOR OF FINANCE AND THE AUDITOR

Page 261

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

2021/22		Notes	2022/23
£'000			£'000
	Dealings with members, employers and other directly involved in the fund		
	Contributions		
(25,568)	From Employers	7	(27,421)
(8,735)	From Members	7	(9,539)
(8,617)	Individual Transfers in from Other Pension Funds		(6,847)
-	Other income		-
(42,920)	Total Contributions		**(43,807)**
	Benefits		
37,839	Pensions	8	40,045
10,097	Commutation, Lump Sum Retirement and Death Benefits	8	7,792
271	Payment in respect of tax		210
	Payments to and on account of leavers		
5,737	Individual Transfers Out to Other Pension Funds		6,738
152	Refunds to Members Leaving Service		84
54,096	Total Benefits		**54,869**
11,176	Net (Additions) Withdrawals from dealings with members		**11,062**

Pension Fund Accounts and Explanatory Notes (continued)

FUND ACCOUNT

2021/22		Notes	2022/23
9,915	Management expenses	9	8,283
	Returns on Investment		
11,170	Investment Income	10	24,673
26	Other Income	10	21
(115,585)	(Profit) and losses disposal of investments and changes in value of investments	12	39,819
(126,781)	Net Return on Investments		**15,125**
(105,690)	Net (Increase)/Decrease in the net assets available for benefits during the year		34,470
(1,219,229)	Opening Net Assets of the Scheme		**(1,324,913)**
(1,324,913)	Closing Net Assets of the Scheme		**(1,290,443)**

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

NET ASSETS STATEMENT

2021/22		Notes	2022/23
	Investment Assets		
150	Equities	11	150
87,897	Pooled Property Vehicles	11	78,572
1,127,189	Pooled Investment Vehicles	11	1,118,138
72,202	Private Equity/Infrastructure	11	63,531
32,104	Cash Deposits	11	20,245
	Other Investment Balances		
7	Investment income due	11	39
1,319,639	Net Investment Assets		**1,280,675**
4,525	Current Assets	19	3,911
(2,118)	Current Liabilities	20	(1,979)
2,867	Cash Balances (held directly by Fund)		7,836
1,324,913	**Net assets of the Fund available to fund benefits at the period end**		**1,290,443**

[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 2023. 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 seven members, five 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 605 undecided leavers, who are no longer paying contributions or in receipt of benefits.

31 March 2022		31 March 2023
55	Number of active employers	48
4,856	Contributing employees	5,150
5,804	Pensioners receiving benefit	5,960
6,232	Deferred pensioners	6,218
16,892	Total members	17,328

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 2022/23 and its position at year end as at 31 March 2023. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (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, as at 31 March 2022, is 105% 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.

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.

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 £20m • 0.1% increase in assumed earnings would increase the value of the liabilities by approximately £1m • 0.1% increase in pension increases would increase the liability by approximately £19m • A one-year increase in life expectancy would increase the liability by approximately £51m

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

A. PENSION FUND LIABILITY

The Pension Fund liability is calculated every three years by the appointed actuary with annual updates in the intervening years. The methodology used follows generally agreed guidelines and is in accordance with IAS 19. These assumptions are summarised in Note 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. Management has agreed a reasonable set of actuarial assumptions in consultation with the actuary which derives the total pension fund liability

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 2023, the assets invested with Partners Group were valued at £45.6m (£53.5m in 2021/22).The same applies to the Aviva Infrastructure which has a quarterly valuation cycle. As at 31 March 2023, the value of the investment was £26.0m (£26.6m in 2021/22). 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

2021/22 £000		2022/23 £000
(28,182)	Administering authority	(30,672)
(4,484)	Scheduled bodies	(4,937)
(1,637)	Admitted bodies	(1,351)
(34,303)	**Total Contributions Receivable**	**(36,960)**

BY TYPE

2021/22 £000		2022/23 £000
re	Employees' normal contributions	(9,539)
	Employer's contributions:	
(21,792)	Normal contributions	(23,568)
(3,776)	Deficit recovery contributions	(3,853)
(34,303)	**Total Contributions Receivable**	**(36,960)**

Note 8 Benefits Payable

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

BY AUTHORITY

2021/22 £000		2022/23 £000
43,787	Administering authority	42,803
671	Scheduled bodies	1,418
3,478	Admitted bodies	3,616
47,936	**Total Benefits Payable**	**47,837**

BY TYPE

2021/22 £000		2022/23 £000
37,839	Pensions	40,045
9,080	Commutation and lump sum retirement benefits	6,719
1,017	Lump sum death benefits	1,073
47,936	**Total Benefits Payable**	**47,837**

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 decreased and the oversight and governance costs have increased.

MANAGEMENT EXPENSES

2021/22 £000		2022/23 £000
1,225	Administrative costs	962
8,406	Investment management expenses	7,014
284	Oversight and governance costs	307
9,915	**Total Management Expenses**	**8,283**

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

2021/22 £000		2022/23 £000
6,431	Management fees	5,428
79	Performance fees	107
1,845	Transaction costs	1,377
51	Custody fees	102
8,406	**Total Investment Management Expenses**	**7,014**

Note 10 Investment Income

The table below shows a breakdown of investment income.

2021/22 £000		2022/23 £000
(8,037)	Pooled investments – unit trusts and other managed funds	(22,386)
(3,129)	Income from Alternative Investments	(1,982)
(4)	Interest on Cash Deposits	(305)
(26)	Other Investment Income	(21)
(11,196)	**Total Investment Income**	**(24,694)**

Note 11 Investment Strategy

During 2022/23, the Fund's strategy had the following developments:

- In June 2022, the Fund had its first capital call from Alpha Real Capital and has since fulfilled the initial total commitment of £60m.
- In February 2023, the Pension Fund committee agreed a top up of 2.5% (£37m) into the Alpha Real Capital (Commercial Ground Rents) fund. This is due to be funded in May 2023.

The market value and proportion of investments managed by each fund manager at 31 March 2023 was as follows:

31 March 2022 £000	%	Fund Manager	Mandate	31 March 2023 £000	%
Investment managed by the London CIV asset pool:					
405,364	30.7%	LGIM – MSCI Low Carbon	Global Equity (Passive)	399,782	31.3%
270,935	20.5%	LCIV – Ruffer	Absolute Return (Active)	232,271	18.1%
99,766	7.6%	LCIV – PIMCO	Global Bonds (Active)	90,078	7.0%
188,554	14.3%	LCIV – Morgan Stanley	Global Sustain Fund	185,900	14.5%
964,619	73.1%	Total assets managed by the London CIV asset pool		**908,031**	70.9%
Investment managed outside of the London CIV asset pool:					
32,582	2.5%	Darwin Alternatives	Leisure Fund	34,694	2.7%
	0.0	Alpha Real Capital	Commercial Ground Rents	55,930	4.4%
18,231	1.4%	Man Group	Affordable Housing	24,027	1.9%
66,283	5.0%	Oak Hill Advisors	Secured Income (Active)	65,179	5.1%
69,756	5.3%	Aberdeen Standard	Long Lease Property	54,545	4.3%
26,596	2.0%	Aviva Investors	Infrastructure	25,965	2.0%
45,468	3.4%	Partners Group	Infrastructure	37,536	2.9%
7,986	0.6%	Partners Group	Multi Asset Private Credit	8,094	0.6%
-	0.0%	Invesco	Private Equity	-	0.0%
138	0.0%	Unigestion	Private Equity	30	0.0%
32,111	2.4%	Inhouse Cash	Cash	20,284	1.6%
150	0.0%	London CIV Ltd	UK Equity	150	0.0%
1	0.0%	NT Ultra Short Bond Fund	UK Equity	1	0.0%
55,718	4.2%	Aberdeen MSPC	Private Credit	46,209	3.6%
355,020	**26.9%**	Total assets managed outside of the London CIV asset pool		372,644	**29.1%**
1,319,639	**100.0%**	**Total investments**		**1,280,675**	**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 2023 €8.3m (£7.3m) 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 2023, the Fund had £908m invested with the London CIV, which accounts for 70.9% of the fund's total assets.

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

31 March 2022 £000	%	Fund Manager	Mandate	31 March 2023 £000	%
405,364	30.7%	LGIM – MSCI Low Carbon	Global Equity (Passive)	399,782	31.2%
270,935	20.5%	LCIV – Ruffer	Absolute Return (Active)	232,271	18.1%
99,766	7.6%	LCIV – PIMCO	Global Bonds (Active)	90,078	7.0%
66,283	5.0%	Oak Hill Advisors	Secured Income (Active)	65,179	5.1%
188,554	14.3%	Morgan Stanley	Global Sustain Fund	185,900	14.5%

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 2022/23

Fund Manager	Value at 1 April 2022 £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 2023 £000
Equities	150	-	-	-	150
Pooled equity Investments	1,127,189	67,000	(74,963)	(1,088)	1,118,138
Pooled property investments	87,987	6,999	(1,998)	(14,416)	78,572
Private equity/infrastructure	72,202	28,261	(12,580)	(24,352)	63,531
Total	1,287,528	102,260	(89,541)	(39,856)	1,260,391
Cash deposits	32,104			152	20,245
Investment income due	7			-	39
Spot FX contracts	-			(115)	-
Net investment assets	**1,319,639**	**102,260**	**(89,541)**	**(39,819)**	**1,280,675**

Note 12 Reconciliation of Movement in Investments (continued)

The equivalent analysis for 2021/22 is provided below:

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	(83,896)	97,299	1,127,189
Pooled property investments	61,162	24,598	(6,112)	8,339	87,987
Private equity/infrastructure	71,863	6,717	(16,321)	9,943	72,202
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 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	Investment Manager	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Investments – Equity Funds UK and Overseas Managed Funds	LGIM – MSCI Low Carbon Ruffer – Absolute Return Fund Morgan Stanley – Global Sustain Fund	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	PIMCO – Global Bonds Oak Hill Advisors NT - Ultra Short Bond	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	Abrdn – Long Lease Property	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	Unigestion	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	Partners Group – Infrastructure	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	Upward valuations are only considered where there is validation of the investment

Description of asset	Investment Manager	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
	Aviva Infrastructure			Guidelines 2012 guidelines noted above	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	Darwin Alternatives Man Group Alpha Real Abrdn – MSPC Partners - MSPC	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

Aviva Infrastructure

One of the LBHF Pension Fund's infrastructure investment managers, Aviva, were facing legal challenge from a former construction contractor relating to a contractual dispute on one of their biomass infrastructure projects.

Within the manager's financial statements at 31 December 2019, 31 December 2020, 31 December 2021, and 31 December 2022, 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 were qualified by the auditors.

The full and final value of the legal dispute has now been settled and with an additional amount of associated costs the total impact for the investment will be c.£46.7m.

On the 20th of June 2022, the committee voted to disinvest from the Aviva fund with the redemption documents being submitted prior to the 30th of June 2022 deadline for redemptions. The disinvested monies are anticipated to be received by LBHF Pension by the end of 2024 with the first tranche of redemption monies paid in January 2024. The carrying value of the total infrastructure portfolio in the LBHF Pension Fund is £26m.

Having carefully considered this fund's financial statements, audit opinion and LBHF Pension Fund's holding in the fund being under redemption procedure, 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 3% of the total portfolio value of the underlying Aviva fund and officers do not consider that there will be any further legal challenge/ claims that could result in a material uncertainty both in terms of containment within this particular investment and disclosures in the wider financial statements.

Cash Classification

For the Fund, cash at custodian is simply a sweep from the custodian into a nominated Money Market Fund and an overnight rate paid. The full cash amount needs to be available for potential investment/withdrawal the next morning and is purely there to service investment and payment of pensions. It is therefore understood that this cash should be amortised cost. It is however not correct to assume cash would always be amortised cost. When an investment committee has taken an active decision to hold cash as part of its asset allocation and invests in a liquidity fund there would almost certainly be duration and variable NAV, in this circumstance we would expect the IFRS9 treatment to be Fair Value at Profit and Loss.

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 2022				31 March 2023
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	Level 3
£000	£000	£000		£000	£000	£000
			Financial Assets			
-	1,100,659	186,869	Designated at fair value through profit and loss	-	1,027,756	232,635
-	1,100,659	186,869	Net Financial Assets	-	1,027,756	232,635
		1,287,528				**1,260,391**

Note 14b Transfers Between Levels 1 and 2

In 2022/23, 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 2022 £000	Transfers in/out of level 3	Purchases £000	Sales £000	Unrealised Gains/(losses) £000	Realised Gains/(losses) £000	Market Value as at 31 March 2023 £000
Overseas Venture Capital	45,607	-	3,261	(10,782)	(696)	176	37,566
UK Infrastructure	26,596	-	-	-	(631)	-	25,965
UK Venture Capital	26,216	-	66,942	(3,900)	(1,206)	-	88,052
London LGPS CIV	150	-	-	-	-	-	150
Overseas Equity Funds	32,582	(32,000)	-	-	(582)	-	0
Private Credit Funds	55,718	-	-	(1,387)	(8,122)	-	46,209
UK Equity Funds		32,000	-		2,694	-	34,694
Total	**186,869**	**-**	**70,203**	**(16,069)**	**(8,543)**	**176**	**186,426**

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 2023 has been estimated to be accurate within the following ranges:

	Assessed Valuation Range (+)	Assessed Valuation Range (-)	Valuation at 31 March 2023	Valuation on increase	Valuation on decrease
Aviva Infrastructure	6.90%	7.80%	25,965	27,757	23,940
Partners Group Infrastructure	8.73%	8.73%	37,536	40,813	34,259
Partners Group Multi Asset Credit	9.73%	9.73%	8,094	8,882	7,306
Darwin Alternative – Leisure Fund	7.9%	6.90%	34,694	37,435	32,300
Abrdn MSPC	3.28%	3.28%	46,209	47,725	44,693
Alpha Real Capital – Commercial Ground Rents	10.10%	8.00%	55,930	61,579	51,456
Man Group – Affordable Housing	9.5%	8.80%	24,027	26,310	21,913
Total			**232,455**	**250,499**	**215,867**

*Three assets (totalling £0.180m) 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 2023
Designated at fair value through profit & loss	Financial assets at amortised cost	Financial liabilities at amortised cost		Designated at fair value through profit & loss	Financial assets at amortised cost	Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial Assets			
			Pooled Investment Vehicles:			
864,853			UK equity funds	817,953		
163,471			UK fixed income funds	144,382		
120,569			UK property funds	113,266		
26,596			UK infrastructure	81,895		
66,283			Overseas fixed income funds	65,179		
45,468			Overseas infrastructure	37,536		
138			Overseas venture capital	30		
150			London LGPS CIV	150		
			UK cash funds			
	6		Investment Income Due		39	
	32,105		Cash deposits with managers		20,245	
	4,525		Debtors		3,911	
	2,867		Cash balances (held by fund)		7,836	
1,287,528	**39,503**		**Total Financial Assets**	**1,260,391**	**32,031**	
			Financial Liabilities			
		(2,118)	Creditors			(1,979)
1,287,528	39,503	**(2,118)**	Total Financial Liabilities	1,260,391	32,031	**(1,979)**
		1,324,913	Total Net Assets			**1,290,443**

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 2022		31 March 2023
	Financial Assets	
115,581	Fair value through profit and loss	(39,856)
5	Loans and receivables	152
	Financial Liabilities	
(1)	Fair value through profit and loss	(115)
115,585	**Net Gains /(losses) on Financial Instruments**	**(39,819)**

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

Market risk is the risk of loss emanating from general market fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investment activities. To manage excessive volatility in market risk, 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 2023, 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 9.25% higher or 9.25% lower.

Assets exposed to price risk	Value £000	+% £000	-% £000
At 31 March 2022	1,322,506	1,447,181	1,197,831
At 31 March 2023	**1,288,511**	**1,407,552**	**1,169,170**

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 2023 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 2022	341,107	331,880	348,737
At 31 March 2023	**328,483**	**318,649**	**344,299**

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 7.2% higher or lower for 2022/23 (6.8% in (2021/22).

Assets exposed to currency risk	Value £000	+% £000	-% £000
At 31 March 2022	739,360	789,358	689,363
At 31 March 2023	**676,661**	**725,540**	**627,782**

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 16.8% of the Fund's Net Assets at 31 March 2023 (13.2% at 31 March 2022). The remaining assets can all be liquidated within days.

Manager	Portfolio	31 March 2022	31 March 2023
Aberdeen Standard	Property	69,756	54,545
Partners Group	Infrastructure	45,468	37,536
Partners Group	Multi Asset Credit	7,986	8,094
Unigestion	Private Equity	138	30
Darwin Alternatives	Illiquid Alternatives	32,582	34,694
Alpha Real Capital	Commercial Ground Rents	-	55,930
Man Group	Property	18,231	24,027
	Total	**174,161**	**214,856**

Note 17 Contingent Liabilities and Contractual Commitments

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

	31 March 2022 £000	31 March 2023 £000
Alpha Real Capital – Commercial Ground Rents	60,000	37,000
Man Group – Affordable Housing	9,969	8,013
Partners Group Direct Infrastructure Fund 2015	10,193	7,320
	80,162	**52,333**

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 was carried out by the Fund's actuary Hyman's Robertson as at 31 March 2022 and will set contribution rates for the period 1 April 2023 to 31 March 2026. The 2022 Triennial valuation has now been signed off and is publicly available.

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 2023. 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 £000		31 March 2023 £000
(1,808,000)	Present value of promised retirement benefits	(1,339,000)
1,324,913	Fair value of scheme assets (bid value)	1,290,443
(483,087)	**Net Liability**	**(48,557)**

The assumptions applied by the actuary are set out below:

FINANCIAL ASSUMPTIONS

	31 March 2022	31 March 2023
Salary increases	4.20%	4.00%
Pension increases	3.20%	3.00%
Discount rate	2.70%	4.75%

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 2022	31 March 2023
Retiring today	Males	22.1	21.8
	Females	24.7	24.5
Retiring in 20 years	Males	23.2	22.8
	Females	26.1	25.8

Note 19 Current Assets

DEBTORS

31 March 2022 £000		31 March 2023 £000
1,620	Contributions due – employers	1,627
704	Contributions due – employees	678
96	London Borough of Hammersmith & Fulham	50
2105	Sundry Debtors	1,556
4,525	**Total Current Assets**	**3,911**

ANALYSIS OF DEBTORS

31 March 2022 £000		31 March 2023 £000
96	Local authorities	50
4,087	Other entities and individuals	3,393
342	Central Government	468
4,525	**Total Current Assets**	**3,911**

Note 20 Current Liabilities

CREDITORS

31 March 2022 £000		31 March 2023 £000
(562)	Unpaid benefits	(659)
(843)	Management expenses	(901)
(713)	Sundry creditors	(419)
(2,118)	**Total Current Liabilities**	**(1,979)**

ANALYSIS OF CREDITORS

31 March 2022 £000		31 March 2023 £000
(2,118)	Other entities and individuals	(1,979)
(2,118)	**Total Current Liabilities**	**(1,979)**

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 2022 £000		31 March 2023 £000
917	Zurich Assurance	857
176	Equitable Life Assurance	154
1,093	**Total Additional Voluntary contributions**	**1,011**

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 £0.777m in 2022/23 (£0.637m in 2021/22) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses. The Council made £18.7m of contributions in year (£20.9m in 2021/22).

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 £0.183m in 2022/23 (£0.174m in 2021/22) 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 2023
Short-term benefits	32	30
Post-employment benefits	(30)	(179)
Total	**2**	**(149)**

Note 25 External Audit Costs

The external audit fee payable to Fund's external auditors, Grant Thornton LLP, was £36,556 (£33,000 in 2021/22).

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.

Glossary of Terms (continued)

DERIVATIVE

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

EMPLOYER CONTRIBUTION RATES

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

EQUITIES

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

EXCHANGE TRADED

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

FINANCIAL ASSETS

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

FINANCIAL INSTRUMENT

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

FINANCIAL LIABILITIES

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

FORWARD FOREIGN EXCHANGE DERIVATIVE

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

INDEX

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

OVER THE COUNTER

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

PASSIVE MANAGEMENT

Passive management is where the investments mirror a market index.

POOLED INVESTMENT VEHICLES

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

PROJECTED UNIT METHOD – PENSION FUND VALUATION

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

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

RELATED PARTIES

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

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

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

RELATED PARTY TRANSACTION

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

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

RETURN

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

SCHEDULED BODY

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

THE CODE

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

UNREALISED GAINS/LOSSES

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

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

Contact Information

FOR FURTHER DETAILS CONTACT:

FINANCE ENQUIRIES

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

PENSION FUND MANAGEMENT ENQUIRIES

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

ADMINISTRATIVE ENQUIRIES

Local Pensions Partnership Administration (Scheme Administrators)

Contact form: https://www.lppapensions.co.uk/contact/contact-lppa/

Phone: 0300 323 0260

8. Appendices

Appendix 1. Governance Compliance Statement

BACKGROUND

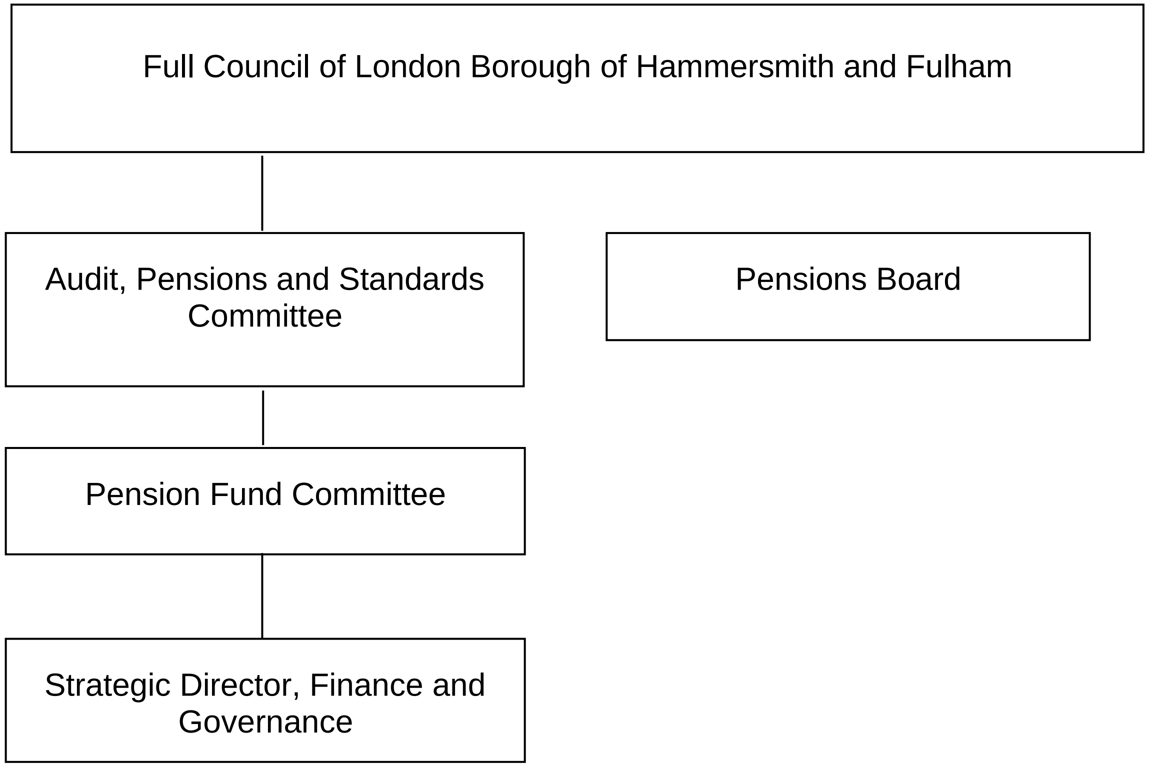
The London Borough of Hammersmith and Fulham Council is the administering authority for the London Borough of Hammersmith and Fulham ("the Fund") and it administers the Local Government Pension Scheme on behalf of the participating employers.

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

GOVERNANCE STRUCTURE

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

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



AUDIT, PENSIONS AND STANDARDS COMMITTEE

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

This is a draft of the Hammersmith & Fulham Pension Fund communications policy the final version will be published once ratified by the Pension Fund Committee in autumn 2023.

This Communications Policy is a statement of how we deliver and manage the flow of communications within and outside the London borough of Hammersmith & Fulham Pension Fund.

Every Local Government Pension Scheme (LGPS) administering authority must prepare, publish and maintain a new policy statement on communication strategy. The details of this legal requirement are contained in Regulation 61 of the Local Government Pension Scheme Regulations 2013.

The LGPS Regulations require us to prepare, maintain and publish a statement setting out our policies on communications. We have prepared this document in line with these requirements.

The policy statement must set out (a) the policies on the provision of information and publicity about the Scheme to members, representatives of members, and scheme employers; (b) the format, frequency and method of distributing such information or publicity; and (c) the promotion of the Scheme to prospective members and their employing authorities.

Purpose

The responsibility for communication material for the Scheme rests with the Administering Authority working in partnership with its Pension Administration provider, LPPA. This document reflects the LGPS Regulatory requirement for the administering authority to maintain a Statement concerning communications with members, representatives of members, prospective members; and Scheme employers and sets out how the Fund complies with Disclosure of Information Regulations, the Public Sector Pensions Act, the Local Government Pension Scheme Regulations and the Pension Regulators Code of Practice. The Communication Policy Statement should be read in conjunction with the Pension Administration Strategy and the Fund's Business Plan.

This Statement will be published on the Pension Fund's website. It will be reviewed every three years and updated sooner if the communications arrangements or other matters included within it merit reconsideration.

Aims and objectives.

Through the Fund's Communication we aims to:

• To ensure that information is provided which highlight the benefits of the Scheme, improve the understanding of how the Schemes works, the costs / funding relating to benefits and inform scheme members of their pension rights.

• Comply with our statutory obligations and relevant guidance.

• Keep stakeholders updated on latest developments

• Support informed decision making about investment, administration and governance of the Scheme

• Maintain the provision of timely and accurate data and associated reporting

• Reduce the number of queries and complaints received by the Fund.

The fund informs members and Scheme Employers of material changes to the Scheme via the website, email alerts or the appropriate newsletter.

Considerations

When considering how to communicate with our stakeholders we consider the intended audience to ensure that our messages are delivered in a useful and easy to follow manner. This may involve using more than one method of communication based on the intended audience, albeit the Fund will aim to use digital communications where appropriate to do so given the efficiencies and ease of access it provides, as well as it being more environmentally friendly.

We will continue to develop our digital platforms to encourage greater accessibility to our service for all stakeholders. However Scheme members are able to elect not to receive electronic communications. Where this has occurred and the Fund is still required to provide information, which will be provided in paper form and sent by post.

The fund informs members and Scheme Employers of material changes to the Scheme via the website, email alerts or the appropriate newsletter. The Fund have a legal obligation to process members data under the Local Government Pension Scheme 2013 regulations. The Fund also adheres to other legislative requirements, including the General Data Protection Regulations, Freedom of Information Act and pension disclosure legislation with the data we hold.

Actions

The Fund strives to continually improve member and employer engagement. The Fund informs members and Scheme Employers of material changes to the Scheme via the website, email alerts or the appropriate newsletter. The Fund aims to produce communications which are factual, easy to understand and accessible. The Fund strives for efficiency in delivering communications through better use of technology, whilst ensuring that the needs of all stakeholders are taken into account.

Accessibility

The Administering Authority is committed to using technology to enhance services, improve accessibility and broaden inclusion. All public sector websites are required to meet regulatory accessibility standards. Both LPPA and Hammersmith & Fulham Council have an accessibility statement setting out how documents held on their website on behalf of the Fund meet those standards.

The Fund's website is regularly updated to meet WCAG 2.1 accessibility requirements. As defined in the link below;

WCAG 2 Overview | Web Accessibility Initiative (WAI) | W3C

The Administering Authority recognises that individuals may have specific needs in relation to the format or language of our communication and we are happy to provide alternative material on request. Meeting accessibility requirements is an area of continual update and improvement for your funds website. We are always looking at ways to improve the accessibility of our information, so if you do encounter any problems, please let us know via emailing *pensions@lbhf.gov.uk* or contacting LPPA on 0300 323 0260. Further information can be found at the websites below;

Accessibility • Local Pensions Partnership Administration (lppapensions.co.uk)

Accessibility statement | LBHF

Social Media

The Fund does not have a profile on any social media such as Twitter or Facebook; no requests for such access have been received and there is no current added benefit for these to be created.

Review of Policy

This document will be revised and republished whenever there is a material change to the way we communicate or engage with any of these groups and at least every 3 years.

Appendix 1

Summary of Hammersmith & Fulham Pension Fund communications

Open to feedback We encourage all scheme members, employers and other audiences to feedback on our work and help us improve our services.

Communication Policy Appendix 1

Communication	Format	Frequency	Audience
Statutory notification of joining the scheme	Letter, email	On the event	Members
LGPS Scheme guide	Electronic via LGPS member and regulation and via opsi site	Always available	All
Annual Benefit statements	Members are notified via email. All previous statements are held on portal for the member to access at anytime	Annually before 31 August, Always available	Deferred and active members
Members' (active /deferred) newsletter	Via the lppa website or sent electronically by email hard copy on request	Annually, Always available	Members
Pensioners newsletter	Electronically via LPPA website and or Pension Point	Annually, Always available	Pensioners
Employers newsletter	Electronically via LPPA website and or Pension Point	Annually, always available	Fund Employers
Guide for new pensioners	Email, letter	Always available	pensioners
Pensions increase letter	Email, letter	On the event thereafter always available	pensioners
Planning for retirement guidance	Electronic on LPPA website	Always available	n/a
Fund website	Electronically	Always available	All interested parties
Pension Point	Always available	Always available	All registered members

Additional pension contribution	Electronically	Always available	All interested parties
Guide to the Internal Disputes Resolution procedure	Always available online on Fund website	Always available	All interested parties
one to one meetings	Virtually, via phone or in person	Virtual and phone meetings are always available. Face to face meeting are available by appt at council offices	All interested parties
Forms and guides for employer	Electronically held on LPPA or HFPF website	Always available online from recorded session and you tube tutorials	All interested parties
Employer training	Virtually or via request	Always available online from recorded session and you tube tutorials	All interested parties
Pension Board meeting minutes	Electronic via LBHF website	Always available from the meetings held biannually	All interested parties
Pension Fund Committee meeting minutes	Electronic via LBHF website	Always available from the meetings held quarterly	All interested parties
Pension fund report and account	Electronic via Fund and LBHF website	Always available	All interested parties
Investment Strategy Statement	Electronic via Fund and LBHF website	Always available	All interested parties
Investment Policy	Electronic via Fund and LBHF website	Always available	All interested parties
Governance Policy	Electronic via website	Always available	All interested parties
Funding Strategy Statement	Electronic via Fund and LBHF website	Always available	All interested parties
Pension Fund valuation report	Electronic via website	Always available	All interested parties
Annual benefit statement	Electronic via Pensionpoint or paper on request	Always available	Eligible active and deferred members
Pensioners pay Advice (P60)	Electronic via Pensionpoint or paper on request	Always available	All pensioners

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). The March 2022 Triennial Valuation has now taken place and from the 1 April 2023 the Funding Strategy Statement has been updated. The Funding Strategy statement from the 2019 Valuation has been included in this annual report as its policies and rates applied for the 2022-23 Financial Year. 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"). The statement was last updated in 2019 and is currently under review following the March 2022 Triennial Valuation. The last full investment strategy signed off by the Committee is still the 2019 statement which is included in this annual report.

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.

Investment Strategy Statement (continued)

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 Strategy Statement (continued)

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

London Borough of Hammersmith and Fulham Pension Fund Risk Register															Appendix 4	
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	Significant volatility and negative sentiment in global investment markets following disruptive geopolitical and economic uncertainty. Within this consideration is given to Covid-19, Brexit, and the invasion of Ukraine.	5	4	1	10	4	40	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	31/03/2023		
Liability Risk	2	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	31/03/2023		
Asset and Investment Risk	3	The London Collective Investment Vehicle (LCIV) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious.	4	3	3	10	2	20	20	↓	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)Fund representation on key officer groups. 4) Ongoing Shareholder Issue remains a threat 5) LCIV new CEO Dean Bowden has now started as of January 2023.	2	20	31/03/2023		
Asset and Investment Risk	4	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 £1.25m.	5	3	2	10	4	40	40	↔	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	31/03/2023		
Asset and Investment Risk	5	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	31/03/2023		
Asset and Investment Risk	6	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 DLUHC, 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 DLUHC guidance	3	18	31/03/2023		

Asset and Investment Risk	7	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	2	16	16	↔	**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	31/03/2023
Liability Risk	8	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	31/03/2023
Asset and Investment Risk	9	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	31/03/2023
Asset and Investment Risk	10	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 under consultation and expected to come into force during 2023. Reporting expected to come into effect from December 2024.	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	31/03/2023
Asset and Investment Risk	11	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	31/03/2023
Asset and Investment Risk	12	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	31/03/2023
Asset and Investment Risk	13	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	31/03/2023
Asset and Investment Risk	14	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	31/03/2023

Asset and Investment Risk	15	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	31/03/2023
Liability Risk	16	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 LPPA.	1	6	31/03/2023
Liability Risk	17	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	31/03/2023
Liability Risk	18	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	31/03/2023
Liability Risk	19	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%. Inflation continues to rise in the UK and globally due to labour shortages, supply chain issues, and high energy prices.	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.	3	30	31/03/2023
Liability Risk	20	Scheme members live longer than expected leading to higher than expected liabilities.	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	31/03/2023
Liability Risk	21	Employee pay increases are significantly more than anticipated for employers within the Fund. Persistently high inflation will potentially lead to unexpectedly high pay awards.	4	4	2	10	3	30	30	↔	**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	31/03/2023
Liability Risk	22	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	31/03/2023
Liability Risk	23	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 stabilise employer rates when valuation concludes March 2023.	1	13	31/03/2023

Regulatory and Compliance Risk	24	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	31/03/2023
Liability Risk	25	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	31/03/2023
Liability Risk	26	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	31/03/2023
Liability Risk	27	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	31/03/2023
Liability Risk	28	The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	4	2	1	7	4	28	28		**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.	2	14	31/03/2023
Regulatory and Compliance Risk	29	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	31/03/2023
Employer Risk	30	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) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.	2	18	31/03/2023
Employer Risk	31	Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others. Current economic conditions will cause strain on smaller employers.	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	31/03/2023
Resource and Skill Risk	32	Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	1	3	3	7	2	14	14		**TREAT** 1) Change to LPPA has increased resilience in the administration service 2) Ongoing monitoring of contract and KPIs	2	14	31/03/2023
Resource and Skill Risk	33	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	31/03/2023

Resource and Skill Risk	34	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	31/03/2023
Resource and Skill Risk	35	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	31/03/2023
Resource and Skill Risk	36	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 LPPA. 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	31/03/2023
Resource and Skill Risk	37	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	31/03/2023
Resource and Skill Risk	38	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	31/03/2023
Resource and Skill Risk	39	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 Fund Committee being a sub-committee of the audit committee. 2) Audit Committee meets regularly where governance issues are regularly tabled.	2	12	31/03/2023
Resource and Skill Risk	40	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	31/03/2023
Resource and Skill Risk	41	Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	4	3	2	9	3	27	27		**TREAT** 1) External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval) 2) Comprehensive training packages will be offered to members. 3) Co-opted members boost resilience.	2	18	31/03/2023
Resource and Skill Risk	42	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. Two half day events have taken place in 22/23 and a third will take place before the end of March 2023. 3)Existing and new Officer appointments subject to requirements for professional qualifications and CPD.	1	8	31/03/2023

Resource and Skill Risk	43	Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	2	2	1	5	4	20	20	⟷	**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	31/03/2023
Administrative and Communicative Risk	44	The Pension Fund is recruiting for a brand new retained HR and Pensions administration team, with finding candidates for all positions likely to be a challenge.	4	3	3	10	2	20	20	⟷	**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	31/03/2023
Administrative and Communicative Risk	45	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	3	3	8	1	8	8	⟷	**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	8	31/03/2023
Administrative and Communicative Risk	46	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	31/03/2023
Administrative and Communicative Risk	47	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	31/03/2023
Administrative and Communicative Risk	48	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. **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	31/03/2023

Administrative and Communicative Risk	49	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	31/03/2023
Administrative and Communicative Risk	50	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	31/03/2023
Administrative and Communicative Risk	51	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	31/03/2023
Administrative and Communicative Risk	52	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	31/03/2023
Regulatory and Compliance Risk	53	Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation.	3	3	5	11	2	22	22	↔	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	31/03/2023
Regulatory and Compliance Risk	54	Failure to comply with recommendations from the Local Pensions 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	31/03/2023
Reputational Risk	55	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	31/03/2023
Reputational Risk	56	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	31/03/2023
Reputational Risk	57	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	31/03/2023
Reputational Risk	58	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	31/03/2023

Reputational Risk	59	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**	31/03/2023
Regulatory and Compliance Risk	60	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**	31/03/2023
Regulatory and Compliance Risk	61	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**	31/03/2023

Appendix 5. Pension Administration Strategy

Contents

1. Introduction

1.1 This is the Pension Administration Strategy (PAS) of the London Borough of Hammersmith and Fulham Pension Fund (the Fund). This document explains the aims that the strategy is intended to achieve and outlines the responsibilities of the Fund and its scheme employers towards achieving the aims. This document explains how performance of the Fund and scheme employers will be monitored and actions that may be taken when employers do not meet the expected standards. This document also explains how the Fund will communicate with its scheme employers and the resources that are available to assist employers.

1.2 The Fund has prepared this Pension Administration Strategy in line with regulation 59 of The Local Government Pension Scheme (LGPS) Regulations 2013.

1.3 The Fund and scheme employers must also have regard to overriding pensions legislation, regulatory guidance and The Pension Regulator Code of Practice for Public Sector Pensions when carrying out their duties.

1.4 This Administration Strategy has been produced in consultation with the scheme employers within the Fund and applies to the Fund and all scheme employers, including the Administering Authority in its capacity as a scheme employer.

1.5 This Administration Strategy will be kept under review and may be subject to amendment following the issue of relevant legislation, regulatory guidance or when the Fund identifies improvements can be made. Future amendments will be made in consultation with scheme employers.

2. Purpose and aims of the Pension Administration Strategy

2.1 The service will be measured by assessing how the Fund and scheme employers are meeting their responsibilities, and objectives and how satisfied LGPS members are with the service.

2.2 The PAS details what actions are required and when to ensure the Fund and its scheme employers meet the high service standards and overarching regulatory targets. This will ensure that key activities such as retirement and transfer payments are paid correctly and on time, whilst ensuring contributions are paid to the fund accurately and in a timely manner.

2.3 The PAS will always help to ensure data security and sensitivity in line with GDPR requirements.

2.4 The Fund aims to provide assistance and knowledgeable guidance in a friendly, cooperative manner to scheme employers, LGPS members and other stakeholders as required, utilising all resources available.

2.5 The Fund seeks to improve the knowledge and understanding of the LGPS with Scheme Employers, ensuring that employer representatives have the skills and working knowledge applicable and establish good working relationships based on collaboration.

2.6 The PAS will outline the resources available to scheme employers in order for them to administer the pension scheme to the expected standards.

2.7 The Fund seeks to improve and maintain the understanding of the scheme with LGPS members so they are aware of the benefits available to them and can make informed decisions regarding their pension benefits.

2.8 The key to ensuring this service is delivered in practice will be ensuring that the Fund and scheme employers perform the right actions in a timely manner. Therefore, this PAS also sets out the roles and responsibilities of the Fund and Scheme Employers, including the performance standards for each and the aim is to ensure all processes are performed in the timescales outlined.

2.9 The Fund would always seek to work proactively and productively with scheme employers when something goes wrong, when time frames are persistently missed, or inaccurate data is being consistently provided. The PAS will therefore detail how scheme employer’s performance will be monitored and where improvement is required.

2.10 This PAS outlines the procedure for working with employers constructively to remedy the immediate situation and to help ensure there is no repeat. Financially penalties will be imposed as a last deterrent to persistent poor performance by a scheme employer.

2.11 The PAS will highlight that the Fund and Scheme Employers must keep and retain compliance with The Pension Regulator’s Codes of Practice.

2.12 The PAS will help ensure that scheme employers provide data which allows for the Fund to maintain accurate records for all necessary member calculations and for calculating employer liabilities.

3. How the aims will be achieved

3.1 The Fund will communicate with scheme employers in a clear, concise and timely manner to provide regular updates and ensure scheme employers know that where to send their enquiries i.e., via the in-house LBHF Pensions Team and Fund Administrators Local Pensions Partnership Association (LPPA)

3.2 Technical guidance is offered via the Fund's and LPPA's websites. The LBHF in-house Pension Team is also available to assist Scheme Employers as and when required and there is also training provided by the pension administrator, LPPA.

3.3 All LGPS data must be submitted electronically for speed, accuracy and security. Scheme employers must register with LPPA's online employer portal. The portal is secure and validates data submissions so scheme employers will be asked to review inaccurate or incomplete data before it is accepted by LPPA. Scheme employers should keep to the agreed methods of data exchange. Emails or post must be sent securely considering GDPR requirements.

3.4 The Fund will ensure assistance is provided to scheme employers when writing or reviewing their LGPS discretionary policy statement. The Fund has guidance, a template document and example of a discretionary policy statement which scheme employers can utilise.

3.5 The Fund will provide templates and guidance to scheme employers to assist with the correct calculation of pension contributions due to the Fund. The Fund will keep in touch with all scheme employers to avoid incorrect payments or late payments.

3.6 The Fund will provide guidance and advice to scheme employers in relation to the letting of a service contract which involves the TUPE transfer of employees who are eligible for the LGPS to ensure a smooth process with regard to onboarding an admission body and avoid excessive delays. The Fund provides contractor information and set instructions for the letting authority and prospective contractor. All parties must act in good faith to ensure appropriate admission and bond agreements are put in place.

3.6 Scheme employers should provide key contacts at their organisation who deal with the administration of their LGPS members. Scheme employers must notify us immediately when a contact changes and must have appropriate succession planning in place i.e., new staff receive a suitable hand over.

3.7 The Fund will monitor the performance of its third party service providers such as administrators, actuary and legal advisors. The scheme employer must also monitor the performance of its third-party suppliers such as external payroll.

3.8 Scheme employers will be helped to understand the problems which will arise through poor and late data submissions both for themselves and the distress that this may have for LGPS members. For example, the late submission of leaver information could mean a member has a delayed pension payment, leading to financial distress, whilst the scheme employer's own funding position could be inaccurately measured leading to higher contribution rates payable and funding deficits inaccurately developing.

3.9 The Fund and LPPA will actively assist third party payroll providers appointed by scheme employers, by giving relevant training and guidance so the payroll provider can adequately perform the LGPS duties which are the responsibility of the scheme employer. In turn, a scheme employer should: -

- Agree with their payroll provider what LGPS duties the payroll provider will perform and what duties the scheme employer will perform. This should be agreed at the outset of working with the payroll provider.
- Inform the Fund, at least one month in advance when there is a change of payroll provider and agree a dedicated contact for the Fund.
- Ensure that the payroll provider is aware of the required performance levels and how data and contributions should be sent.
- Continually monitor the performance of their payroll provider and check all data and contribution payments submitted by the payroll provider on behalf of the scheme employer.
- Make the payroll provider aware of the fees and reporting which could occur for any poor performance. The scheme employer may wish to agree that they are reimbursed for incurred charges and remedied for any reputational damage caused by their payroll providers poor performance.
- Ensure that they confirm key policies or decisions to the Fund as required.

3.10 Scheme employers must have regard to the Fund's data retention policy which requires personal data to be retained for a minimum of 15 years after termination of employment. Therefore, the employer must ensure data is obtained from a payroll provider in the event that they move payroll services.

3.11 Scheme employers must understand their responsibilities when considering their LGPS members for ill health retirement but help and guidance is available from the LBHF in house pensions team and fund administrators LPPA. Each scheme employer must understand that they are responsible for determining whether their member should be retired on ill health grounds and as to which tier should be awarded.

3.12 Scheme employers must also be aware that they are responsible for any requests by a former scheme member to have their deferred pension put into payment.

3.13 The Fund and LPPA will keep up to date with technical updates for the LGPS and wider pensions landscape to ensure correct processes are in place and pension benefits are accurately calculated. The Fund will provide relevant updates to scheme employers as necessary.

3.14 The Fund will take account of The Pension Regulators Codes of Practice to ensure all parties are compliant. 3.15 The Fund and LPPA will ensure specific member queries are responded to in an efficient and timely manner. 3.16 Scheme employers will be expected to compile with any reasonable data requests from auditors, the pensions regulator, LPPA, the pensions ombudsman or other regulatory body.

4. Scheme Employer Duties and Expectations

4.1 General/overarching responsibilities

Task	Time frame	Further information
4.11 Provide the Fund with main employer contact representative or advise of change	Within 5 working days of becoming a scheme employer or change in contact	N/a
4.12 Appoint an adjudicator to review a stage 1 internal dispute (IDRP process)	Within 5 working days of becoming a scheme employer	Refer to LGPS site
4.13 Appoint a independent medical practioner to review ill health applications	Within 10 working days of becoming a scheme employer or change of practioner	The employer should complete a form and return to the Fund 2 months in advance of ill health application. Refer to LGPS site
4.14 Formulate, publish and keep under review a discretionary policy statement	Existing employers should have their policy composed following the LGPS Regulations 2013. New employers should complete this within one month of joining the scheme.	The Fund has Guidance, a discretionary policy template and example to assist employers.
4.15 Monitor tier 3 ill health pensioners and review.	At 18-month review date.	Employer to decide whether gainful employer has been obtained, whether tier 3 pension continues or whether pension should be uplifted to tier 2.

4.2. New Scheme Joiner

Task	Time frame	Further information
4.21 Determine when to enrol an employee into the LGPS.	Upon joining employer or the date a person becomes eligible to be enrolled in the scheme.	All employers will need to give due regard to TPR requirements. Different types of employers will have different requirements. Admission Bodies will need due regard to the requirements of their admission agreement.
4.22 Decide the contribution rate payable by member and notify the member.	Upon joining the scheme and review each April and in line with employer discretionary policy.	Employee bandings can be found at lgpsmember.org website. These are updated every April in line with CPI.
4.23 Notify pension administrators of new joiner	Within 30 working days of an employee joining the scheme.	Data uploaded to administrator portal
4.24 Provide new joiners with information regarding the LGPS.		Guides and sample documents (lgpsregs.org)

4.3 Active Member Activities

Task	Time frame	Further information
4.31 Change in hours	Within 30 working days of hour change.	Data uploaded to administrator portal.
4.32 Move member from main section of the scheme to 50:50 section or vice versa following member election	At the next pay period following member election.	Ensure correct contribution rate used at the next pay period following member election 50-50-contribution-flexibility-form.pdf (lbhfpensionfund.org)
4.33 Change in personal circumstances such as name or address	Within 30 days of change	Data to be uploaded to administrator portal.
4.34 Leavers under 55 or opt outs	Within 30 days of leaving the scheme	Data to be uploaded to administrator portal.
4.35 Voluntary Retirement where known or any leaver over 55	As soon as possible after leaving the scheme, at most within 10 days of leaving the scheme	Data uploaded to administrator portal.
4.36 Retirement on ill health grounds	As soon as possible after leaving the scheme, or within 10 days of leaving the scheme.	Data uploaded to administrator portal and provide ill health certificate. It is the employer's responsibility to determine whether their member should be retired on ill health grounds and as to what tier is granted.
4.37 Flexible retirement	Within 10 days of leaving the scheme.	Data uploaded to administrator portal. Must take note of flexible retirement policy. Member must reduce hours. Must also enter person into the scheme as a new joiner on the reduced hours.
4.38 Redundancy retirement (members over 55)	Within 10 working days of leaving the scheme.	Employer must request an estimate first so financial strain cost is known.
4.39 AVC	Set up payroll to deduct AVC contribution from next available payrun.	AVC contributions are paid directly to the AVC provider.
4.39 (a) APC	Set up payroll to deduct AVC contribution from next available payrun.	APC contributions are paid to the Fund and must be included on monthly data submissions.
4.391 Notify Fund of death in service	Within 5 working days.	Next of kin contact information should also be provided and leaver details uploaded to employer portal.
4.392 Provide relevant pay for Annual allowance or divorce calculations	Within 30 working days.	Pay will be required for an applicable period which will be outlined at time of request.

4.4 Monthly Contribution and Data Submission

Task	Time frame	Further information
4.41 Pay all contributions to the Fund	Must be paid by 19th of the following month that the contributions relate to.	Pay by BACS and quoting unique reference code when paying.
4.42 Submit remittance spreadsheet to the Fund monthly	Must be submitted by 19th of the following month that the contributions relate to.	Remittance spreadsheet will be issued upon joining and at each April. This details the employer contribution rate payable which has been certified by the Fund Actuary.
4.43 Submit monthly data for all LGPS members	On a monthly basis	Upload data to Fund Administrator online portal.
4.44 Pay any financial strain costs to the Fund	Within 30 working days of receipt of invoice	Financial strain will arise in redundancy cases or waiving early retirement deductions. Employer should always obtain an estimate first.
4.45 Refund	Refund members who opt out within 3 months of joining through the payroll	Contributions to be refunded in the next payroll from receiving the opt out form.

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4.5 Outsourcing of Council and Academy Services and Admission Bodies

Task	Time frame	Further information
4.51 Actuary report for tender stage of service contract	Letting authority to provide required information 30 working days before tender stage	Actuary will detail employer contribution and required bond value on receipt of required information.
4.52 Admission Agreement	Letting authority to provide required information within 7 working days of contract being awarded.	HFTUPE2 form can be provided on request. Admission and bond agreement to be drafted and signed by all parties.
4.53 Academy conversion	Local Authority to request pension valuation of converting schools 60 working days before conversion date.	To ensure Actuary report is completed calculating new academy contribution rate and opening funding position.
4.54 Bond review	Admitted body to request a review of their bond 90 working days before bond expiry date.	N/A
4.55 Cessation	Admitted body to provide notice within 10 working days of last active LGPS member leaving the scheme.	N/A

5. Administering Authority Duties and Expectations

5.1 General and overarching responsibilities

Task	Time frame	Further information
5.12 To formulate, write and publish an administration strategy statement.	To be reviewed every 3 years and updated as necessary	Which will be made available on the Fund's website Hammersmith and Fulham Pension Fund (lbhfpensionfund.org)
5.13 To formulate, write and publish a funding strategy statement.	To be reviewed annually and updated as necessary	Which will be made available on the Fund's website Hammersmith and Fulham Pension Fund (lbhfpensionfund.org)
5.14 To formulate, write and publish a communication policy.	To be reviewed and updated as necessary	Which will be made available on the Fund's website Hammersmith and Fulham Pension Fund (lbhfpensionfund.org)
5.15 To formulate, write and publish a governance and compliance policy.	To be reviewed annually and updated as necessary	Which will be made available on the Fund's website Hammersmith and Fulham Pension Fund (lbhfpensionfund.org)
5.16 To arrange for the Pension Fund valuation. Consult and issue the rates and adjustment certificate to scheme employers	Triennially with the next review to take place 31/03/2022. Advise employers of revised contribution rate one months prior to implementation date.	Each scheme employer will be communicated to individually.
5.17 To publish the Pension Fund's annual report and accounts	On an annual basis.	Which is available on the Fund's website Hammersmith and Fulham Pension Fund (lbhfpensionfund.org)
5.18 To publish the Pension Fund's final audited accounts	On an annual basis.	Which is available on the Fund's website Hammersmith and Fulham Pension Fund (lbhfpensionfund.org)
5.19 To notify new employers of their contribution rate.	Upon employer joining the scheme in advance of an existing employer's rate change on 1 April.	N/A
5.20 Maintain and publish an IDRP process and manage complaints	Appoint stage 1 and stage 2 adjudicators and keep these under review.	Which is available on the Fund website.
5.21 Produce annual benefit statements (ABS)for active and deferred members	Deferred members to receive ABS by 30 June. Active members to receive ABS by 31 August	ABS run as at 31 March for active members but at the April PI increase date for deferred members.
5.22 Process annual allowance each year for members who have exceeded the annual limit.	LPPA to notify members who have breached annual allowance by end of the tax year following the ABS date.	N/A
5.23 Issue P60's to pensioner and beneficiary pensioner members	LPPA	These are available on members LPPA portal.
5.24 Issue initial payslip to pensioners for the first month's payment electronically via the portal.	LPPA	Member will access via the members LPPA portal. Hard copy payslips will be issued on request but may incur a charge.
5.25 Advise pensioners of pensions increase and tax code amendments affecting the value of pension paid	LPPA	Further details will be available on the members LPPA portal.
5.26 Answering customer emails	LPPA - Within 10 working days	N/A

5.2 New Scheme Joiner & Change of Member Detail

Task	Time frame	Further information
5.21 Establish pension record for new scheme joiner upon notification from scheme employer	LPPA	N/A
5.22 Issue notification of new pension record to scheme member	LPPA - Within 10 working days	N/A
5.23 Change of name/marital status/address/hours worked/service break upon notification from scheme employer	LPPA – Within 30 working days	N/A

5.3 Member leaving the Scheme.

Task	Time frame	Further information
5.31 Calculate deferred benefits following receipt of complete and accurate leaver information from scheme employer	LPPA – Within 10 working days	N/A
5.32 Issue deferred benefit statement to member	LPPA - Within 10 working days	Notification to be issued electronically
5.33 Provide retirement option to members who are retiring as confirmed by scheme employer or other leavers over age 55	LPPA - Within 10 working days	N/A

5.4 Member Retirement

Task	Time frame	Further information
5.41 Provide retirement options to active eligible members if notified of retirement by scheme employer or if over 55 at date of leaving	LPPA - Within 10 working days	N/A
5.42 Provide retirement options to deferred members at age 55, 60 and NRA or upon request from a deferred member aged 55 or over	LPPA – Within 10 working days	N/A
5.43 Retirement benefits processed following positive election from a member	LPPA	N/A

5.5 Transfers, interfund, aggregations and Divorce CETV's

Task	Time frame	Further information
5.51 Provide Transfer-in quote upon member request	LPPA – 10 working days	N/A
5.52 Provide Transfer out quote upon member/authorised provider request	LPPA – 10 working days	N/A
5.53 Notification to member of complete transfer in / interfund adjustment / aggregation of LGPS membership	LPPA – 10 working days	N/A
5.54 Payment of transfer out CETV to receiving scheme/ interfund adjustment to receiving LGPS Fund	LPPA – Within 30 working days	N/A
5.55 Provision of CETV for fund proceedings	LPPA- 10 working days	N/A
5.56 Implementation of pension sharing or earmarking order	LPPA – within 30 working days	Ex-spouse pension record established (Pension Credit member) and LGPS member debited as per court order

5.6 Deaths

Task	Time frame	Further information
5.61 Acknowledgement to next of kin following notification of death of member	LPPA – 5 working days	N/A
5.62 Calculation and notification of benefits due to dependent(s)	LPPA – Within 30 working days	N/A
5.63 Implementation of beneficiary pension	LPPA – Within 30 working days	N/A
5.64 Decision made and payment of death grant	LPPA – Within 15 working days	N/A

6. Assistance and Support for Scheme Employers

6.1 Points of contact – scheme employers can contact LPPA, by email, telephone and by completing an enquiry form. Scheme employers can also contact the dedicated LBHF in-house Pensions Team with regulation and administration queries and the LBHF in-house Pensions Specialist with queries regarding the letting of service contacts, LGPS admissions and TUPE transfer of LGPS members.

6.2 Training – The fund administrators offer training and practical guidance regarding LGPS issues and will hold various training events regarding LGPS administration which will be communicated to scheme employers. Scheme employers should ensure that pension dedicated HR and payroll staff view and attend such training to learn and keep their LGPS knowledge up to date. Scheme employers can also request training on subjects as required. Employers should ensure that when a dedicated pension staff member leaves their employment, that they ensure a complete hand over is carried out to ensure a continuation of knowledge is retained by the organisation.

6.3 Communications – In line with LBHF's communication policy; concise, easy to understand and targeted communications delivered to scheme employers and members from the in-house Pensions Team or LPPA.

6.4 IT and digital – scheme employers and members both have access to LPPA's web portal – PensionPoint for members and Civica Pensions platform for scheme employers. PensionPoint allows members to log into their real time pension accounts, view their documents, view and amend personal information and run pension estimate calculations as many times as they wish. This allows greater ownership and transparency for members and puts them in control of their retirement. Scheme employers must submit ad hoc data such as new joiners and leavers data to the Civica Pensions platform and submit a monthly data file containing everything the Fund needs to administer their members pensions correctly. All data submissions are automatically validated at the point of submission to ensure the accuracy of member data and therefore the benefits due to the member.

6.5 LBHF website – offers members and employers up to date information and news regarding the LGPS, key Pension Fund documents and useful links to national LGPS resources such as lgpsregs.org and lgpsmember.org, as well as key contacts outlined above.

6.6 Monitoring of scheme employers – all employers will be monitored for timeliness and accuracy of data submitted and contribution payments and will be notified in the event of missed deadlines and steps put in place to ensure an appropriate level of performance is maintained. We may take steps outlined within this document in the event that a scheme employer fails to make correct contribution payments or data submissions and/or is persistently late with making correct contributions payments or data submissions through our charging policy and scheme employers may be reported to the pension regulator in the event of material breaches.

7. Remedying poor performance by scheme employers

7.1 The Fund will be required to act when a scheme employer fails to pay pension contributions or persistently fails to pay on time. This will also be the case if data is not submitted to the Fund or is persistently submitted late. Action will also be taken if an employer's poor performance in respect of compliance with the LGPS regulations results in warnings or fine being levied against the Pension Fund the Pensions Regulator, Pension Ombudsman, HMRC or other regulatory body.

7.2 The Fund will work closely with scheme employers who may be experiencing difficulties with payments or administration, attempting to aid the resolution of their difficulties through specific case assistance or general training as required with an appropriate action plan implemented. If improvement is not made, then a warning will be issued to an employer will be notified of outstanding requirements, deadlines and charges/reporting action which will be taken if improvements are not made. If, following a warning, improvements are not made, then a charge for the additional administrative duties may be issued as outlined in this document. An employer may be charged for each incident of late payment or late date submission. An employer who reaches three charges in a scheme year, or where the Fund deems one action is of significant material interest, will be reported to The Pensions Regulator, who has the powers to take employers to court and impose fines. Admitted body employers who have gained entry to LBHF Pension Fund via the award of a service contract and through signing admission agreement may have their admission agreement terminated, which will mean their LGPS employees will no longer be eligible for membership of the pension scheme and a cessation calculation will be required.

7.3 Employers must be aware that if they outsource their payroll function to a third-party provider, then it is still the employer who is responsible for the administration and contribution payments of their LGPS members. Therefore, it is the scheme employer who would be charged and reported further to paragraph 7.2. Employers should therefore monitor and work closely with their third-party payroll provider accordingly.

7.4 Charges may be applied to scheme employers as per the following table. Data or payments must be accurate and correct within the time frame.

8. LBHF Pension Fund (Re-)Charging Policy

8.1 Charges may be levied for poor employer performance as per paragraph 7.4.

8.2 LBHF Pension Fund reserve the right to recharge scheme employers if the Pension Fund receives a fine from a regulatory body in respect of an employer's breach of the LGPS regulations or other regulations.

8.3 Employers will be recharged in the following circumstances following an invoice received by the Fund in respect of dealings with third parties on behalf of the employer. Scheme employers should endeavour to find out applicable charges in advance and the Fund will do its best to communicate applicable charges where known.

Description of cases where charging may apply;

Task	Time frame	Charge if time frame exceeded for correct submission
8.31 Notify pension administrators of new joiner – upload all starter information to web portal	Within 30 working days of employee joining the scheme	£125 per case
8.32 Leavers under 55 or opt outs – upload leaver information to web portal	Within 30 working days of leaving the scheme	£125 per case
8.33 Any type of retirement – provide leaver notification and any other relevant information, e.g., ill health certification for an ill health retirement	As soon as possible after leaving the scheme, at most within 10 working days of leaving the scheme.	£250 per case
8.34 Payment of monthly contributions or deficit payment	Monies must be cleared by 19th day of the following month in which contributions were deducted, e.g., Contributions deducted in January must be paid by 19 February.	£250 per incident following two warnings within a scheme year
8.35 Monthly data submission to LPPA and schedule/remittance submission to LBHF Pensions Team	Data must be submitted	£125 per incident

8.4 Third Party Responsibilities

Third party	Event/report	Further information
8.41 Actuary	FRS102/IAS19 accounting disclosure reports	Accounting disclosures are required by some bodies, particularly academies at the end of applicable financial year.
8.42 Actuary	Admission report	Required when a service contract is being let. Default is the letting authority is responsible for payment unless agreement in place for contractor to pay.
8.43 Actuary	Bond Review	Required when a contractor's bond is due to expire. Default is the contractor is responsible for payment unless agreement in place for the letting authority to pay.
8.45 Actuary	Cessation report	Required when a contractor leaves the Fund. Default is the contractor is responsible for payment unless agreement in place for the letting authority to pay.
8.46 Legal	Admission Agreement	Drafting and issuing of admission agreement. Default is the letting authority is responsible for payment unless agreement in place for contractor to pay.
8.47 Legal	Bond Agreement (or other security such as Guarantee Agreement)	Drafting and issuing of bond agreement. Default is the letting authority is responsible for payment unless agreement in place for contractor to pay.
8.48 Actuary/legal	Ad hoc requests or instances	Any fees incurred for actuarial or legal work specifically requested or caused by a scheme employer.
8.49 Pension Fund Administrators	Ad hoc requests or instances	Any fees incurred for administrative projects specifically requested or caused by a scheme employer.
8.50 Fund Employers	Filing to provide evidence of implementing pension policy i.e. data retention or discretions	£250 per incident

9. Further Information – Regulations and Guidance

9.1 LGPS specific regulations - Local Government Pension Scheme Regulations 1995, 1997, 2008, and current 2013. Local Government Pension Scheme (Transitional Protection) Regulations 2014. Local Government Investment Regulations 2016 - Scheme regulations (lgpsregs.org)

9.2 Overarching regulations – The Pensions Act 1993, 1995, 2004, 2014. The Public Sector Pensions Act 2013, 2015. Finance Acts 2004, 2006 ,2014. Occupational & Personal Pension Schemes (Disclosure of Information) Act. https://www.legislation.gov.uk/

9.3 LGPS Governing bodies and regulators – The Pensions Regulator Workplace pensions law - Workplace pensions law - auto enrolment | The Pensions Regulator. Local Government Association - Home | Local Government Association. LGPS Scheme Advisory Board LGPS Scheme Advisory Board - LGPS Scheme Advisory Board - Home (lgpsboard.org)

9.4 Administering Authority and scheme employer website LGPS Regulations and Guidance - LGPS Regulations and Guidance (lgpsregs.org)

9.5 LGPS member website - Home :: LGPS (lgpsmember.org)

9.6 LBHF Fund website Home | Hammersmith and Fulham Pension Fund (lbhfpensionfund.org) See the Fund website for other useful Fund specific documents such as Communications Policy, Memorandum of Understanding, Governance Compliance Statement, Discretionary Policy Statement for the administering authority, Funding Strategy Statement, Annual report and accounts, Fund Valuation rates and adjustment certificate.

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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 Nikos Souslous (Chair)
- Councillor Rory Vaughan

Appointees

- Mr Neil Newton
- William O'Connell

During the year 2022/23 the Pensions Board met twice:

- 8 June 2022
- 8 February 2023

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 results of the 2022 Triennial Valuation.

The Board underwent the following training in the year:

The Board attended two half-day bespoke training events that took place in November 2022 March 2023 and covered the following topics:

- Pension Fund Governance and 2022 Actuarial Valuation
- Pension Fund Investment
- Climate Change and Net Zero
- Macroeconomic Outlook
- The Importance of robust Pensions Admission Agreements
- The Development of TCFD in the LGPS
- UK Economy and Public Finances

Councillor Ashok Patel

Chair, LBHF Pensions Board

June 2023


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THE DONOR
J. PASSMORE EDWARDS
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Grant Thornton

London Borough of Hammersmith and Fulham Audit Progress Report and Sector Update

March 2024

Contents

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 Authority 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.

Introduction

Your key Grant Thornton team members are:

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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications https://www.grantthornton.co.uk/en/services/public-sector-services/

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at March 2024

Financial Statements Audit 2021/22 update

On the 22 February 2024 we have signed our auditor's reports on the 2021/22 Council and Pension Fund financial statements.

We have previously communicated in our updates and our Audit Findings Report that we were considering our final fee for the audit. The proposed fee was £212,742 for the Council and £38,000 for the Pension Fund audit. There have been significant delays during the audit as follows:

- consecutive running of the 21/22 audit with the prior year audit requiring additional management time to catch up progress on the audit;

- additional testing of assumptions and data inputs for the pension liability due to the triennial valuation requiring adjustment in the 21/22 statements;

- pension administration and system changes in the pension fund requiring us to carry out additional work around the transfer of data and the IT general controls to gain sufficient assurance over the system transfer and operations on 2 different systems during the year;

- change of pension administration service provider meaning there were significant delays in responses to our audit samples and queries on member data changes, benefits and contributions, significantly adding to the time taken to close testing on the Pension Fund;

- delays in obtaining responses on debtors and creditor sample queries particularly relating to the collection fund systems, and delays in responses on our provisions audit queries;

- the audit continues to have a relatively high level of differences, discrepancies and control issues which add to management time in closing and reporting the audit;

- a delay in signing the audit due to internal processes.

As a result of these issued our final fees for the audits are £239,398 for the Council and £49,500 for the Pension Fund audit.

Financial Statements Audit 2022/23

The Council and Pension Fund audits for 2022/23 are substantially completed and we have reported our Audit Findings Report to this meeting. We are aiming to complete and sign these audits by the end March 2024. We have set out the deliverables for this audit, and their status, on the next page.

Value for Money 2022/23

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which was presented to the November Audit Committee meeting.

Financial Statements Audit and Value for Money 2023/24

We will present our plan and risk assessment for the audit and value for money work to the Audit Committee meeting on 17 June 2024 with fieldwork planned for July 2024 onwards.

Other areas

Meetings

We meet regularly with your Senior Finance Officers. We continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers will be invited to attend our next Accounts Workshop in early 2024.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Deliverables

2022/23 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council and Pension Fund 2022-23 financial statements and to issue a commentary on the Authority's value for money arrangements in the Auditor's Annual Report.	September 2023	Completed
Audit Findings Report The Audit Findings Report will be reported to the Audit Committee.	March 2024	Completed
Auditors Report This includes the opinion on your financial statements.	March 2024	Planned to sign after the Audit Committee meeting on 11 March 2024
Auditor’s Annual Report This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.	November 2023	Completed

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- Grant Thornton Publications
- Insights from local government sector specialists
- Reports of interest
- Accounting and regulatory updates

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

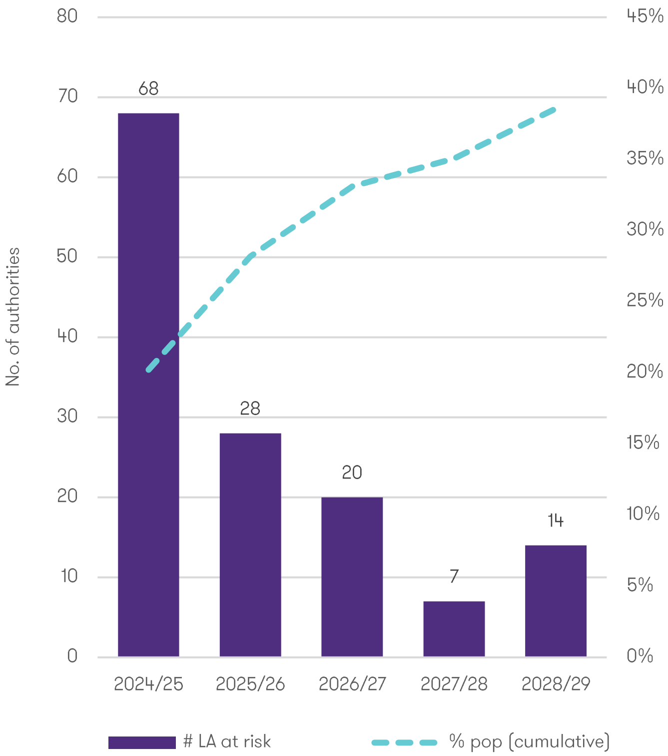
Local government

The financial trajectory of the sector

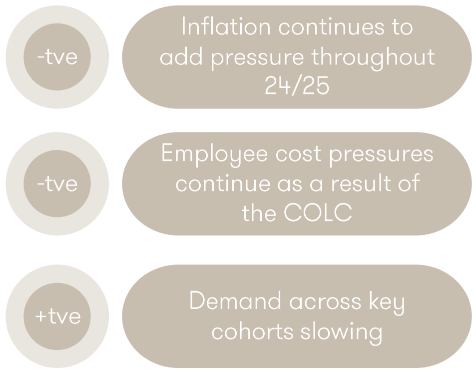
This is taken from the Grant Thornton/CIPFA Financial Foresight model, which provides long-term forecasts (revenue income and expenditure) for all councils in England. These forecasts are based on multiple assumptions relating to financial, demographic and economic factors. Councils at risk are defined by the level of usable reserves being less than 5% of net revenue expenditure.

The year at risk graph on the left represents the most recent update of the assumptions including the impact of the Autumn Statement and draft 2024/25 finance settlement. The graph on the right provides the position before this most recent update. This highlights that the year at risk for many councils has moved forward to 2024/25. The graph at the bottom of the page highlights the forecast depletion of reserves nationally, as councils manage ongoing financial pressures.

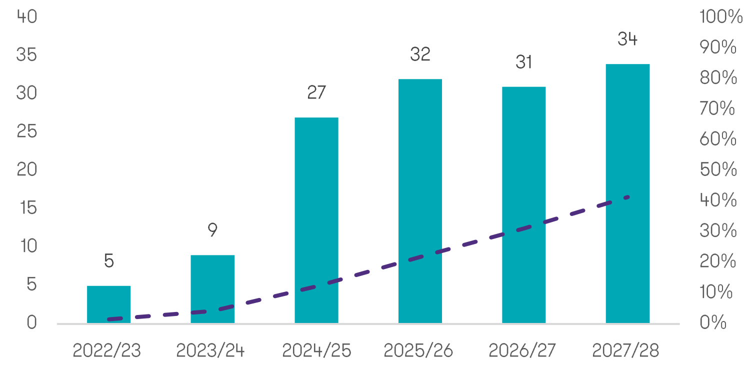
Year at risk (based on Jan 2024 forecast)



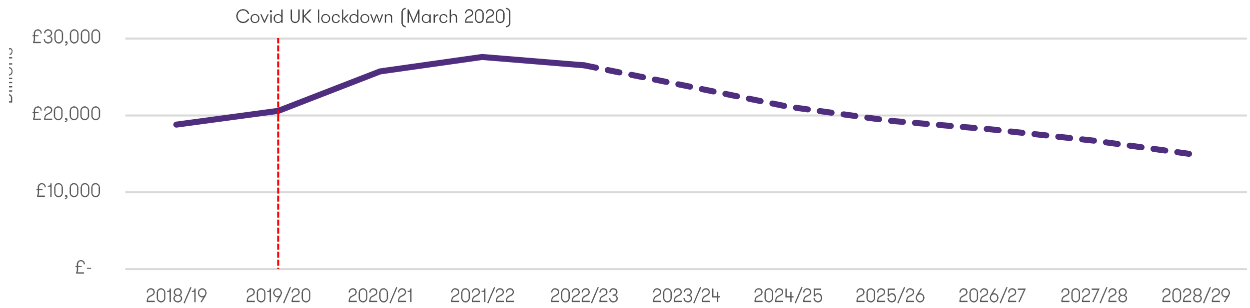
Assumptions



Year at risk (Historic Position)



Level of reserves



Source: Financial Foresight (Grant Thornton and CIPFA)

Addressing the delay in local audit

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk). Further details can be found in the 'Sector update' section of this report on Pages 16 to 19. Since 2019 Grant Thornton have increased our public sector audit team from 340 people to circa 470 which reflects both the additional work required by new accounting and auditing standards as well as the NAO Code of Practice requirements on value for money.

On 8th February 2024, DLUHC and the NAO both issued consultations on measures to address the delay in local audit. Consultations are open until 7th March 2024 and relate to:

- DLUHC - changes to the Accounts and Audit Regulations 2015 to introduce a backstop date of 30 September 2024 for the publication of audited accounts up to and including 2022/23, and a series of future backstop dates covering the remainder of the PSAA appointment period; and
- NAO - changes to the Code of Audit Practice to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements.

The FRC, as shadow system leader, is facilitating the consultations. CIPFA/LASAAC are expected to go live on their proposals for time limited changes to the Financial Reporting Code for English bodies shortly.

To have your say, navigate to the consultations here:

The DLUHC landing page is here - Addressing the local audit backlog in England: Consultation - GOV.UK (www.gov.uk)

The NAO landing page is here - Code of Audit Practice Consultation - National Audit Office (NAO)

Grant Thornton report: preventing failure in local government

Page 373

Grant Thornton's December 2023 report Preventing Failure in Local Government offers prescriptions for remedies to support better health across the local government sector. The report looks at the opportunities that councils and their key internal and external players have to prevent failure, noting that the chain (of good governance) is only as strong as its weakest link.

The Audit Committee is listed as one of the key internal bodies with a role to play in preventing failure, along with the Executive, the Overview and Scrutiny Committee and the golden triangle of Chief Executive Officer; Finance Director; and Monitoring Officer. **Opportunities for the Audit Committee to make a difference surround:**

- focusing on risk management alone (not having multiple roles);
- independence (having an independent chair and at least one independent member);
- specialist training and support for members of the committee;
- direction over internal audit (setting the standard for strategic risk focus and timeliness); and
- curiosity and asking the right questions.

Sharing the Auditor's Annual Report with full council is also listed as important. The challenge for Audit Committees will be not only to maximise their own opportunities to prevent failure, but knowing the right questions to ask about whether the Executive and other committees and the three key statutory officers are making the most of their opportunities as well.

For insight into effective questions to ask, read the full report from Grant Thornton here: How can further local authority failures be prevented? (grantthornton.co.uk)

Mitigating financial distress in Local Authorities

On 29th January 2024, a report by the Levelling Up, Housing and Communities Committee highlighted that in the last six years, eight local authorities have issued a section 114 notice, whereas none had done so in the eighteen years before that.

Income related issues were highlighted in the report around the below-inflation cap on increasing council tax rates (referendum thresholds) and formulaic weaknesses with the business rates retention scheme. Council tax especially was singled-out as regressive, long overdue for reform, and contributing to a disproportionately negative impact on funding levels in the most deprived areas of the country.

Expenditure related issues were listed in the report as surrounding social care; special educational needs and disabilities; and homelessness. The report highlighted that for children's social care, even the Competition and Markets Authority has recognised that the level of competition in the market is "not working as well as it should be" at maintaining prices at reasonable levels for local authority purchasers.

The report shows that nearly one in five Leaders and Chief Executives of other local authorities who have not already issued a s114 notice do assess themselves as being at "tipping point" due to lack of funding.

Whilst most of the recommendations in the report are aimed at Government, there are some **key takeaways for local authorities while they wait for any change that may come:**

- have we set Council Tax at the highest level possible without a referendum? Future changes could see referendum thresholds increased or removed. Are Councils doing all they can now to maximise this source of income?
- are we collaborating as effectively as we can with other local authorities to influence market prices for the services we buy in?

For insight into effective questions that Audit Committees can ask, read the full report here *Financial distress in local authorities (parliament.uk)

Learning from the Office for Local Government

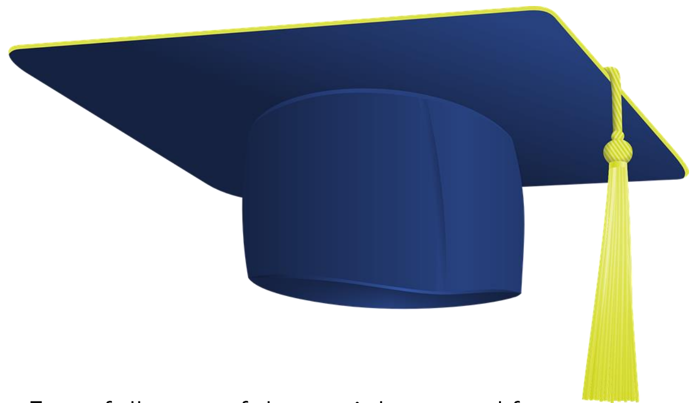
On 15th February 2024, the Secretary of State for Levelling up, Housing and Communities set out, in an open letter to the Chief Executive of Oflog, the strategic remit for Oflog for the financial years 2024 to 2027, and the Office's priorities for the financial year 2024/25. The priorities are to:

- inform;
- warn;
- support; and
- engage.

Using the new Local Authority data explorer tool (launched in July 2023), the Office can currently use metrics on waste management, planning, adult social care, roads, adult skills and corporate/ finance to compare any one authority with the English median, CIPFA nearest neighbours and trends over time. The Office is expected to develop a new early warning system to identify local authorities that are at risk of serious failure (but have not raised the alarm themselves) and to conduct 'early warning conversations' with local authorities at risk. It will be also be offering a programme of webinars to share best practice between local authorities, and to help improve performance, productivity and value for money.

Local Authorities and their members can familiarise themselves now with the data explorer metrics already publicly available. **Challenge questions for Audit Committees to ask include:**

- are the metrics consistent with our own benchmarking?
- are we showing early warning signs?
- what arrangements will we be making to make best use of the learning that will be on offer?



For a full copy of the remit letter and for access to data explorer metrics for your Local Authority see here:

[Remit letter from DLUHC Secretary of State to the Oflog Chief Executive - GOV.UK (www.gov.uk)]

[About - Local Authority Data Explorer]

New workbook to support councillors in their work on community leadership

Page 376

On 8th February 2024, the Local Government Association published a new workbook for Councillors, covering community leadership.

Effective community leadership matters because communities that are engaged tend to have happier, healthier people and lower levels of crime and anti-social behaviour. Declining voting and increased social detachments from local areas are also a concern. Councillors are in the unique position of being able to interface between citizens and the council and demonstrate directly what they have achieved for the people they represent.

The workbook shows that for effective community leadership, councillors need to:

- listen to and involve their local communities;
- build vision and direction;
- work effectively with partners;
- make things happen;
- stand up for communities;
- empower communities;
- be accountable; and
- use resources effectively.

With challenge questions; case studies; guidance, hints and tips; and a dedicated section for the opposition, the workbook makes for interesting reading for any councillor – new or already established.

A councillor's workbook on community leadership | Local Government Association

Making the most of levelling-up funds to local government

Page 377

In November 2023, the National Audit Office published its report on whether the Department for Levelling Up, Housing and Communities' levelling up funds are likely to deliver value for money. The three significant funds are the Towns Fund (Town Deals and Future High Streets Fund programmes); the Levelling Up Fund (local priorities with a visible impact); and the UK Shared Prosperity Fund (to increase life chances and build pride in place). Between them, these funds are worth up to £10.6 billion and aim to allocate £9.5 billion to local places to be spent by 31 March 2026. However, less than half of the monies given to local places across the three schemes by 31 March 2023 had been spent. Because under current arrangements the funds are time limited, there is a risk that some projects may never be started and others, in the haste to complete, may include sub-optimal decisions.

Many of the delay factors are beyond Local Authorities' control: Rising costs, skills shortages and supply issues in the construction industry. However, the report does highlight that there are things Local Authorities can do to help with unblocking.

Key questions that Audit Committees can ask are:

- do we know which of our projects are on track and which are at risk?
- have all projects got their main contractor in place?
- has full advantage been taken of the ability to move money between sub-projects within individual bids?
- is advantage being taken of the ability to make changes to the scope and scale of projects without seeking approval if the changes do not exceed a 30% threshold?
- are projects being prioritized? So that those that can complete to time, do complete to time?

For the full report and an insight into wider recommendations for the Department, see *Levelling up funding to local government (nao.org.uk)

£10.6bn	total amount announced through the Towns Fund, Levelling up Fund and UK Shared Prosperity Fund, to support the government's levelling-up agenda across the United Kingdom between 2020–21 and 2025–26
£9.5bn	the amount the Department for Levelling Up, Housing & Communities (DLUHC) has allocated to local places to be spent by 31 March 2026
£2.0bn	the amount DLUHC has given to local places so far across the three funds at 31 March 2023
£0.9bn	the amount spent by local places at 31 March 2023

Helping to avoid the "doom loop" for adult social care

In October 2023, the annual Institute for Government / Chartered Institute of Public Finance and Accountancy (CIPFA) public services stocktake revealed that adult social care services are likely to be performing worse in 2027/28 than they were on the eve of the Covid-19 pandemic, and much worse than they were in 2009/10. The report describes the impact across nine different public services of successive governments' short-term policy making; under-investment in capital; and workforce crisis. For adult social care, it highlights that under current funding arrangements, a return to pre-pandemic levels of performance seems unlikely. The report describes a "doom loop" for adult social care, resting on:

- staffing problems and capacity being worse than they were before the pandemic: Vacancy rates in 2022/23 sat at 9.9%. They were 6.7% in 2019/20;
- growing demand: Since 2015/16, the number of requests for adult social care support from new clients has increased by 22.1% for 18–64-year-olds;
- erosion of cash settlements: Settlements announced in 2021 and 2022 have been eroded over time, due to higher than anticipated pay awards and national inflation; and
- sector-specific inflation: Unit costs of adult social care packages are now much higher than they were before the pandemic. According to a survey of directors of adult social services, this has been driven by increasing complexity of care needs, staffing costs and wider inflationary pressures.

There has been no immediate sign of relief from central government. The Autumn Statement in November 2023 made no new funding available for public services, and spending increases beyond April 2025 of less than 1% in real terms are expected.

Audit Committees can help by asking the right questions. What steps do their entities take to make sure staff costs are managed effectively – with as high a ratio as possible being on substantive staff, for stronger consistency and continuity? What assumptions about future funding are their entities making in their budgets? What are the procurement and brokerage arrangements for purchasing care packages in what is, at present, a supplier's market?

			Funding adequate to	
Service	Performance on the eve of pandemic v 2009/10	Performance now v on the eve of pandemic	Return to pre-pandemic performance levels by the end of 2024/25	Maintain performance levels between the end of 2024/25 and 2027/28
Adult social care	↓ Much worse	↘ Worse	No	Maybe

For the full report and a sense of how other public services are faring as well, see [Performance Tracker 2023 | Institute for Government]

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Grant Thornton

Agenda Item 6

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 11 March 2024

Subject: Internal Audit Progress Report (April 2023 to February 2024)

Report of: David Hughes

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

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Summary

This report summarises the status of work included in the 2023/24 Internal Audit Plan as at the end of February 2024. Six audits have been finalised, two of which received a Substantial assurance opinion and four receiving Satisfactory assurance, with a further three audits at draft report stage.

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

Recommendations

1. For the Committee to note and comment on the report.

Wards Affected: None

H&F Values

Our Values	Summary of how this report aligns to the H&F Priorities
Building a shared prosperity	Internal audit work covers a wide range of services including those which are delivered in partnership with local and national companies. Assurance may be required over governance arrangements to demonstrate the benefit to residents of co-delivered services.
Creating a compassionate council	Internal audit provides assurance that the Council's resources are managed appropriately to provide the most effective support to the most vulnerable residents.
Doing things with residents, not to them	Where engagement with residents is part of service development, internal audit will consider how well co-production and resident access is embedded in a process.
Being ruthlessly financially efficient	The work undertaken by Internal Audit helps to ensure that management have robust controls and practices in place to safeguard the Council's assets, controlling expenditure and maximising potential income to protect and invest in essential frontline services which are in place to meet the Council's priorities.

Our Values	Summary of how this report aligns to the H&F Priorities
Taking pride in H&F	Investment in public realm services such as waste collection, street cleaning and open/park spaces is significant. The internal audit strategy identifies services for cyclical review, including contract management for outsourced services and performance delivery for in-house services.
Rising to the challenge of the climate and ecological emergency	Internal Audit consider the impact of strategies, including, the Climate and Ecology Strategy, in a number of different reviews that form part of the Internal Audit Plan.

Contact Officer:

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Telephone: 020 7361 2389
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Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

Internal Audit Work to February 2024

1. The Audit Committee are provided with updates at each meeting on progress against the Annual Audit Plan and on any limited or no assurance audits issued in the period.

2. The Audit Plan for 2023/24 was reviewed by the Audit Committee in March 2023. To ensure that the Annual Audit Plan is more responsive to changing risks and challenges, it has been developed as a '3 plus 9-month' plan. This approach allows for the first three months to be identified in detail with the remaining nine months being more flexible to suit the needs of the Council at the time. The Plan is reviewed and updated following discussions with Directors, taking into account changing risks and priorities. The revised Plan is reported to the Committee on a quarterly basis and any significant changes in the coverage of the Plan will be highlighted.

3. Four assurance levels are used and when an audit is completed, an assurance opinion is provided (a description of the different assurance opinions is shown in Appendix 3).

4. Since the last report to Committee, six audits have been completed:

Department	Audit	Assurance Opinion
Corporate Services	Council Tax	**Substantial**
Corporate Services	Housing Benefit	**Substantial**
Corporate Services	Digital: New Systems Acquisitions	Satisfactory
Schools	Randolph Beresford Nursery	Satisfactory
Environment	Community Safety – Anti-Social Behaviour	Satisfactory
Environment	Climate Change	Satisfactory

5. In addition, three audits are at draft report stage and are due to be finalised shortly.

6. Four advisory reviews/ activities have been completed in the following areas:
   - Contract Management (various)
   - New Placements Team (Children's Services)
   - Disabled Facilities Grants (Social Care); and
   - Risks Deep Dive (Social Care).

Internal Audit Opinion

7. Although no overall assurance opinion can be given at this stage, the S151 Officer and the Committee can be assured that sufficient internal audit work is in progress to ensure an appropriate assurance opinion can be provided by the end of the financial year.

8. Appendix 1 shows the finalised audits as at the end of February 2024 and the status of the remaining planned audits is shown in Appendix 2.

Follow ups

9. A total of 90 recommendations have been followed up in the year to date. Implementation of medium and high priority recommendations has been consistently effective with 88% of medium and high priority recommendations fully implemented with a further 6% partly implemented. Further follow up will be undertaken on the recommendations partly or not yet implemented.

Consultation

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

Legal Implications

11. This report recommends that the Committee note and comment on the 5 (non-advisory) internal audits undertaken in relation to the Internal Audit Plan for 2023/24 as set out in Appendix 1 and notes the status of draft audits in the process of being completed. This is a regular update report on the position of internal audits as against the Internal Audit Plan.

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

   a. facilitates the effective exercise of its functions and the achievement of its aims and objectives;
   b. ensures that the financial and operational management of the authority is effective; and,
   c. includes effective arrangements for the management of risk.

13. Regulation 5 requires the Council to ensure that it undertakes an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

14. The Constitution gives the Strategic Director of Finance responsibility for complying with the Regulations. The Audit Committee has responsibility for advising on strategic processes for risk, control and governance and the Statement on Internal Control. This report fulfils the obligations in the Regulations and the Constitution.

15. There are no other legal implications arising from this report.

Angela Hogan, Chief Solicitor (Contracts and Procurement) on behalf of Grant Deg, Monitoring Officer on 26th February 2024.

Financial Implications

16. The Internal Audit Plan for 2023/24 will be delivered within the approved revenue budget for the service. Actions required as a result of audit work, and any associated costs, are the responsibility of the service managers and directors responsible for the areas which are reviewed.

17. Any resource implications from the implementation of the recommendations by services will have to be contained within the relevant Directorate approved budgets.

Implications verified by Sukvinder Kalsi, Director of Finance on 26th February 2024.

Risk Management

18. The Internal Audit Plan is developed and delivered to cover the key risks faced by the Council, to provide assurance on the key controls in operation and the effective management of key risks.

Implications verified by Moira Mackie, Head of Internal Audit on 26th February 2024.

List of Appendices:

Appendix 1 Summary of Audit Reports finalised as at end of February 2024
Appendix 2 Audit Plan 2023-24 Status Report
Appendix 3 Assurance Opinions and Recommendation Priorities

APPENDIX 1

Internal Audit – Finalised Audits

Plan Area	Auditable Area	Issued	Assurance level given	High Priority Recs	Medium Priority Recs	Low Priority Recs	Reported to Committee
Cross-cutting	Contract Management	Feb-24	Advisory	2	5	0	Mar-24
Corporate Services	Council Tax	Dec-23	**Substantial**	0	0	0	Mar-24
Corporate Services	Housing Benefit	Feb-24	**Substantial**	0	0	4	Mar-24
Corporate Services	Digital: New Systems Acquisitions	Feb-24	Satisfactory	0	1	1	Mar-24
Children's Services	New Placements Team (2022/23)	Nov-23	Advisory	0	5	0	Mar-24
Schools	Randolph Beresford Nursery	Nov-23	Satisfactory	0	4	2	Mar-24
Social Care	Risk Management Deep Dive	Nov-23	Advisory	0	0	0	Mar-24
Social Care	Disabled Facilities Grants	Feb-24	Advisory	0	5	0	Mar-24
Environment	Community Safety – Anti-Social Behaviour	Nov-23	Satisfactory	1	3	4	Mar-24
Environment	Climate Change	Feb-24	Satisfactory	0	5	3	Mar-24
Children's Services	Direct Payments	Oct-23	Satisfactory	0	4	4	Nov-23
Environment	Modern Slavery Strategy (2022/23)	Jun-23	**Substantial**	0	0	0	Nov-23

APPENDIX 2

AUDIT PLAN 2023/24 STATUS REPORT

The Plan is reviewed and updated following discussions with Directors, taking into account changing risks and priorities. The status of audits in the current Plan is shown below:

Plan Area	Draft Report Issued	In Progress/ Due to Start	Not yet Due	Deferred
Cross-cutting			• Gifts & Hospitality (staff) – new system ongoing • Declarations of Interest (TBC)	• Risk Management (defer to 2024/25)
Finance		• Pensions Administration: Ongoing Cyclical Review • VAT	• Partnerships (TBC)	
Corporate Services		• Digital: Cyber Resilience • Digital: Disaster Recovery • Digital: Local Business Continuity Planning • NNDR	• People & Talent: Right to Work (TBC) • People & Talent: DBS Checks (TBC)	• People & Talent: On-line Appraisal System – Consider in 2024/25 as too early to review in 2023/24. • Digital: Revs & Bens Application (defer from 2023/24 other priorities)
Children's Services	• Adoption Services (Nov-23) • Safeguarding (Feb-24)	• Supporting People Claims (on-going)	• Children's & Finance – Business Support (Advisory) (TBC) • Shared Service Governance (TBC) • Fostering - Implementation of Case Management System (TBC)	• Early Years: request to defer from the service
Schools		• Cambridge School		• Kenmont Primary: Request from the school due to staff changes
Social Care & Public Health		• Public Health: Drug and Alcohol Service • Out of Borough Placements • Compliments & Complaints	• Day Care (TBC)	• MH Services (replaced with review of Out of Borough Placements) • Performance Management & Governance (info on deep dives to be provided) • Home Care (new contract defer to 2024/25)

APPENDIX 2

AUDIT PLAN 2023/24 STATUS REPORT

Plan Area	Draft Report Issued	In Progress/ Due to Start	Not yet Due	Deferred
Economy	• Housing Voids (Jan-24)	• Facilities Management (Nov-23)	• Building Safety Act(TBC) • Health and Safety Inc Fire Safety (TBC) • Procuring Energy (TBC) • Planning / Building Control (TBC)	• Leaseholder Charges – Project Review (Q3) • Leaseholder Charges (debt management) (Q4) • Housing Allocations (Q3)
Environment		• Licensing • Trading Standards		

ASSURANCE OPINIONS AND RECOMMENDATION PRIORITIES

Four assurance levels are used and when an audit is completed, an assurance opinion is provided. A description of each of the assurance levels is summarised below:

Assurance Level	Description
Substantial Assurance:	There is a sound system of internal control designed to achieve their objectives and the control processes tested are being consistently applied.
Satisfactory Assurance:	While there is generally a sound system of internal control, there are weaknesses which put some of the objectives at risk; and/or there is evidence that the level of non-compliance with some of the control processes may put some of the objectives at risk.
Limited Assurance:	Weaknesses in the system of internal control are such as to put the objectives at risk; and/or the level of non-compliance puts the objectives at risk.
Nil Assurance:	Control processes are generally weak, leaving the processes/systems open to significant error or abuse; and/or Significant non-compliance with basic control processes/systems open to error or abuse.

Recommendations are categorised as either High, Medium or Low priority. A description of each of these is summarised below:

Priority	Description
High (Fundamental)	Recommendations represent fundamental control weaknesses, which expose the organisation to a high degree of unnecessary risk.
Medium (Significant)	Recommendations represent significant control weaknesses which expose the organisation to a moderate degree of unnecessary risk.
Low (Housekeeping)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.

Agenda Item 7

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 11 March 2024

Subject: Internal Audit Plan 2024/25

Report of: David Hughes, Shared Services Director for Audit, Fraud, Risk and Insurance

Responsible Director: Shared Services Director for Audit, Fraud, Risk and Insurance

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Summary

The Strategic Audit Plan documents significant, persistent risks that the Council faces and the business areas to be covered over a five-year period. The Strategic Plan supports the annual planning process and ensures that internal audit continues to provide assurance over the breadth of the Council's operations.

The draft Annual Audit Plan (the Plan) has been prepared following consultation with Directors and takes into account the Council's corporate risks and priorities.

To ensure that the Plan is more responsive to changing risks and challenges, it has been developed as a '3 plus 9-month' plan. This approach allows for the first three months to be identified in detail with the remaining nine months being more flexible to reflect the risks and needs of the Council at the time. The Plan will be reviewed and updated following discussions with Directors, taking into account changing risks and priorities. The revised Plan will be reported to the Committee on a quarterly basis.

Recommendations

1. The Committee review the early draft of the Annual Audit Plan, as set out in Appendix 1, and comment on the audit work due to undertaken in the first quarter of 2024/25 and identify any specific audits to be considered during the coming year.
2. The Committee review the draft Strategic Audit Plan, as set out in Appendix 2, and consider whether it covers the persistent risks that the Council faces and outlines the business areas or themes that need to be considered as part of a five-year plan.

Wards Affected: None

H&F Values

Our Values	Summary of how this report aligns to the H&F Priorities
Building a shared prosperity	Internal audit work covers a wide range of services including those which are delivered in partnership with local and national companies. Assurance may be required over governance arrangements to demonstrate the benefit to residents of co-delivered services.
Creating a compassionate council	Internal audit provides assurance that the Council's resources are managed appropriately to provide the most effective support to the most vulnerable residents.
Doing things with	Where engagement with residents is part of service

Our Values	Summary of how this report aligns to the H&F Priorities
residents, not to them	development, internal audit will consider how well co-production and resident access is embedded in a process.
Being ruthlessly financially efficient	The work undertaken by Internal Audit helps to ensure that management have robust controls and practices in place to safeguard the Council's assets, controlling expenditure and maximising potential income to protect and invest in essential frontline services which are in place to meet the Council's priorities.
Taking pride in H&F	Investment in public realm services such as waste collection, street cleaning and open/park spaces is significant. The internal audit strategy identifies services for cyclical review, including contract management for outsourced services and performance delivery for in-house services.
Rising to the challenge of the climate and ecological emergency	Internal Audit consider the impact of strategies, including, the Climate and Ecology Strategy, in a number of different reviews that form part of the Internal Audit Plan.

Contact Officer:

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Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. The Council's internal audit service is provided by the Shared Services Internal Audit Team which is managed by the RBKC based Shared Services Director for Audit, Fraud, Risk and Insurance. Audits are undertaken by the in-house audit team or through the external contractors to the service, in accordance with the Internal Audit Charter. Internal Audit is required to provide the S151 Officer, the Leadership Team and the Audit Committee with an opinion on the adequacy and effectiveness of the Council's governance, risk management and control arrangements. The Audit Committee are provided with updates at each meeting on progress against the Annual Audit Plan and on any limited or no assurance audits issued in the period.

2. A primary role of internal audit is to provide assurance that the Council has robust systems of governance and control in place to achieve its priorities and meet its statutory responsibilities. The Council's internal and external environment continues to evolve and the way in which the Internal Audit Service is delivered must change to keep pace with

this. The traditional audit approach of planning a full year of audits in advance has become unsuitable as the original plan fails to keep pace with the organisation's needs.

3. As a result, we have implemented the following changes to the way in which we deliver the Internal Audit Service:
    - A Strategic Audit Plan has been developed which documents the significant, persistent risks that the Council faces and outlines, in broad terms, themes to be covered over a five-year period. This helps to ensure that internal audit does not become a purely reactive function.
    - We work with a '3 plus 9' Annual Audit Plan – planning out the next three months in detail, taking into account key risks and priorities, whilst keeping the remaining nine months more flexible. The Plan will then be revisited each quarter to confirm the following quarter's work and will include sufficient audit coverage to enable an overall annual opinion to be reached on the Council's control framework.
    - The option of focused coverage or less formal reporting is available where the traditional approach would not provide assurance as quickly as needed.
    - We seek to increase attendance on 'working groups' to provide advice and constructive challenge where real time input to projects and initiatives would be useful.
4. The draft '3 plus 9' Internal Audit Plan for 2024/25 is attached as Appendix 1 to this report. It should be noted that this Plan is an early draft, intended to focus on the work planned in the first quarter of 2024/25 and some changes may be required once all of the audit planning meetings have been held.
5. The Strategic Internal Audit Plan (2021-2026), which documents significant, persistent risks that the Council faces and outlines, in broad terms, themes to be covered over a five-year period, is attached as Appendix 2 to this report.
6. The Audit Strategy, Annual Plan and audit work is undertaken in line with the expectations of the Public Sector Internal Audit Standards (PSIAS). The Standard incorporates a code of ethics governing the integrity and conduct of internal auditors and the requirement for objectivity, confidentiality, and competency, including regard to the seven principles of public life.

Consultation

7. The Internal Audit Plan and the work undertaken by the Internal Audit Service is prepared in consultation with the Council's SLT and officers within the Council and supports the Strategic Director of Finance's responsibility under S151 of the Local Government Act 1972 relating to the proper administration of the Council's affairs.

Legal Implications

8. This report, in summary, recommends that the Committee (1) reviews a draft of the Annual Audit Plan of audits to be undertaken in the first quarter of 2024/25 and (2) reviews the draft Strategic Audit Plan which sets out persistent risks/business areas/themes over the next 5 years.
9. Regulation 3 of the Accounts and Audit Regulations 2015 sets out the Council's responsibility for ensuring that it has a sound system of internal control which:
    a. facilitates the effective exercise of its functions and the achievement of its aims and objectives;

b. ensures that the financial and operational management of the authority is effective; and,

c. includes effective arrangements for the management of risk.

10. Regulation 5 requires the Council to ensure that it undertakes an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

11. The Constitution gives the Strategic Director of Finance responsibility for complying with the Regulations. The Audit Committee has responsibility for advising on strategic processes for risk, control and governance and the Statement on Internal Control. This report confirms therefore that the Internal Audit Plan will be presented to the Audit Committee and fulfils the requirements of the Constitution.

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

13. *Implications verified by Angela Hogan, Chief Solicitor (Contracts and Procurement) 26th February 2024 on behalf of the Monitoring Officer*

Financial Implications

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

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

16. *Implications verified by Sukvinder Kalsi, Director of Finance, on 26th February 2024.*

Risk Management

17. The Internal Audit Plan is developed and delivered to cover the key risks faced by the Council, to provide assurance on the key controls in operation and the effective management of key risks. The audit of services is a crucial component of the Council's approach to Being Ruthlessly Financially Efficient. A Plan contributes considerably to the ongoing mitigation and management of financial and significant standing service risks as required by the Account and Audit Regulations and as outlined in Appendix 1 of the report.

18. *Implications verified by Moira Mackie, Head of Internal Audit, on 31st January 2024.*

List of Appendices:

Appendix 1 Draft Internal Audit Plan 2024-25

Appendix 2 Strategic Internal Audit Plan

APPENDIX 1

Draft Internal Audit Plan 2024/25

Background

The traditional approach of planning a full year of audits in advance has become unsuitable as the original plan fails to keep pace with the organisation's needs. The outline Internal Audit Plan (the Plan) for 2024/25, shows the audits planned in the first 3 months of the year, with areas of potential audit activity suggested for the remaining 9 months, where planning is more flexible.

The option of focused coverage or less formal reporting is available where the traditional approach would not provide assurance as quickly as needed. In addition, we seek to increase attendance on 'working groups' where real time input to projects and initiatives would be useful.

The Plan will be revisited each quarter to confirm the following quarter's work and will include sufficient audit coverage to enable an overall annual opinion to be reached on the Council's control framework.

Where possible, the Plan is aligned to the Council's corporate risks, however it should be noted that the Council's corporate risks and priorities may change during the year, and the Plan will be reviewed and updated as appropriate.

The Plan will be provided to the Strategic Leadership Team and the Audit Committee at the start of the financial year and will then be presented every quarter. The delivery of the Plan helps to create a culture of accountability; ensures that risk management processes are embedded, and contributes to the Council's governance framework.

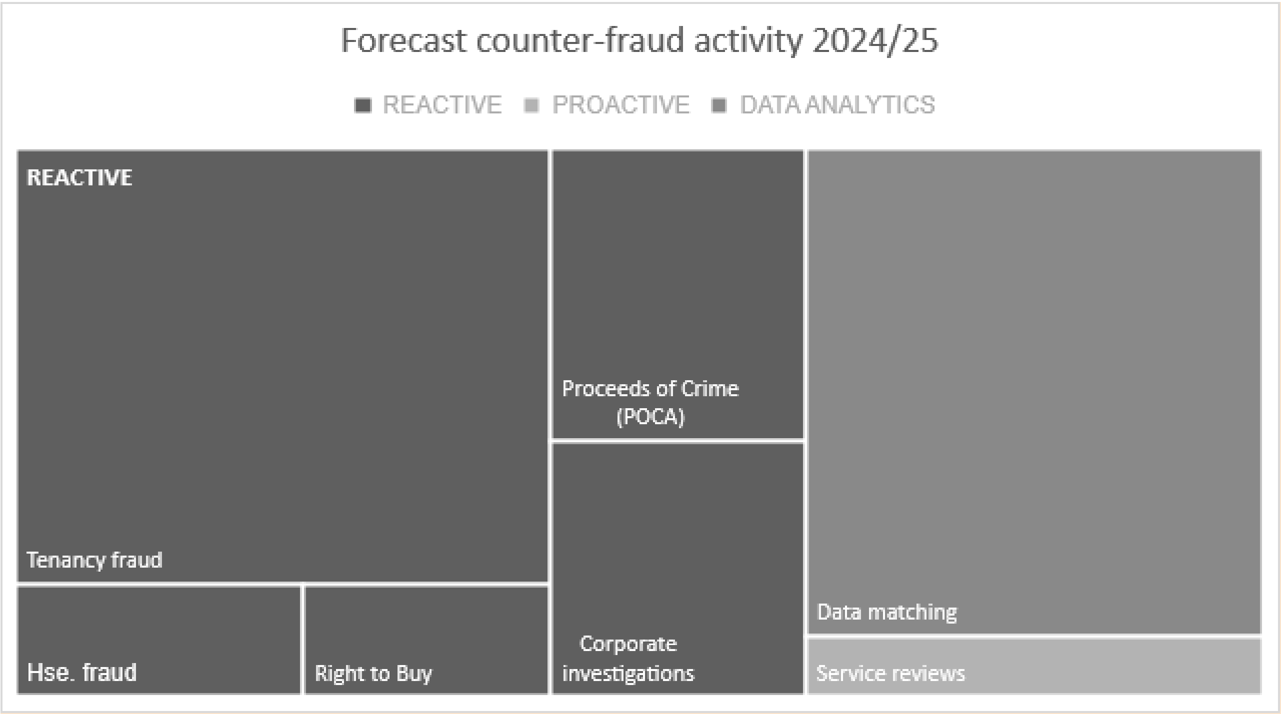
In addition, areas of fraud risk are evaluated by the Corporate Anti-Fraud Service (CAFS) and this information will be used to inform and focus some of the audit work planned, as well as identifying areas where pro-active exercises and data analytics can provide additional assurance that fraud risks are effectively managed.

Corporate Anti-Fraud Service (CAFS) 2024/25

The work undertaken by CAFS complements the work of Internal Audit and provides additional assurance to the Council that fraud risks are being managed effectively. The reactive work plan has been estimated using historical data to assess the required levels of commitment needed for fraud risk areas such as Tenancy fraud.

In contrast, proactive activities such as data analytics can be more carefully planned to ensure appropriate resources are available. For example, the biennial National Fraud Initiative data matching exercise will start in September 2024, with the initial extraction of data to be analysed.

The table below reflects the forecast activity for 2024/25.



APPENDIX 1

Draft Internal Audit Plan 2024/25

Department	Review	Potential Coverage	Quarter	Risk*
Cross-Cutting	Regulatory burdens	Review regulatory burdens & preparedness across the Council.	1 to 2	5, 6, 9, 27 & 30
Cross-Cutting	Performance reporting	Data quality, verification & reporting	1	n/a
Cross-Cutting	Project/ Programme Management	Cyclical review (TBC): Capital Project(s)	1	1, 19
Cross-Cutting	Accounting Systems	Cyclical reviews (TBC): - Budgetary control - Accounts payable	2 to 4	19
Cross-Cutting	Risk Management	Cyclical review	3	n/a
Finance	Capital Programme	Governance of objectives and pipeline	2 to 4	19
Finance	Procurement	Updated E-procurement system and contracts register	2 to 4	1
Finance	Partnerships/ companies	Governance	2 to 4	1
Finance	Housing Rents	Cyclical review	2 to 4	19
Corporate Services	FOIs, SARs, Members' enquiries	Process for handling and response approval	1	18
IT Related	Digital Services (& departmental systems)	3 out of 4 from: - Revenues and benefits application - Housing application - Cyber incident response and recovery - Data security – SharePoint - Network security – Civic campus	1 to 4	3, 4
Corporate Services: People & Talent	HR & Payroll	Cyclical review of 2 out of 3 from: - Overtime, Additions to pay - DBS - Training & Development - Performance Management/ Appraisal - Recruitment Absence Management	1 to 4	8, 12
Corporate Services	Elections	Readiness for Voter ID and Postal Voting controls	2	4
Corporate Services	Revenues & Benefits	Cyclical reviews: - Council Tax - NNDR - Housing Benefit	3	19
Corporate Services	Coroner's Service	Cyclical review	2 to 4	n/a

APPENDIX 1

Department	Review	Potential Coverage	Quarter	Risk*
Children's Services	Supporting People Claims	Ongoing. Review and approval of claims for Supporting People funding	1 to 4	6
Children's Services – Schools	Cyclical Reviews	Financial control and governance reviews	1 to 4	n/a
Children's Services	Fostering	New case management system	2 to 4	6
Children's Services	Cyclical review	2 out of 3 reviews from: - SEND - Looked after Children - Transitions - Contracts (e.g. Transport)	2 to 4	1, 6, & 16
Social Care & Public Health	CQC Inspection	Support re controls / processes if required	TBC	6
Social Care & Public Health	Direct Payments	Cyclical review	1	6
Social Care & Public Health	Client Affairs	Cyclical review	2 to 4	6
Social Care & Public Health	Homecare	Contract management	2 to 4	6
& Public Health	Contracts/ Procurement	Cyclical review (TBC)	2 to 4	6
Economy: Housing	Building Safety Act	Potential audits: - Building Safety Regulator requirements - Building Control Standards - New Build requirements	1 to 4	9
Economy: Housing	Housing Management	Social Housing Consumer Standards	2 to 4	27
Economy: Housing	Housing Management	Anti-social Behaviour	2 to 4	18
Economy: Housing	Housing Needs	2 out of 3 from: - Homelessness - Temporary Accommodation - Allocations - Supported Housing	2 to 4	n/a
Economy & Finance	Leaseholder Charges	Project Management review (project halted in 2023/24)	2 to 4	TBC
Economy & Finance	Leaseholder Debt	Improvements post new system implementation	2 to 4	19
Economy	Commercial Property Management	Cyclical review	2 to 4	19
Economy	Economic Development/	Cyclical review TBC	2 to 4	14, 19,

Department	Review	Potential Coverage	Quarter	Risk*
	Regeneration			32
Environment	Emergency Planning	Cyclical review	1	31
Environment	Contract Management	2 out of 3 from: - Parks - Leisure - Waste Management - Highways/ lighting - Parking	1 to 4	1,30
Environment	Building Control	Cyclical review	2 to 4	5, 9
Environment	Environmental Health	Cyclical review	2 to 4	5

*High and medium risks, as identified in the Council's Corporate Risk Register (October 2023) as shown in Appendix 2, Strategic Internal Audit Plan.

APPENDIX 2

Strategic Internal Audit Plan (2021-2026)

1. The Strategic Internal Audit Plan sets out the medium-term direction of the Internal Audit service. This five-year plan outlines the priorities of the service and how Internal Audit can continue to provide an adequate level of assurance whilst taking into account resource limitations and the changing risk landscape.
2. The Strategic Internal Audit Plan is supported by the Audit Charter, which sets out the roles and responsibilities of Internal Audit, and the Annual Audit Plan, which outlines the internal audit work which will be undertaken each year.
3. All local authorities have faced significant financial reductions in recent years and increasing demand for its services and a reduction in the resources available to them which has, in turn, impacted on the control environment. In addition, local authorities are taking more risks as they explore innovative solutions in order to bridge funding gaps and transform the organisation. It is important that the Internal Audit service continues to evolve to ensure that it remains an effective assurance provider.
4. This Strategic Audit Plan has been prepared to document significant, persistent risks that the Council faces and outlines, in broad terms, themes to be covered. The intention of the five-year period of this plan is to ensure that, in becoming more agile, internal audit does not become a purely reactive function and continues to provide assurance over the entire breadth of the Council's operations. The Strategic Audit Plan will be aligned where possible to the Council's priorities.

Area of Review	Significant Persistent Risks	Five-year Approach
Corporate Resources Back office and support functions including Finance, HR, Pension Fund, business continuity, risk management, health and safety and procurement.	• Internal and external fraud • Poor Financial management • Risks to staff safety and welfare • Value for money not achieved in commissioning, procurement and contract management. • Failure to provide robust and compliant pensions administration service. • Council/ pension funds not invested effectively. • Staff do not have the skills, resources or support to discharge their roles effectively. • Council unable to cope with business disruption or emergencies.	One full audit of each key financial system and ongoing testing of key controls every year. Cyclical Coverage of Revenues and Benefits over a three-year period. Two-year cycle of pension administration, treasury and pension fund management arrangements. At least one audit of each key HR Function. Other functions, themes or departments based on conversations with management, assessment of risk and other sources of assurance. Annual coverage of management of individual procurements and contracts based on review of forward plans, perceived risk, significance and discussions with management.

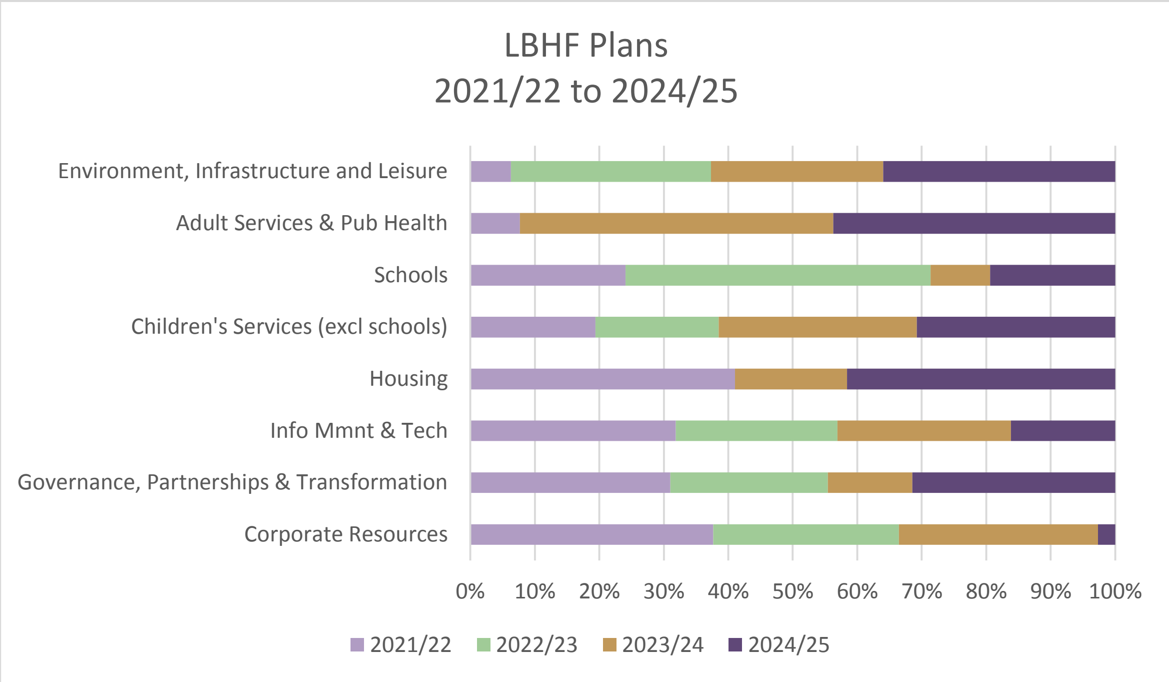
APPENDIX 2

Area of Review	Significant Persistent Risks	Five-year Approach
Governance, Partnerships and Transformation Council governance functions, key strategic partnerships, commercial ventures and transformation programmes and projects.	• Governance failures, bringing the Council into disrepute or leading to the aims and objectives of the Council not being achieved. • Programmes and projects are not managed effectively within the required budget and timescales, delivering all expected benefits. • Ill-advised strategic partnerships or ventures entered into or poor governance arrangements lead to objectives not being achieved. • Information requests (such as SARs and FOIs) are not responded to promptly and appropriately. • Statutory functions such as Registrars and Electoral Services are not discharged effectively. • Commercial property portfolio is not managed effectively.	At least one full audit of SARS, FOIs, Members Enquiries and Complaints. Annual coverage of Health and Safety based on discussions with management and understanding of risk areas. At least one audit of Gifts, Hospitality and Declarations of Interest. At least one audit of the Registrars Service. Annual audits of specific areas of governance based on discussions with management and understanding of risk. Coverage of each significant Partnership, Joint Venture, Council Owned Company or Commercial Venture. Annual Coverage of Risk Management at either a corporate, thematic or departmental level.
Information Management & Technology (Digital Services) Management of data, compliance with the Data Protection Act /GDPR. Information technology including cyber security, asset management and disaster recovery.	• Loss of information, data breaches or inappropriate disclosure. • Loss of access/information due to systems failure or cyber-attack. • Breach of access controls. • Loss, theft or misuse of IT assets.	Periodic IT audit needs assessment and frequent discussions with management to understand risk areas.

Area of Review	Significant Persistent Risks	Five-year Approach
Housing Housing Services provided to Council Tenants, Leaseholders and those at risk of homelessness.	• Properties are either acquired or disposed of that are not in line with the Council's strategy or value for money is not achieved. • Rent payments and service charges are not recovered promptly and completely. • Council housing is acquired through fraud or is used inappropriately. • Housing stock is not maintained in a satisfactory condition leading to health and safety hazards and increased reactive maintenance. • Risks to the health and safety of residents are not identified and addressed promptly. • Leaseholders are not consulted and correctly charged for any works affecting their property. • Homeless and those at risk of becoming homeless in the borough do not receive the support they require.	At least one full audit of key Housing functions such as Rents, Homelessness, Housing Allocations, Temporary Accommodation, Tenancy Management, Leaseholder Services. More frequent coverage of both responsive repairs and planned repairs and maintenance. Annual coverage of building Health and Safety compliance.
Children Services Provision of services for children and families including looked after children, family support, schools and SEND.	• Failure in service continuity, safeguarding arrangements, financial management and governance. • Increased demands for services with reduced funding.	On-going in-year assurance on funding claims for Supporting People. Cyclical full review of specific areas such as placements, direct payments, looked after children based on discussions with management and understanding of risk. Each school reviewed at least once (with more frequent review where required).
Adult Social Care Services provided to adults including day care, home care, direct payments and reablement.	• Increased demands for services with reduced funding. • Lack of suitable provision. • Weak supplier financial resilience.	Cyclical reviews of areas such as direct payments, home care, day centres, client affairs, partnership agreements based on discussions with management and understanding of risk.

Area of Review	Significant Persistent Risks	Five-year Approach
Public Health Services provided to support the public health & wellbeing of the community and reduce health inequalities within the borough including the response to pandemics.	• Access to appropriate affordable resources to support improvement to public health priorities. • Changing public health priorities and capacity for delivery (as exemplified by Covid-19 pandemic).	At least one procurement and one contract monitoring review across 2 to 3-year period. Targeted reviews in specific areas based on discussions with management and understanding of risk.
Environment, Infrastructure and Community Services Management of highways infrastructure and services provided for residents, businesses, and visitors. Includes: Planning & building control, regeneration, new homes, industrial strategy, employment support schemes, parking, highways, public realm, environmental health, trading standards, community safety, leisure, culture, and amenity services such as libraries.	• Statutory and regulatory functions not discharged effectively. • Weak supplier resilience / lack of provision. • Poor value for money/ ineffective service delivery/ failure to deliver outcomes for the community. • Injury to health /wellbeing to the community, businesses and visitors.	At least one procurement and one contract monitoring review across 2 to 3-year period. At least one programme or project management review (capital). At least one audit of the Libraries Service. Cyclical review across the service areas based on discussions with management and understanding of risk.

5. The Chart below summarises the actual audit activity between 2021/22 and 2023/24 and the planned activity for 2024/25, using the "Areas of Review" contained in the Internal Audit Strategy.



High and Medium Corporate Risks (October 2023, these are regularly reviewed)

The Council's Corporate Risks are linked to the following Council Values:

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

Where possible, planned audit work is linked to the Council's high and medium priority risks which are shown below:

Risk No.*	Risk	Residual Exposure	Council Value*
1	Commercial, contract management and procurement risks, rules, outcomes, social value, management of spend and contractor performance management.	Medium	4
3	Failure to maintain services to residents in the event of IT systems being compromised and affecting service resilience.	High	4
4	Information management and digital continuity, regulations, legislation and compliance.	Medium	4
8	Failure to identify and address internal and external fraud.	Medium	4
9	Failure to ensure compliance with the statutory duties to undertake inspection regimes covering management of asbestos, electrical testing, fire risk, plant and equipment, water testing/ legionella.	Medium	3 & 5
12	Unable to retain talented people in key posts at LBHF.	Medium	All
14	Failure to deliver the Civic Campus Programme	Medium	3
18	Management of complaints, requests for information, members enquiries.	High	All
19	Financial management – Medium-Term Planning.	Medium	4
21	Corporate management of health and safety.	Medium	All
22	Impact on the local economy and businesses from the closure of Hammersmith Bridge to pedestrians, road and river traffic.	Medium	3 & 5
26	Failure on the part of the Council to mobilise its response to the Climate Change emergency.	Medium	6
27	Repair system and contractor management not delivering performance at the required levels.	High	3 & 5
31	Failure to manage the negative impact of flooding, due to adverse weather conditions, on residents and businesses. Consequences of the Climate Emergency. One in a hundred events that lead to the overloading of our surface water systems (gullies) which results in widespread flooding and consequent damage to homes and businesses. Fluvial flooding as the most at risk London Borough.	Medium	5
32	Failure to maintain services to residents or progress works or development because of provider failure or market failure. (This includes a legal requirement to step in where care agencies fail even if the Council does not commission them).	Medium	All

*Risk number and associated Council Value as shown on the Corporate Risk Register, October 2023

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 11/03/2024

Subject: Risk Management Update

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

SUMMARY

The purpose of this report is to provide members of the Audit Committee with an update on risk management across the Council.

RECOMMENDATION

For the Committee to review, note and comment on the report.

Wards Affected: None

H&F Values	Summary of how this report aligns to the H&F Values
• Building shared prosperity	*Good risk management helps to: maintain and promote the Council's reputation;*
• Creating a compassionate council	*Is an enabling tool to help protect residents and staff including some of the most vulnerable in society;*
• Doing things with local residents, not to them	*Place people, businesses and the wider community at the heart of everything we do;*
• Being ruthlessly financially efficient	*Ensure robust financial and information management and supports internal control, opportunity and innovation;*
• Taking pride in H&F	*Protect valuable assets and the built and natural environment.*
• Rising to the challenge of the climate and ecological emergency	*Enabling an approach to climate-sensitive decision making*

Financial Impact

The current and future strategic operating environment for local government represents a significant risk to the council with the ongoing challenge of delivering services with increased demand and legislative pressures. This is further impacted by wider economic factors leading to rising costs from inflation and reduced funding. This has seen the Council incur additional expenditure whilst at the same time seeing pressures in the level of resources available through a combination of lower income levels and inherent demographic/legislative pressures.

There are no specific financial implications arising from this report. Services are expected to manage their risks within current budgets. Where additional funds are required to mitigate or manage risks, separate decisions reports will be required for the approval of unbudgeted expenditure. The council holds a corporate contingency budget and adequate levels of reserves to enable it to manage unforeseen costs.

A standing corporate risk, Financial Management and Medium-Term Planning, identifies the risks to balancing the budget in response to continued government funding and demand pressures faced by the Council and the sector more generally and is assessed as high risk. The in-year position is reported in the Corporate Revenue Monitor to Cabinet and includes financial risks. Other corporate risks also identify financial pressures arising from demand and complexity of service provision which need to be managed.

Comments verified by Sukvinder Kalsi, Director of Finance, 29 February 2024

Legal implications

There are no particular legal implications arising from this report.

Comments verified by Grant Deg, Assistant Director of Legal Services, 1 March 2024

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

Background

1. To achieve the ambitions, outcomes and priorities set out in our Business Plan, it is essential that we continue to understand, manage and communicate the diverse range of risks and challenges that could threaten the organisation and vital services. Risks originate from a variety of sources, many of which are out of our direct control for example global events such as the coronavirus pandemic, the Russian invasion of Ukraine, Brexit, Gaza, economic or market shocks, austerity or from climate change. More localised incidents can impact on residents, individuals, services and infrastructure.

2. It is paramount that all risks are clearly identified, managed and reported through the relevant channel. Risks can never be eliminated entirely but proportionate and targeted action can be taken to reduce risks to an acceptable level. Furthermore, the work of the Council's Policy and Accountability Committees is acknowledged as a source of robust and additional assurance for the management of risk across its services.

3. Effective governance and management of risks are particularly significant as funding for local government has diminished authorities' objectives and are becoming increasingly fundamental and relate, for instance, to continuing to meet statutory service obligations. Arrangements must therefore be effective in a riskier, more time-pressured and less well-resourced context.

4. Local authorities are required to maintain a sound system of internal control, including risk management, internal audit, and whistleblowing arrangements. Risk management is the application of Council strategies, governance, policies and processes to identify and manage risks that are unacceptable to the Council. Managing risk processes effectively enables the Council to safeguard against potential threats and take advantage of potential opportunities to improve services whilst continuing to provide better value for money for residents, visitors, local businesses and service users.

5. The Council is accountable to the public for its performance and financial management. This means that the Council naturally has a low appetite for risk, however as financial challenges continue the Council will need to take carefully considered risks to develop new and innovative ways to deliver services, support communities and ensure the long-term wellbeing of communities is not impaired by decisions made in the short term. This makes good risk management essential.

6. As part of its governance arrangements, the Council's approach to risk management requires Directors, managers and staff, through their departmental Senior Management Teams to; identify risks; assess the risk; agree and take action to manage the risk and; monitor, review and escalate risks.

7. The Council has robust risk management arrangements in place which feed into the Corporate Risk Register, which is set out in Appendix 1. This register contains the most significant cross-cutting risks that could impact on the outcomes that are set out in the Council's priorities. These risks can be internal or external facing. The Corporate Risk Register is reviewed on a regular basis by the Council's Strategic Leadership Team (SLT) and then presented to the Audit Committee.

8. Internal risks relate to the organisation itself and cover areas such as programmes, workforce, business continuity, safety or technology. External risks are those that can affect the local area, its people, communities, businesses and infrastructure where the Council often has a role, in partnership, to mitigate them.

9. Officers continue to review and assess the impact of and implications for residents and the Council from the events in Ukraine. This includes ensuring that risks relating to the supply chain/contracts and cyber security are being appropriately and robustly mitigated and where support is needed for those residents with families in Ukraine and neighbouring countries.

10. Officers have now taken into account the impact and implications for residents and the Council from the events in Gaza and Israel. This includes ensuring that risks relating to physical security, a rise in tensions in the community and that cyber security are defined, understood and mitigated as appropriate.

11. This report provides the Committee with an updated Corporate Risk Register, presenting a suite of risks as reviewed by SLT.

Changes made since November 2023

12. SLT members and Risk Owners have reviewed the Corporate Risk Register and agreed a number of changes which are reflected in the updated Risk Register provided in Appendix 1.

13. A number of risks continue to highlight the continuing economic uncertainty, regarding the high level of inflation as well as recent increases in interest rates, coupled with uncertainty on future funding for local authorities beyond 2024/25.

14. SLT Assurance reviewed the Corporate Risk Register on 7 February 2024, when the following changes were agreed:

Reduction in risk score

- Risk 14 (Failure to deliver the Civic Campus Programme.) The impact for this risk has been reduced from 4 to 3 due to and increased interest in letting following a successful marketing campaign.

Increase in risk score

- Risk 20 (Financial Management - in year budget 2023/2024 and Medium-Term Planning: Social Care) A slight increase in score to reflect the ongoing pressures around funding, inflation and price increases and market volatility.

Amended risk narrative

Updates to the risk narrative are shown in black text in Appendix 1 and include:

- Risk 8 (Failure to identify and address internal and external fraud) The Council has joined the London Fraud Hub which matches a number of data sets across councils in London to highlight potential fraud cases for investigation. A growth bid has been approved to create an internal data warehouse to provide reporting and dynamic checking capabilities for enforcement/investigation staff and frontline staff carrying out checks for eligibility to services for new applicants.
  Risk 9. (Financial Management – Medium-term planning) The 2024/25 General Fund and HRA budgets were approved in February. Considerable work will be done across summer 2024 to meet the 2025/26 budget gap. The General Fund financial position is relatively strong (stable debt levels, reserves, and cash balances) but the outlook remains more challenging on the HRA. The Council has established strong in-year financial governance arrangements (from Finance SLT to Directorate Management Teams).
- Risk 20 (Financial Management - in year budget and Medium-Term Planning: Social Care) In year pressures include: the impact of the hospital discharges placed by NHS and requiring reassessment of care is increasing social care costs and the impact of cost of living pressures on the care market providers.

For 2024/25, the adult social care budget continues to be pressurised due to the requirements of the Fair Cost of Care funding reforms; inflation and price increases coupled with market volatility. The department meets on a fortnightly basis to review commissioned care with the aim of managing demand and cost where possible and appropriate.

- Risk 27 (Repair system and contractor management not delivering performance at the required levels. leading to reputational damage, enforcement action and external intervention, legal disrepair cases and Category 1 Hazards, HHSRS, Damp, Mould, etc.). Overall, we are moving to mitigate against this risk, in-line with direction set by Chief Executive, the monitoring officer, the Housing Ombudsman, and the Social Housing Regulator. There is increased focus on day-to-day contract and work in progress management both for external contractors and the in-house Direct Labour Organisation (DLO). This is being done to ensure repairs are delivered on a more timely basis and to the satisfaction of residents. Good progress is being made in completing void works and in dealing with damp and mould and disrepair cases. A new leak detection team now recruited and mobilised additional external contractors. Key risks remain managing across multiple critical priorities and substantial long-term and ongoing challenges, managing a greater number of repairs contractors, and improving the repairs service without excessively pressuring the Housing Revenue Account.

- Risk 31 (Failure to manage the negative impact of flooding, due to adverse weather conditions, on residents and businesses. Consequences of the Climate Emergency. A joint climate adaptation steering group has been established which covers all departments across and promotes joint working and good practice. Highways and Parks have carried a number of joint flood risk schemes around Eel Brook Common. Work is underway to develop an adaptation strategy for the borough focusing on extreme heat and flooding.

15. No new risks have been added to the register since November 2023.

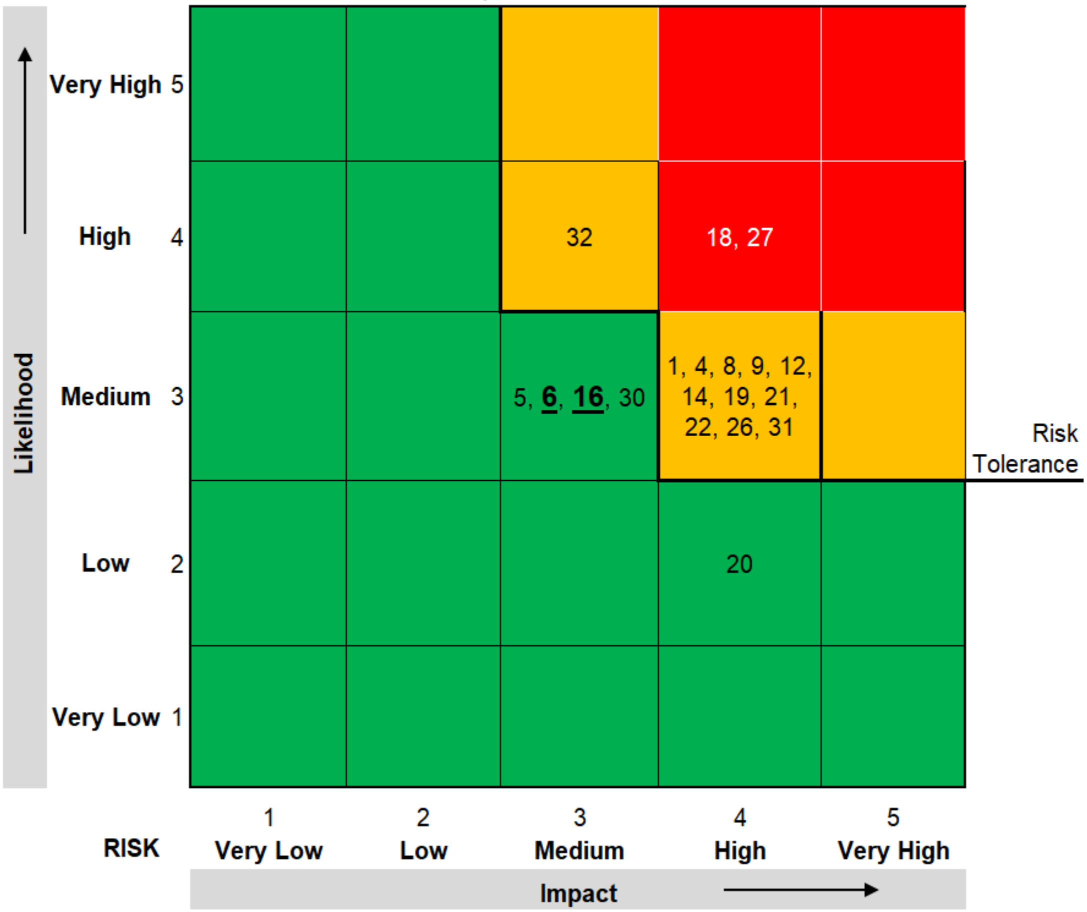
16. One risk has been removed: Risk 5 (Managing statutory duties, equalities, human rights, duty of care regulations, highways.) where the risk has remained Low Priority (Green) for two quarters and has now been merged into Risk 32.

Corporate risk register – heat map

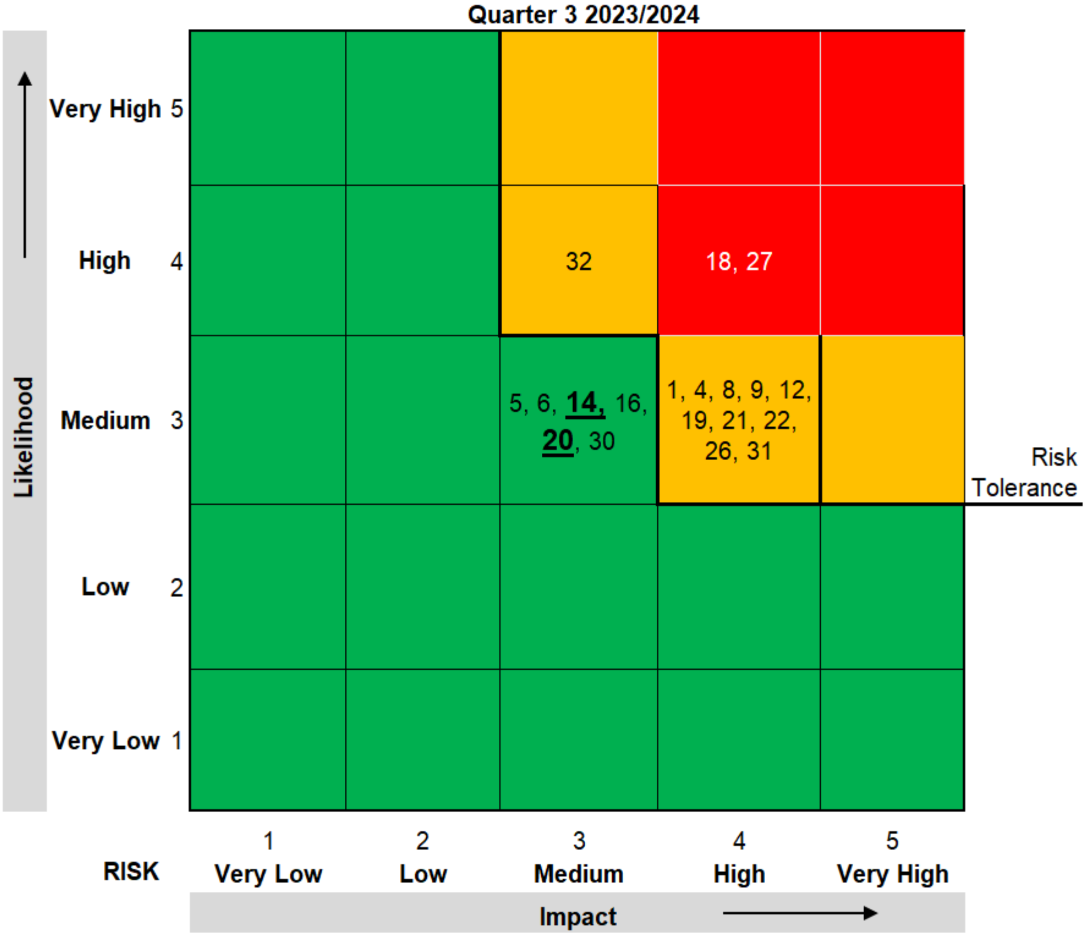
17. The Corporate Risk Register is set out in Appendix 1 and summarised in the following Heat Map as at Quarter 3 for 2023/24, with the Heat Map for Quarter 2 for 2023/24 provided for comparison. Risks which have been subject to change since the Quarter 3 2023/24 Risk Register which was reported to the Committee in July 2023 are shown in the larger bold underlined type:

OVERVIEW RISK HEAT MAP

Quarter 2 2023/2024



Quarter 3 2023/2024



Risk appetite

18. The Council remains accountable to the public for its performance and financial management. This means that the Council naturally has a low appetite for risk, however with the ongoing challenges faced by the Council, there is a need to continue to develop new and innovative ways to continue to deliver services, support and ensure the long-term wellbeing of communities is not impaired by decisions made in the short term. This makes good risk management essential.

19. The ongoing situation in Ukraine and now Gaza continues to impact on the cost of domestic and business energy costs and fuel costs for activities such as transport and heating. While there has been a slight reduction in costs over the past few months (still at much higher levels than two years ago) it is anticipated that energy costs will rise again later in the year. Inflation is still at a very high level and interest rates have increased significantly over the past 12 months. The cost of living crisis is also likely lead to increased demand for services where residents will need more support.

20. These factors impact on the Council in a number of ways including its staffing costs (including the level of pay awards), the cost of borrowing (particularly where it is needed for ongoing/planned capital works), cost pressures on contractors providing Council services (staffing, fuel, materials). The impact will also be felt by partner organisations (such as schools and the voluntary and community sector, where officers will closely monitor the impact and consider any support the Council will be able to provide.

21. A key concern for the Council is the impact that the cost of living crisis being experienced by residents through inflation and rising energy costs as well as the ongoing economic uncertainty (including the potential for rising unemployment). A range of support measures are being offered to residents and officers will continue to assess the situation and consider what further actions can be taken.

22. These and other factors are kept under regular review by SLT. This is done to ensure that ongoing impacts are recognised and appropriate mitigations put in place to protect Council services and local residents.

23. This report provides assurance on the Council's corporate risk management arrangements, explaining the internal control arrangements in place at a strategic level. It provides one of the sources of assurance the Committee can consider when approving the Annual Governance Statement. It also enables the Committee to fulfil its roles under the Committee's Terms of Reference to review the adequacy of Council's Corporate Governance arrangements, including matters such as internal control and risk management.

Conclusions

24. Local authorities will continue to face significant pressures over the coming months, with the prospect of further reductions in public spending, combined with external economic pressures and concurrent demand led pressures. Council officers and services continue to respond with partners to changing circumstances at pace, interpreting and implementing new guidance and regulations as they arise.

LIST OF APPENDICES

Appendix 1 – Corporate Risk Register

Corporate Risk Register – February 2024

Council Priority	Risk	Risk No.	Q2 23/24 Likelihood	Q2 23/24 Impact	Q3 23/24 Likelihood	Q3 23/24 Impact	Current position	Residual Exposure	Status	Lead Director/ Risk Owner
Being ruthlessly financially efficient	Commercial, contract management and procurement risks, rules, outcomes, social value, management of spend and contractor performance management.	1	3	4	3	4	***No change*** The Council has a well-established Corporate Procurement Team. The Contracts Assurance Board meets weekly to ensure governance compliance, consider new future procurement legislation, the major medium-term procurements that are in progress and to update our policies e.g., Social Value Policy, as necessary. Under the IT system category procurement portal, Digital Services supports departments through the procurement process with Strategic Relationship Managers and project delivery team – however, these are project delivery experts and not procurement experts. The current model – where services are meant to nominate a business lead for their digital and IT contracts – is under-resourced and will be reviewed. With the new Public Sector Procurement Bill coming into effect from October 2024, there is an increased risk that the lack of resourcing around digital and IT procurement could lead to procurement failure and/or an inability to secure the best value for the contract. There is also a significant cybersecurity risk if adequate resourcing is not in place to ensure suppliers are accurately assessed and monitored throughout the lifetime of a contract. A robust process to comply with standing orders exists as well as fortnightly contract monitoring process. The Assistant Director Procurement and Commercial is leading on a number of workstreams including Category Management (shared with SLT), Sourcing Strategy agreed at Cabinet, refresher training on procurement/evaluation of social value and progressing the operational delivery plans. A Forward Plan was also recently considered by SLT, and further work is required by departments to refine their forward planning processes. The Council is also refreshing the reporting of performance against the main contracts, with a view to preparing for the new procurement regulations focus on performance. The working group for the new regulations is working through the technical changes at present.	M	Stable	Sukvinder Kalsi
Being ruthlessly financially efficient	Information management and digital continuity, regulations, legislation, and compliance.	4	3	4	3	4	***No change*** The nature of the Council's business activities means that there are ongoing information governance risks, including network security, which continue to be managed. These risks are managed through a range of organisational measures including Information Management (IM) & Information security (IS) mandatory training, maintenance of policies, guidance documents, standards, and codes of practice. The Council deploys technical measures to protect its network and infrastructure. The Council continues to monitor the regulatory environment to ensure continued compliance with information governance obligations. Digital services engaged with services across the council to update H&F's Information Asset in 2021 and procured a software solution to enable the maintenance of H&F's asset register in 2022 leading to improved compliance with information assets laws and quicker identification, assessment, and mitigation of information related risks. work has begun in 2023 to improve the quality of data in the system working alongside service area contacts. In partnership with other London Boroughs and the London Office of Technology and Innovation (LOTI) H&F has documented data sharing agreements with the Police, Probation Service, Health Service, and other partners to support the lawful sharing of personal data in an efficient way. Digital Services has recruited to its new target operating model, and recruitment of a Senior Information Security Officer has taken place to support delivery of our Cyber Treatment Plan.	M	Stable	Nicola Ellis
Creating a compassionate council	i) Standards and delivery of care, protection of children and adults and associated data quality and information risks. ii) Reliance on external assurance providers and providers to identify and communicate issues arising from inspections e.g., Ofsted and Care Quality Commission	6	3	3	3	3	***No change*** <u>Children's Services</u> Ofsted: Our Annual Assurance conversation with Ofsted recognised our effective support for vulnerable children evidenced through the range of previous inspection activity and further evidence through our annual self- assessment. QA programme: Practice week completed recently in October, demonstrated strong performance. Plans are in place for areas we want to further strengthen. HMIP: July 2022 inspection rated the YJS outstanding. No further inspection expected for 2-3 years. Corporate BI - Continued focus on data requirements for the SEND Inspection Framework and on completion of CYPS statutory returns. School Improvement Team: 100% of schools are rated good or outstanding. SEND Inspection: SEF has been updated and shared with stakeholders. Inspection prep group has been meeting regularly in ensure plans are in place. Recent QA processes are also being honed to focus on inspection readiness. <u>Adult Social Care</u> ASC commissioning work closely with commissioned providers to manage risk through regular and focused contract monitoring meetings. Contract monitoring meeting will now include an agenda focussed on what resident have said about services and what providers are doing to address these issues. For homecare providers, weekly SITREP meeting are held and commissioning in liaison with our Quality Assurance Leas also carry out regular visit to provider locations and carry out quality checks in resident's own homes. Quality Lead are focused on understanding home care provider systems and processes to suggest improvements have been assigned to each main homecare provider.	M	Reduced	Jacqui McShannon/ Linda Jackson

Corporate Risk Register – February 2024

Council Priority	Risk	Risk No.	Q2 23/24 Likelihood	Q2 23/24 Impact	Q3 23/24 Likelihood	Q3 23/24 Impact	Current position	Residual Exposure	Status	Lead Director/ Risk Owner
							For our four nursing homes focussed, monthly Joint Operational Group meetings involving the provider, health, GPs, and H&F are held to support the entire health and social care system and hospital discharge pathway. Three out of four care homes are now rated as Care Quality Commission – Good. This is a significant improvement in quality and demonstrates the work that has gone into improve standards. Where providers evidence consistent poor performance contractual sanctions are considered, and performance improvement plans put in place to support improvements and keep our residents safe. This feeds into discussions that take place at as monthly ASC Care Governance & Quality Assurance Board. The board meets to share, discuss, and agree actions in relation to information received both internally and externally regarding providers of services. Monthly forums with all providers are in place. The Strategic Director also chairs a six-weekly CQC area leads meeting where all parties are keeping abreast on quality of care issues with regulated care providers. The cost of living crisis will have a potential impact on the care market as some providers may be forced to close. Shepherd's Bush Housing Group divestment is still ongoing but has been managed corporately. Discussions are ongoing between children's, adults, economy, Housing and property about how to best adapt and use council assets to meet needs and ensure more stable local provision is available going forward. Children services and community safety have purchased a number of the shepherds bush housing group properties, and this has lowered risks. Notting Hill Genesis services have been sold and novated over to Housing 21 who are keen to work with the council moving forward. Adult social care is developing a positive and constructive partnership with Housing 21.			
Being ruthlessly financially efficient	Failure to identify and address internal and external fraud.	8	3	4	3	4	***Updated*** Policies are reviewed bi-annually at SLT Assurance and the Audit Committee. Refreshed Fraud Response Plan, Anti-Money Laundering and Bribery Policies have been reviewed and were presented to the Audit Committee in June 2021. Updated versions of the documents were shared with Committee members for comment in June 2023. The Council's Anti-Fraud and Corruption Strategy spans 2020-2023 and contains an action plan to provide SLT with a tool to ensure progress and transparency regarding counter-fraud activities. The strategy is based on the Fighting Fraud and Corruption Locally strategy published by the LGA, which is currently being reviewed. Once the new Strategy is published, the Council documents will be subject to further review. Performance is reported to both the Audit Committee and SLT to demonstrate how counter fraud work aligns with the Strategy and contributes to the Council's overall fraud resilience. Reporting also identifies emerging fraud risks and proposed mitigations. Fraud Awareness training is available on the Learning Platform to all staff and a bespoke course was assigned to staff in the Social Care department. The Council has joined the London Fraud Hub which matches a number of data sets across councils in London to highlight potential fraud cases for investigation. A growth bid has been approved to create an internal data warehouse to provide reporting and dynamic checking capabilities for enforcement/investigation staff and frontline staff carrying out checks for eligibility to services for new applicants.	M	Stable	David Hughes
Taking Pride in Hammersmith & Fulham, doing things with, not to residents	Failure to ensure compliance with the statutory duties to undertake inspection regimes covering management of asbestos, electrical testing, fire risk, plant and equipment, water testing/Legionella.	9	3	4	3	4	***No change*** Corporate property remains compliant with 90% compliant score over the last three years and completion of recommended remedials within the reports. Internal audit review is currently underway to assure FM's compliance and repairs practice. Housing stock remains compliant across the six key areas - gas, electrical safety, water, gas, asbestos, and fire. An Audit undertaken in July and a review in November 2023 by external auditors Pennington provides independent assurance. New Fire Safety Regulations came into force 23 Jan 23; first year of inspections complete and will inform future programme of door upgrades. The Under the Building Safety Act all Housing's 49 Higher Risk Buildings have been registered with the Regulator and London Fire Brigade. Compliance based fire safety works continue at Poynter, Norlands and Stebbing House to the external facade, projected costs have risen significantly owing to further identified issues; mitigation includes engagement of independent quantity surveyor to provide additional due diligence and Govt. Grant application made. A contractor has commenced design works for external fire safety fabric works at Charecroft (Shepherd, Bush, Roseford and Woodford Ct); logistically challenging site and change of freeholder (not H&F) for Shepherd and Bush Ct, is currently in train; working with landowner on handover. Fire Risk Assessments (FRAs) are undertaken in line with fire safety management system. The resulting actions (2,533), which fluctuate as new FRAs are completed are monitored weekly and prioritised according to risk, currently there are zero Priority 1 hazards outstanding. A programme of structural surveys is being rolled out as a pilot as part of on-going monitoring of the housing portfolio. The initial focus is on buildings over 11 metres in height, 49 HRBs are complete. There is no known evidence of Reinforced Autoclaved Aerated Concrete.	M	Stable	Jonathan Pickstone
All Council Values	Unable to retain talented people in key posts at LBHF.	12	3	4	3	4	***Updated*** Our percentage turnover is currently showing a slight rise of just over 1% at 11% and remains just above the corporate target of 10% which will continue to be monitored. In terms of key posts, we are continuing to work closely with CHS to explore options to support recruitment and retention of social workers including a 'deep dive' to analyse churn more closely.	H	Stable	Nicola Ellis

Corporate Risk Register – February 2024

Council Priority	Risk	Risk No.	Q2 23/24 Likelihood	Q2 23/24 Impact	Q3 23/24 Likelihood	Q3 23/24 Impact	Current position	Residual Exposure	Status	Lead Director/ Risk Owner
							Additionally, we continue to work with senior business leaders to ensure we understand ongoing implications associated arising from challenges with 'hard to fill' posts so that we can identify appropriate workforce planning needs and take appropriate early action including initiatives aligned to growing your own talent through our internal development talent management programme alongside promoting more widely the benefits of working for H&F. Work continues across London Councils to broaden the appeal of Local Government in the employment market to make an impact on attracting suitable, high-quality candidates and we have joined and are actively involved in the LGA Local Government Recruitment Campaign. We continue to lead on activities to further improve our Employer Value Proposition (EVP) and ensure we can continue to attract and retain talent including but not limited to Timewise (helping to promote H&F as a fair and flexible employer), Disability Confident, Purple Space, Opening Doors and we are recognised as an Age Friendly Employer. Other initiatives we are actively promoting to raise our EVP and secure talent for the future is our H&F Academy (apprenticeships, graduates, supported interns & Get Ahead) for which we have received a number of awards during 2023 including Winner of Best Large Employer (Regional) The Council is committed to staff wellbeing, learning and development and continues to deliver online and virtual wellbeing and learning and development events including Get Ahead, World Class Managers, Aspiring World Class Managers, Emerging Leaders, an Introduction to Project Management and much more. Our internal progression initiative is pivotal in helping us to retain key skills.			
Doing things with, not to residents	Failure to deliver the Civic Campus Programme.	14	3	4	3	3	***Updated*** The project has been delayed due to the impact of the site incident in May 22. Works are now progressing on site and is being monitored by the Client Management Team (CMT). Meetings to review the overall programme are currently being arranged to provide an updated programme. The commercial strategy for the town hall is being advanced, including the procurement strategy for various catering operations within the building, retail/food and beverage space, 6th floor restaurant, cinema operator and office accommodation. The residential sales marketing suite and show apartment on King Street opened in June 23, several marketing events were held throughout the summer and early autumn. Sales of the private flats are progressing steadily despite the wider economic challenges of high interest rates etc. Affordable units should be launched during 2024. The Q.3 Impact score is lower than Q2. And now rated '3'.	M	Reduced	Bram Kainth
Creating a compassionate council	High needs budget pressure continues, impacting on provision of services for vulnerable young residents.	16	3	3	3	3	***No change*** The SEND Transformation programme: All key SEND documents have now progressed through governance and final versions published. Delivery of savings targets: Small surplus forecast for 2023/24 subject to delivery of agreed savings programmes which remain on track. COVID Impact: SEND growth has remained in line with predictions. Financial pressures continue to be felt across the school system in the context of current inflation levels and the pay award which are in excess of the annual growth in allocation. Discussions are held regularly with school partners in relation to these challenges and school partners are regularly briefed on the position of the High Needs Block via Schools Forum, including the limitations in relation to inflationary uplifts and are reminded of their role as joint stewards of the High Needs Block and our commitments to managing expenditure within our annual allocation and the Safety Valve Agreement.	M	Stable	Jacqui McShannon
All Council Values	Management of complaints, requests for information, members enquiries	18	4	4	4	4	***No change*** Performance concerns persist regarding the completion of repairs and resolving complaints. However, an improvement plan is currently being developed and will be shared with SLT and politicians by July 2023. The Housing Ombudsman cases continues to present a significant ongoing risk as we are now under active investigation by them (June 2023). We previously reported that we had nine severe finding in six cases, whilst now we have 14 findings in nine cases, the majority of which are associated with historic cases (as noted previously), and we have undertaken their recommendations. The housing Ombudsman has also contacted us for evidence prior to them making a judgement on the handling of H&F housing related complaints. This report is due in January, and we have provided them with all the requested information. Our previous update noted that the Social Housing Regulator requested information on nine points. We have now provided them this information and have also been producing monthly reports to demonstrate how our complaints, repairs and tenant satisfaction meets consumer standards. We are still awaiting their judgement. The Social Housing Regulator has also requested a response to nine separate points to determine whether H&F have not met consumer standards for residents. We are meeting the Regulator in July to discuss our response to them. In order to mitigate against the complaint failures, we have set up the Complaints and Disputes Resolution team, which have been instrumental in resolving historic cases and significantly reducing open complaints. As also previously reported, housing complaints performance is also overseen by an SLT chaired board, with regular oversight of the progress being made.	H	Stable	Jon Pickstone/ Nicola Ellis

Corporate Risk Register – February 2024

Council Priority	Risk	Risk No.	Q2 23/24 Likelihood	Q2 23/24 Impact	Q3 23/24 Likelihood	Q3 23/24 Impact	Current position	Residual Exposure	Status	Lead Director/ Risk Owner
							Previously it was noted that Stage 1 & 2's would move over to Housing from Corporate, and this has now happened. Housing Management complaints will move over in November whilst the remaining complaints for housing will follow suite later. In terms of RAG Rating, the risk remains high as we are still awaiting judgements from both the Housing Ombudsman and Social Housing Regulator. However, our performance in terms of complaints management has improved substantially with no overdue housing repair complaints outstanding since the 24th September. The RAG status will be reviewed once the judgement has been made.			
Being ruthlessly financially efficient	Financial Management - Medium-Term Planning.	19	3	4	3	4	***Updated*** The Council's financial operating environment remains challenging (with the macro-economic inflationary/interest pressures, lower household incomes and rising unemployment). This has increased operating costs including pay and external service contracts, affects the affordability of regeneration programmes, reduces our commercial income, and increases arrears on rents, council tax, business rates as households, visitors and businesses reduce costs. It also impacts services, especially homelessness and other welfare services. In addition, there are many national reforms in progress (business rates, social care funding, social housing rent caps) and there are substantial demographic and new legislative burdens. The Council has a well-developed and established medium term financial planning process (for revenue, capital, and treasury management). The 2024/25 General Fund and HRA budgets have been balanced and were approved through February. There will now be considerable work taking place corporately across summer 2024 to meet the 2025/26 budget gap. The General Fund financial position is relatively strong (stable debt levels, reserves, and cash balances) but the outlook remains more challenging on the HRA. The Council has established strong in-year financial governance arrangements (from Finance SLT to DMTs).	M	Stable	Sukvinder Kalsi/
Creating a compassionate council	Financial Management - in year budget 2023/2024 and Medium-Term Planning: Social Care	20	2	4	3	3	***Updated*** The month 6 forecast for adult social care was a £3.8m overspend and is unlikely to be balanced by year-end, though there are identified potential mitigations of £0.930m. Live risks and pressures include: • impact of the hospital discharges placed by NHS and requiring reassessment of care is increasing social care costs, • impact of cost of living pressures on the care market providers • delivery of budgeted savings The required savings and growth have been agreed for 24/25 following the MTFS process. The adult social care budget continues to be pressurised due to the requirements of the Fair Cost of Care funding reforms; inflation and price increases coupled with market volatility. The department meets on a fortnightly basis to review commissioned care with the aim of managing demand and cost where possible and appropriate.	M	Increased	Linda Jackson
All Council values	Corporate management of Health and Safety	21	3	4	3	4	***No change*** The health and safety board continues to meet every 8 weeks. Corporate health and safety report no Health and Safety Executive enforcement this quarter and for the previous quarter. The annual health and safety at work report highlighting the council's activities and performance for 2022/23 was presented to the Council's Audit Committee on 26th July 2023. The next annual report will be shared with the Councils Audit Committee at the end on the financial year. Staff training programmes and activities have been extended including a risk assessment training course which has been added to the learning zone. In addition, a large part of the IOSH Managing Safely Course concentrates on risk. To date numerous teams across the council have successfully completed the course and achieved IOSH accreditation. Those teams taking up the training have included HR, Events, Housing, Fire Teams, and Adult Social Care. The risk assessment database has been added to the accident and reporting system and is now in operation with a training module attached as well as monthly training sessions for staff. The Corporate Safety Team are in the process of continuing to review team risk assessments as part of their ongoing audit process. A new training module is being finalised to go on the learning zone on the topic of violence and aggression and will be shared at the next meeting of the health and safety board and SLT when it has been reviewed and agreed by HR and other interested parties such as front-line management teams. Conflict management training courses are being delivered throughout the rest of this financial year and into the next to prepare staff with any violent and aggression incidents that may occur.	M	Stable	Jonathan Pickstone
Taking Pride in Hammersmith & Fulham, Doing things with, not to residents	Impact on the local economy and businesses from the closure of Hammersmith Bridge to pedestrians, road, and river traffic.	22	3	4	3	4	**No change** Works for stabilisation is in the final stage with the jacking operation starting in late summer. Procurement preparation has started for the main works. CCSO and monitoring continues and 24/7 personnel on the bridge. Work continues to stabilise the bridge with the pedestals encased in concrete and the next phase will be to finish the steel works and then jack up the bridge to replace the barings.	4	Stable	Bram Kainth
Rising to the	Failure on the part of the Council to	26	3	4	3	4	***No change***	M	Stable	Bram Kainth

Corporate Risk Register – February 2024

Council Priority	Risk	Risk No.	Q2 23/24 Likelihood	Q2 23/24 Impact	Q3 23/24 Likelihood	Q3 23/24 Impact	Current position	Residual Exposure	Status	Lead Director/ Risk Owner
challenge of the climate and ecological emergency	mobilise its response to the Climate Change emergency.						The Climate Emergency Unit and climate strategy for a net zero borough by 2030 are in place along with a Climate Strategy Implementation Group to increase scrutiny and deliver actions at pace. A detailed audit of the Council's carbon footprint is now an annual activity to track progress against our action plan and to provide a robust evidence base for costing and prioritising organisational carbon reduction activity. Quick win workstreams to influence emissions through policy have been progressed, including emissions-based policies on parking, council fleet, energy procurement, and wider procurement. Engagement is underway with local businesses and organisations through the H&F Climate Alliance, and H&F has been a leader in designing and implementing the UN's climate education programme. Flooding has expedited the need for a climate adaptation plan to prepare residents, businesses and the council for more extreme weather including heavy rainfall and heatwaves. Individuals, households, and infrastructure will need to adapt and prepare for more of occurrences and the council has an important supporting role.			
Taking Pride in Hammersmith & Fulham, Doing things with, not to residents	Repair system and contractor management not delivering performance at the required levels. leading to reputational damage, enforcement action and external intervention, legal disrepair cases and Category 1 Hazards, HHSRS, Damp, Mould, etc.	27	4	4	4	4	Updated Overall, we are trying to mitigate against this risk, in-line with direction set by internal audit, the monitoring officer, the Housing Ombudsman, and the Social Housing Regulator. The repairs team are focused on the day-to-day contract and WIP management of our external contractors and our in-house Direct Labour Organisation (DLO), with 92% of all current jobs within a three-month window which is a positive movement of completions. The service is delivering over 1,000 jobs per week and new contractors for Plumbing and Electrical works now mobilised and delivering works on day-to-day repairs. The DLO overall WIP at 89% in target has been expended focusing on in dwelling repairs (White City) and Sheltered schemes. New leak detection team now recruited and mobilised additional external contractors. 432 voids completed since April 2023 with a backlog of 154 properties now with the voids team. Target of 70 voids as BAU for April 2024 is being prioritised with weekly working groups focused on lettings and allocations to support void levels. Disrepair cases are now dropped to 151 homes (25 completed cases in the last week) with live repairs which has reduced from 600 in July 2023. The April 2024 target of less than 100 cases. 6 new claims received this week. Damp and Mould cases have reduced to less than 151 jobs in target with a 20-day period. In order to fund this additional capacity, we have refocused £43 million of spend onto repairs over the forthcoming three years, in addition to existing repairs budgets. This is mostly capital spend given the complexity of many jobs in our backlog. We continue to prioritise reducing the backlog of legal disrepair cases, complaints including Ombudsman cases, and keeping our residents safe. We also seek to reduce the backlog of work-in-progress (WIP) which has reduced to 3,708 live jobs and continue to target voids. Key risks remain managing across multiple critical priorities and substantial long-term and ongoing challenges, managing a greater number of repairs contractors, and improving the repairs service without excessively pressuring the Housing Revenue Account.	H	Stable	Jonathan Pickstone
Being ruthlessly financially efficient, Rising to the challenge of the climate and ecological emergency	Failure to manage the requirements of the New Environmental Act which will change the way in which the Waste service operates and how it contributes to the Council's carbon zero commitment.	30	3	3	3	3	**No change** Work to feed into any further Defra consultation on potential changes. Likely and foreseeable changes have been factored into the new waste service contract, however there is still little clarity on how much of the Act will be implemented at present until detailed regulations and guidance have been published. Requirements specifically for food waste collections and some other waste streams have been made available, we have fed into consultations on these and have been notified of initial funding available for food waste recycling with more detail to follow. The initial funding being made available will not cover our costs and we are making Defra aware of this.	M	Stable	Bram Kainth
Taking pride in Hammersmith and Fulham	Failure to manage the negative impact of flooding, due to adverse weather conditions, on residents and businesses. Consequences of the Climate Emergency. One in a hundred events that lead to the overloading our surface water	31	3	4	3	4	***Updated*** Mitigations: 1. Tree management system allowing water to collect underneath the tree and slow release into the ground has been installed in Bloemfontein Road, Seagrave Road, Overstone and Gallaway Roads. Number of green infrastructures are increasing. Seven more schemes in the programme for this year. 2. x2 Countess Creek Project with Thames Water have been completed and are working the Thames water Independent Review confirm that they had worked during the flooding event on 12th July 2021. 3. Working with Economy on their regeneration projects to deliver enhance flood risk. 4. Continued to work with Thames water on delivering flood mitigation they have offered assistance on the de-paving programme we will roll out and offered flow data on the first phase of flood risk scheme in Brackenbury.	M	Stable	Bram Kainth

Corporate Risk Register – February 2024

Council Priority	Risk	Risk No.	Q2 23/24 Likelihood	Q2 23/24 Impact	Q3 23/24 Likelihood	Q3 23/24 Impact	Current position	Residual Exposure	Status	Lead Director/ Risk Owner
	systems (gullies) which results in widespread flooding and consequent damage to homes and businesses. Fluvial flooding as the most at risk London Borough.						5. Developing our own programmes of works on the public highway Including doing further work on retrofit measures in a number of borough streets that will have impact on reducing flood risk. 6. Highways are delivery de-paving schemes. 7. Sewer network remains a Thames Water asset that we have no remit over so we will continue to work with them to ensure we reduce the water flow off our highway to a minimum where possible. 8. Bi-monthly meetings with Thames Water set up – Challenge on action plan, programme and seek funding opportunities and joint working. Flood Action plan approved by SLT. 9. Thames water undertaking surveys to add further measures they have written to 1,461 properties in H&F. 331 of them that had previously reported their flooding and 1,500 believed to have flooded. Thames Water have installed NRV in key locations such as Hammersmith Grove. 10. Working with other boroughs such as Camden, Westminster and RBKC who are part of the chain of sewers that impact Hammersmith and Fulham on other initiatives such as lobbying for insurance provisions for London properties, joint bids for funding and aligning projects. 11. Creation of a London Surface Water Management group to push for increased mitigation for London. 12. Joint climate adaptation steering group has been established which covers all departments across and promotes joint working and good practice. 13. Highways and Parks have carried a number of joint flood risk schemes around Eel Brook Common. 14. Atkins are currently working on an adaptation strategy for the borough focusing on extreme heat and flooding.			
All Priorities	Failure to maintain services to residents or progress works or development because of provider failure or market failure. (This includes a legal requirement to step in where care agencies fail even if the council does not commission them)	32	4	3	4	3	***No change*** The following frameworks are in place to mitigate the potential risks: 1. Departments have well developed business plans, and these are being refreshed. 2. Risk assessment of markets and high-risk contracts being undertaken by Contract. 3. Assurance Board to inform where alternative provision or arrangements may need to be planned. 4. Forward Plan of major contract re-procurements over the next 18 months has been developed. 5. Risk management plan established for any residents who may be impacted. 6. Regular reports to SLT Assurance.	M	Stable	Sukvinder Kalsi

Key

16-25	Red	High risk, immediate management action is required.
11-15	Amber	Medium risk, review controls for appropriateness and effectiveness
1-10	Green	Low risk, monitor and if escalates quickly check controls
	Blue	Opportunity risk

Likelihood and Impact Based on a 1 to 5 scale with 1 Very Low and 5 Very High, the Score then is automatically calculated by multiplying them together.

Help

Risk Description	Risk described in a language that articulates clearly what could go wrong or what opportunity could be achieved.
Residual Exposure	Extent of the risk once the controls are currently in place. This is known as the residual risk and is calculated by multiplying impact of risk and likelihood of occurrence.
Existing Controls	Not all risks can be managed, but those that can are managed using a variety of controls. The art of risk management is to apply controls that are effective and efficient in reducing the exposure.
Risk Owner	This is the person or team best positioned to manage the identified risk