

# London Borough of Hillingdon

## Auditor's Annual Report

Year ended 31 March 2024

16 June 2025

16 June 2025

London Borough of Hillingdon  
Hillingdon Civic Centre  
225-226 High St  
Uxbridge UB8 1UW

Dear Audit Committee Members,  
2023/24 Auditor's Annual Report

We are pleased to attach our Auditor's Annual Report including the commentary on the Value for Money (VFM) arrangements for London Borough of Hillingdon. This report and commentary explains the work we have undertaken during the year and highlights any significant weaknesses identified along with recommendations for improvement. The commentary covers our findings for the audit year 2023/24. This report also explains the work we have undertaken during the year in relation to the Hillingdon Pension Fund.

This report is intended to draw to the attention of the Council and Pension Fund any relevant issues arising from our work. It is not intended for, and should not be used for, any other purpose.

We welcome the opportunity to discuss the contents of this report with you at the next Audit Committee meeting.

Yours faithfully



Stephen Reid  
Partner  
For and on behalf of Ernst & Young LLP  
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website ([Statement of responsibilities of auditors and audited bodies \(from 2023/24 audits\) - PSAA](#)). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of London Borough of Hillingdon and Hillingdon Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to Audit Committee and management of London Borough of Hillingdon and Hillingdon Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than Audit Committee and management of London Borough of Hillingdon and Hillingdon Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



# 01 Executive Summary

# Executive Summary



## Purpose

The purpose of the Auditor's Annual Report is to bring together all of the auditor's work over the year and the value for money commentary, including confirmation of the opinion given on the financial statements; and, by exception, reference to any reporting by the auditor using their powers under the Local Audit and Accountability Act 2014. In doing so, we comply with the requirements of the 2024 Code of Audit Practice (the Code) published in November 2024 and the supporting guidance of the National Audit Office (NAO) published within their Auditor Guidance Note 3 (AGN 03). This commentary aims to draw to the attention of the Council and the wider public relevant issues from our work including recommendations arising in the current year and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

The 2024 Code paragraph 4.10 suspended the requirement to issue an Auditor's Annual Report by 30 November. It states that auditors may exercise judgement to determine when to issue their Annual Report including their commentary on arrangements to secure value for money.

## Responsibilities of the appointed auditor

We have undertaken our 2023/24 audit work in accordance with the Audit Plans for the Council and Pension Fund that we issued on 12 March 2024 and 18 April 2024, respectively. We have complied with the NAO's 2024 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- the 2023/24 financial statements;
- conclusions relation to going concern; and
- the consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- if the Annual Governance Statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- any significant matters or written recommendations that are in the public interest; and
- if we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

## Responsibilities of the Council

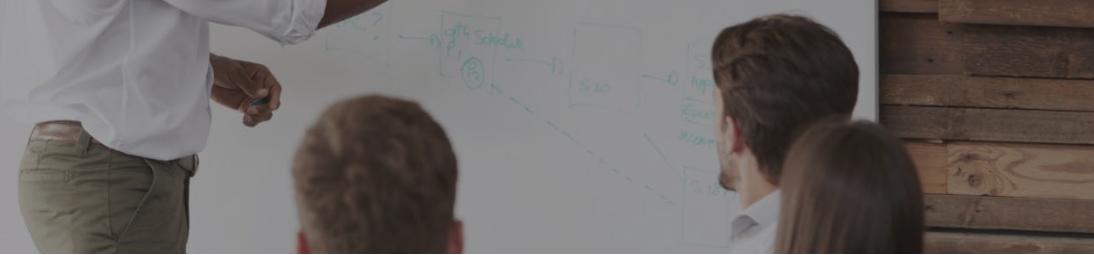
The Council is responsible for preparing and publishing financial statements for the Council and Pension Fund, the narrative statement and Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

# Executive Summary

## 2023/24 Conclusions

Financial statements (Council)	<p>Disclaimed - Due to the disclaimer of opinion on the prior year, delays in receiving draft financial statements and associated audit evidence and the limited time between the backstop dates we did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on the Council's financial statements for the year ended 31 March 2024.</p> <p>We therefore issued a disclaimed 2023/24 audit opinion on 27 March 2025.</p>
Financial statements (Pension Fund)	Unqualified - we issued an unqualified audit opinion on the Pension Fund financial statements for the year ended 31 March 2024 on 17 March 2025.
Going concern (Council)	As a result of the disclaimer of opinion issued for the year ended 31 March 2024, we did not conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements.
Going concern (Pension Fund)	We have concluded that the Corporate Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statements (Council)	Other information is information contained within the Statement of Accounts other than the financial statements, including the Narrative Report and Annual Governance Statement. As a result of the disclaimer of opinion issued for the year ended 31 March 2024, we did not conclude on the consistency of the other information with the financial statements.
Consistency of the Pension Fund Annual Report and other information published with the financial statements (Pension Fund)	Financial information in the Pension Fund Annual Report and published with the financial statements was consistent with the audited financial statements.
Consistency of the Annual Governance Statement	As a result of the disclaimer of opinion issued for the year ended 31 March 2024, we did not conclude on the consistency of the Annual Governance Statement with our understanding of the Council.

# Executive Summary



## 2023/24 Conclusions

<b>Value for money</b>	We reported by exception weaknesses in the Council's arrangements to secure value for money in its use of resources in relation to financial sustainability and the quality of the Council's information. We have included our value for money commentary in Section 03.
<b>Public interest report and other auditor powers</b>	We had no reason to use our auditor powers.
<b>Whole of Government Accounts</b>	We have not yet concluded the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as the NAO have not yet confirmed the final reporting position and whether any questions will be raised on individual returns. We cannot issue our Audit Certificate until these procedures are complete.
<b>Certificate</b>	We will issue our Audit Certificate once we have received confirmation from the National Audit Office that no further procedures will be required in relation to the Council's Whole of Government Accounts submission.

# Executive Summary



## Value for Money

### Scope

Auditors are required to be satisfied that the London Borough of Hillingdon has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In addition, auditors provide an annual commentary on arrangements published as part of the Auditor's Annual Report.

In undertaking our procedures to understand the body's arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- our cumulative audit knowledge and experience as your auditor;
- reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- our review of London Borough of Hillingdon Committee reports;
- meetings with Council officers, including the Corporate Director of Finance;
- information from external sources; and
- evaluation of associated documentation through our regular engagement with Council management and the finance team.

# Executive Summary

## Value for Money

### Reporting

In accordance with the NAO's 2024 Code, we are required to report a commentary against the three specified reporting criteria. The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures and whether we have concluded that there is a significant weakness in the body's arrangements.

Section 03 contains our value money commentary, which summarises our understanding of the arrangements at the Council based on our evaluation of the evidence obtained in relation to the three reporting criteria throughout 2023/24. Our commentary also includes the detailed arrangements and processes underpinning the reporting criteria and the associated recommendations we have agreed with the Council. Our commentary is presented as reported in our 2023/24 Audit Results Report.

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
<b>Financial sustainability:</b> How the Council plans and manages its resources to ensure it can continue to deliver its services	<ul style="list-style-type: none"><li>• Financial sustainability</li></ul>	<ul style="list-style-type: none"><li>• Financial sustainability</li></ul>
<b>Governance:</b> How the Council ensures that it makes informed decisions and properly manages its risks	<ul style="list-style-type: none"><li>• Quality of Council information</li></ul>	<ul style="list-style-type: none"><li>• Quality of Council information</li></ul>
<b>Improving economy, efficiency and effectiveness:</b> How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weaknesses identified

# Executive Summary



## Independence

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2023 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## EY Transparency Report 2024

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2024:

[EY UK 2024 Transparency Report | EY - UK](#)



## 02 Audit of the financial statements

# Audit of the financial statements

## Key findings

The Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On 27 March 2025, we issued a disclaimed audit opinion on the financial statements. Due to the disclaimer of opinion on the prior year, delays in receiving draft financial statements and associated audit evidence and the limited time between the backstop dates meant we did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on the Council's financial statements for the year ended 31 March 2024.

We reported our audit scope, risks identified and detailed findings to the 11 February 2025 Audit Committee meeting in our Audit Results Report. We issued an updated version of our Audit Results Report to management prior to concluding our audit on 27 March 2025. We outline below the key issues identified as part of our audit in relation to the significant risk areas. The findings for each of the account areas are set out in the Audit Results Report in Appendix A. We reported 7 areas for improvement in the control environment and internal control recommendations in the Audit Results Report.

Significant risk	Conclusion
Misstatements due to fraud or error (Council)	We have not been able to complete our specific procedures to address this risk nor were we able to complete all of our audit procedures over the financial statements and are therefore unable to conclude on whether the financial statements are materially misstated as a result of fraud or error.
Inappropriate capitalisation of revenue expenditure (Council)	We were able to complete some of our planned procedures and have not identified any inappropriate capitalisation of revenue expenditure. We were however not able to complete all of our planned procedures, therefore we are not able to conclude whether material incorrect capitalisation of revenue expenditure has occurred.
Valuation of land and buildings valued under the depreciated replacement cost (DRC) method and the existing use value (EUV) method (Council)	We were not able to complete all of our planned procedures nor do we have opening balances assurance in relation to assets not revalued in 2023/24, therefore we were not able to conclude whether land and buildings are free of material misstatement.

# Audit of the financial statements

Inherent risk	Conclusion
Derecognition of infrastructure assets upon subsequent expenditure/replacement (Council)	We were not able to complete all of our planned procedures therefore we are not able to conclude whether infrastructure assets as a whole are free of material misstatement.
Pension liability and the IAS 19 valuations (Council)	We were not able to complete all of our planned procedures therefore we are not able to conclude whether pension balances as a whole are free of material misstatement.
Valuation of council dwellings (Council)	We were not able to complete all of our planned procedures therefore we are not able to conclude whether the valuation of Council dwellings as a whole are free of material misstatement.
IFRS 16 (Council)	The Council is not as progressed in its readiness for the implementation of IFRS 16 as we would have expected at this stage. The Council's financial statements disclose that the Council does not expect the new standard to have a material impact upon its financial statements when adopted in 2024/25, however the greatest risk lies in the completeness of balances to be recognised.

# Audit of the financial statements

Significant risk	Conclusion
Misstatements due to fraud or error (Pension Fund)	<p>We identified an audit difference regarding the recording of investment income (an understatement of investment income of £3.4 million) as a result of one distribution being reinvested by the LCIV MAC fund not identified by the custodian. This matter was corrected in the final statements and we are satisfied this was a result of error and was not an indication of management override or fraud.</p> <p>We have not identified any material weaknesses in the recording of accounting entries. We have not identified any instances of inappropriate judgements or estimates being applied. Our work did not identify any other transactions during our audit which appeared unusual or outside the Pension Fund's normal course of business.</p>
Valuation of complex investments (including level 3 investments) (Pension Fund)	<p>We identified audit differences in the valuation of Level 3 investment assets. In total, these audit differences understated the Pension Fund's investment asset value by 4.1 million. These differences were identified based on more up-to-date valuation reports from the investment fund managers that were not available to the Pension Fund at the time of preparation of the draft financial statements. This matter has been corrected in the final statements.</p> <p>Overall, we are satisfied that the valuations of complex investments are free from material misstatement.</p>
Classification of level 2 and level 3 investments (Pension Fund)	<p>We identified a misstatement around the fair value classification of one investment of £19.2 million. This investment (in Blackstone) was a new investment made during the year and management were already aware that this investment should be classified as Level 3. Nevertheless, it was erroneously classified as Level 2 in the first version of the statement of accounts. Therefore, we consider that this misstatement was not due to a lack of judgment but rather a lack of due diligence in the preparation of the accounts. This matter has been corrected in the final statements.</p> <p>Overall, we are satisfied that the classification of level 2 and level 3 investments are free from material misstatement.</p>
IAS 26 - Actuarial present value of promised retirement benefits (Pension Fund)	<p>We identified some discrepancies between the disclosures and the actuary's report. These differences have been corrected in the final statements.</p> <p>Overall, we are satisfied that disclosures relating to IAS 26 and the actuarial present value of promised retirement benefits are free from material misstatement.</p>



03

Value for Money Commentary



# Value for Money Commentary

## Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services

*How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them*

The Council identifies all the significant financial pressures that are relevant to its medium-term plans through its Medium Term Financial Forecast ('MTFF'), which is the financial plan for the Council and it contains the funding strategy for delivering the Council's objectives for a forward-looking period of five years. This forecast is revisited and extended on an annual basis. Additional MTFFs may be produced mid-year if necessary, however this was not required during 2023/24. This forecast enables emerging risks and issues to be reflected in the Council's financial planning in a timely manner.

The budget setting cycle represents a continuous programme of activity across the financial year. Monthly budget monitoring reports are used to identify and address short term financial pressures. This is the process of comparing actual and forecast expenditure and income throughout the financial year, both through budget monitoring and at the point of committing expenditure. It involves identifying variances, pressures and risks while taking prompt action to prevent budget pressures or to bring pressures that have arisen back under control. Budget managers carry out monitoring of the actual positions while being aware of wider factors that may impact upon the budget position. These monthly reports are reviewed by Cabinet, enabling corrective action to be taken in response to emerging pressures.

The Council has recognised that growing demand for council services is increasingly stretching its resources and during 2023/24 began to implement an externally supported zero-based budgeting exercise across the Council. As part of this exercise senior managers, along with budget managers, are reviewing their services in detail to create alternative and improved options for operational delivery. This exercise was ongoing as of the end of 2023/24, with the detailed outputs expected to form the basis for the MTFF for the period 2025/26 to 2029/30 to be prepared during 2024/25.

The Council monitors the financial performance of its schools budget separately from the rest of its budget as associated funding is externally ringfenced. The Council reported a deficit of £25.6 million against its schools budget for 2023/24, driven by rising demand for and costs of high needs placements, significantly exceeding the planned deficit of £2.3 million and the cumulative deficit on the Council's Dedicated Schools Grant (DSG) increased to £47.5 million at 31 March 2024. A statutory override is currently in place allowing the Council to treat its DSG deficit as an unusable reserve, however this is currently due to end in March 2026 and the Council's current financial plans assume the deficit will increase further by that date. The Council's DSG deficit exceeds the available reserves of the Council and, without additional external support, poses a significant risk to the Council's financial viability. The issue of DSG deficits is a challenge across the sector and the Council submitted an updated DSG Management Plan to the Department for Education (DfE) in December 2023 as part of the DfE's Safety Valve programme.

*How the body plans to bridge its funding gaps and identifies achievable savings*

The Council seeks to achieve balanced budgets through delivering efficiency savings, increases in Council Tax and increases to the fees it charges the users of Council services. The Council seeks to identify deliverable savings through a combination of measures, including:

- ▶ Redesign of the end-to-end delivery of business processes, including greater use of digital channels for customer interactions, greater automation within back-office functions and the implementation of more efficient ways of working;
- ▶ The modernisation and reshaping of service delivery models, including greater use of integrated service hubs and greater efficiency in the delivery of services;

# Value for Money Commentary



- ▶ The streamlining and refocussing of Council management structures and the associated staffing structures through Business Improvement District ('BID') reviews; and
- ▶ Maximising the use of Council assets, including sale of surplus assets, strategic review of the capital programme and regular reviews of the Council's financing requirements.

The Council's budget for 2023/24 incorporated £22.8 million of assumed savings, including £1.6 million of savings deferred from 2022/23. The Council has reported that £17 million (75%) of these savings were achieved, £0.9 million (4%) are considered to be on-track for delivery, £0.7 million (3%) to be behind schedule but still achievable and £4.2 million (18%) to be either unachievable or facing potential problems in delivery.

The Council's MTFF for the period 2024/25 to 2028/29 includes identified savings of £33.4 million, of which £15.8 million are to be delivered during 2024/25, and a remaining budget gap which will need to be met through further savings or reductions in services of £53 million (including planned contributions of £7.5 million towards rebuilding reserves). Whilst it is not uncommon for budget gaps beyond a 12-24 month horizon to be addressed in future budgets, the scale of the gap to be closed by the Council is significant with planned savings and the unbridged gap in aggregate equating to 5.6% of planned expenditure over the MTFF period. It will require concerted effort by officers and elected members to ensure that the Council remains financially resilient over the medium term.

## *How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities*

The Council's constitution lays out its core strategic priorities. The full Council considers at its annual meeting whether any additional plans or strategies, both statutory or non-statutory, should be adopted or approved. The Council's plans and strategies then make up the Council's budgetary and policy framework.

The Council's budget setting process is service-led, underpinned by assessments of the forecast level of demand for services and the level of investment required flowing from the monthly budget monitoring process into future budget plans. Bi-annual budget setting reports and regular budget monitoring reports are presented to Cabinet to provide updates on the Council's financial position. This approach covers the full range of activity within the Council's budget, with particular focus being placed on areas such as social care placements, waste disposal costs and support for homeless households where budgets are realigned to meet demand prior to the consideration of the potential to generate savings in these areas.

## *How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system*

The MTFF and budget setting processes are designed to draw upon and integrate with other plans and strategies, including:

- ▶ The Corporate Transformation / Business Improvement District ('BID') Teams work closely with service departments and the dedicated Transformation (Finance) Business Partner within the Corporate Finance Team to ensure that service design and transformation activity is effectively captured in budgets;
- ▶ There is an annual process of budget approval by all Tier 3 managers in the organisation (i.e. Deputy Directors and Heads of Service reporting to Corporate Directors) to ensure that the output from the MTFF process is aligned to local service requirements;

# Value for Money Commentary



- ▶ The staffing budgets reflect the HR-owned master establishment list to ensure that workforce plans and budgets are wholly aligned. This is included within the annual budget process and then updated on a monthly basis through the post-level budget monitoring process included in the Council's budget management system;
- ▶ Capital & investment strategies are linked into the MTFF and budgets with the MTFF fully reflecting the future debt servicing and repayment costs associated with proposed capital programmes; and
- ▶ Where appropriate, joint strategies such as the Better Care Fund Section 75 Agreement are fully aligned to the MTFF to ensure that Council financial plans are aligned to any externally agreed funding or service delivery plans.

*How the body identifies and manages risks to financial resilience, e.g., unplanned changes in demand, including challenge of the assumptions underlying its plans*

The Council identifies risks to financial resilience through its budget monitoring and MTFF processes, as well as through engagement with external stakeholders such as the Society of London Treasurers, the Deputy Treasurers Group and the Association of Directors of Adult Services, where regular discussion, information sharing and benchmarking is used to supplement the Council's own local intelligence.

The identified financial risks, along with the Council's broader operational risks, are summarised in a corporate risk register which is updated on a continuous basis and discussed at Council meetings. Towards the end of 2023/24, the Council began a redesign of the Council's strategic risk reporting to better align the risks from the corporate risk register against the Council's 2022-2026 strategy. This reporting came into use in 2024/25.

Financial risks identified through risk management processes are regularly reviewed against the Council's earmarked reserves and General Fund balance, with appropriate modifications made to the recommended minimum reserves balances where appropriate. Specific earmarked reserves are used to manage the most significant financial risks.

The Council had a net operating budget of £268 million for 2023/24 and reported outturn against this budget with only a £2,000 variance, however this was after two significant one-off adjustments equal to 6.2% of the Council's budget to mitigate the impact of higher than forecast demand for services and inflationary pressures:

1. The release of £9.4 million to reserves as a result of a review of the historical overprovision of Minimum Revenue Provision (MRP). Note that for the reasons set out elsewhere in our Audit Completion Report, we have not reviewed the appropriateness of this MRP adjustment; and
2. The release of £7.2 million more than was budgeted from earmarked reserves, resulting in lower earmarked reserves at 31 March 2024 than had been budgeted for.

Due to the above one-off adjustments, the Council's General Fund balance at 31 March 2024 of £26.8 million was as planned in the Council's MTFF for the period 2023/24 to 2027/28, however available earmarked reserves have reduced from a planned £15.5 million to £8.3 million at 31 March 2024 (note not all earmarked reserves presented within the financial statements are considered by management to be 'available' to meet spending pressures).

# Value for Money Commentary

The Council has seen a steady decline in its available reserves over the past few years, with a 25% reduction in the sum of the General Fund and available earmarked reserves between 31 March 2023 and 31 March 2024. Comparison against its peers using the CIPFA Financial Resilience Index demonstrates that the Council has lower borrowing and finance costs but is otherwise significantly less financially resilient than the majority of its peers. As noted earlier in this commentary, the Council's DSG deficit also now exceeds the available reserves of the Council.

Significant drivers of the utilisation of the Council's reserves include increased demand for services and inflationary pressures. As of P6 in 2024/25, the Council is forecasting an overspend against its 2024/25 budget of £41.9 million prior to mitigating actions which is equal to 15% of the total net budget for 2024/25 (further commentary on management's mitigating actions will be provided as part of the commentary on arrangements for 2024/25). The emergence of significant overspends during the first half of the year is indicative that the Council has not accurately captured the scale of the increasing demand for its services or the cost pressures it faces in setting its 2024/25 MTFF during 2023/24.

Both elected members and officers of the Council are proud that the Council is perceived as offering high quality universal services, however this comes at a cost to the Council. Council Tax levels set by the Council are, on the other hand, amongst the lowest in the Council's peer group with the Council having the second lowest Council Tax rates amongst Outer London boroughs at just 84% of the average Council Tax rate for such authorities. This combination of higher than average expenditure on services and lower than average Council Tax receipts poses a challenge the Council will need to manage over the short to medium term.

Given the ongoing deterioration in the Council's financial position, indications that the Council has not fully grasped the scale of the demand and inflationary pressures it faces - and therefore is likely to continue to overspend against forecasts and further erode its reserves - and the absence of detailed plans to return the Council's schools budget to break-even, let alone begin to recover the significant DSG deficit, we are unable to conclude that the Council has had proper arrangements in place to manage its financial position during 2023/24 and conclude that the absence of such arrangements represents a significant weakness in the Council's arrangements to secure value for money. We make the following recommendations to the Council to address this significant weaknesses in the Council's arrangements, and note that failure to take significant and urgent action to address the Council's financial position places the Council's financial sustainability at significant risk:

1. We recommend that the Council builds upon the steps already taken to control its expenditure to identify specific deliverable savings over the short term and medium term (next 12-24 months) to protect its limited remaining reserves in the context of the forecast levels of funding.
2. We recommend that the Council reviews its service delivery models to ensure that they are efficient, represent value for money and achieve the outcomes required for the resources invested. Where opportunities to improve service delivery models are identified, the Council should develop detailed plans for implementation of service delivery transformation and how the up-front transformation costs will be funded.
3. We recommend that the Council seeks to balance its schools budget to prevent further growth in its Dedicated Schools Grant (DSG) deficit. In the absence of confirmed alternative arrangements, the Council should also perform scenario planning for how it would manage the impact of the current deficit on its financial position when the current statutory override ends in March 2026.
4. We recommend that the Council review its financial forecasting processes to understand why significant financial pressures, over and above those anticipated and reflected in the Council's annual budget, emerge and ensure future forecasting reflects the lessons learned.

# Value for Money Commentary

## Governance: how the body ensures that it makes informed decisions and properly manages its risks

*How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud*

The Cabinet is responsible for approving the Council's risk management policy statement and strategy and for reviewing the effectiveness of risk management. The Corporate Director of Finance is responsible for preparing the risk management policy statement, for promoting it throughout the Council and for advising the Cabinet on proper insurance cover where appropriate. He is also responsible for advising on effective systems of internal control.

It is the responsibility of chief officers to establish sound arrangements for planning, appraising, authorising and controlling their operations. Chief officers are responsible for identifying and controlling hazards and the containment of losses. They notify the Corporate Director of Finance of any new risks or changes which affect insurable risks and they update the Directorate Risk Registers on a quarterly basis. The most significant risks are escalated and summarised in the Corporate Risk Register.

A Corporate Risk Management Group, chaired by the Corporate Director of Finance, reviews the Corporate Risk Register on a quarterly basis and advises the Cabinet and Corporate Management Team on the most significant risks. The Corporate Risk Register is also presented to the Audit Committee on a quarterly basis. Where applicable, financial impacts of corporate risks are incorporated into the MTFF exercise. The Audit Committee monitors and reviews the Council's risk management arrangements, including regularly reviewing the Corporate Risk Register (giving reference to the underpinning Directorate Risk Registers) and seeking assurances that action is being taken on strategic risk related issues.

The Council maintains an internal audit function as required by the Accounts and Audit Regulations 2015. The annual internal audit plan takes into account the strategic risks identified by the Council. Chief officers are required to give proper consideration to internal audit recommendations and to respond accordingly.

The Corporate Director of Finance oversees the development and maintenance of a prevent and detect anti-fraud and anti-corruption policy, with a duty on all Council employees to report any actual or suspected financial irregularity or loss. Notifications are primarily made through line managers, however matters may alternatively be raised with officers listed in the Council's whistleblowing policy or with internal audit. In line with the Council's constitution, all losses must be reported to the Head of Internal Audit.

The Council has a Counter Fraud Team that undertakes activities to detect and resolve external fraud against the Council. In their 2023/24 Annual Report, the Council's Counter Fraud Team reported having delivered £11.2 million of savings for the year, including £6.1 million in relation to housing fraud which has been assessed as the Council's most significant fraud risk. The Council's Counter Fraud Team were awarded the 'Outstanding Fraud Prevention, Detection and Recovery and Grand Prix' award at the Public Finance Awards 2023.

# Value for Money Commentary

*How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests), and for example where it procures or commissions services*

The Council seeks to appoint statutory officers who have the skills, resources and support necessary to ensure compliance with the Council's statutory and regulatory requirements.

The Council's Monitoring Officer has statutory reporting duties in respect of unlawful decision making and maladministration. After consulting with the Head of Paid Service and Corporate Director of Finance, the Monitoring Officer reports to full Council or to the Cabinet if they consider that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration. Such a report has the effect of stopping the proposal or decision being implemented until the report has been considered.

The Council's Standards Committee is established by full Council and is responsible for promoting and maintaining high standards of conduct amongst elected members. In particular, it is responsible for advising the Council on the adoption and revision of the Member Code of Conduct, which applies to both councillors and officers.

Clear guidance is in place for members and officers regarding the acceptance of gifts and hospitality detailed in the Gifts and Hospitality Policy, Golden Rules for Employees and the Council's Constitution. Conflicts of interest can potentially arise in a variety of situations and the Council adopts a rule of thumb of "if in doubt declare it". Examples of situations where a conflict can arise are set out in the Council's Constitution, including guidance around financial and non-financial interests, family members and personal relationships, other employment, personal opinions and social media behaviour, relationships with colleagues and obligations towards the Council's residents, as well as looking after and using Council's assets and resources.

The Member Register of Interests records the pecuniary and non-pecuniary interests of members and co-opted members of the Council. There is a separate Related Parties Register that all members and a selection of senior officers are required to complete each year declaring the relationship and allowing the Council to assess the nature of any transactions which the Council has entered into with related parties. Related party transactions are disclosed in the Council's Statement of Accounts, which are approved by the Audit Committee on an annual basis.

How the body approaches and carries out its annual budget setting process

The Corporate Director of Finance is responsible for ensuring that a revenue budget is prepared on an annual basis for consideration by the Cabinet, before submission to full Council. It is the responsibility of chief officers to ensure that budget estimates reflecting agreed service plans are submitted to the Cabinet and that these estimates are prepared in line with guidance issued by the Cabinet.

Following a robust challenge process involving both chief officers and members, as well as a statutory budget consultation process with business ratepayers and residents in the borough, the Council may decide to adopt the Cabinet's proposals, amend them, refer them back to the Cabinet for further consideration, or substitute with its own proposals. Any decision is made on the basis of a simple majority of votes cast at a Council meeting. Once the decision has been taken by the Council, it will be publicised and implemented.

The Council's budgets include the General Fund, the Housing Revenue Account and the capital budgets. Detailed approval limits and roles, as well as conflict resolution guidelines on adoption of plans or strategies are set out within the Council's constitution.

# Value for Money Commentary

*How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships*

Chief officers control income and expenditure within their area and they monitor performance on a monthly basis, taking account of financial information provided by the Corporate Director of Finance, as well as non-financial information, where appropriate. They report on variances within their own areas and they take any action necessary to avoid exceeding their budget allocation and alert the Corporate Director of Finance to any problems. Budget manager engagement is actively tracked against a four-day deadline for monitoring returns each month.

As part of the monthly budget monitoring process, the financial position of each department is reviewed in detail by the Corporate Director of Finance with dedicated monthly meetings with each Corporate Director to ensure that issues and actions emerging from the monitoring process are dealt with and reflected in the MTFF, as appropriate. The outputs from this process are presented to Cabinet on a monthly basis, alongside informal briefings to the Cabinet Member for Finance and other portfolio members, as appropriate.

The general format of the budget is approved by full Council and proposed by the Cabinet on the advice of the Corporate Director of Finance. The draft budget includes an allocation to different services and projects, proposed taxation levels and contingency and reserve funds, in order to comply with statutory requirements.

The Audit Committee reviews and monitors the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risks and/or weakens the control environment. This includes their review and approval of the statutory annual statement of accounts. Specifically, they consider whether appropriate accounting policies have been followed and whether there are concerns arising from financial statements or from the external auditor that need to be brought to the attention of the Council. In addition, the Audit Committee considers the external auditor's report to those charged with governance on issues arising from the external audit of the financial statements.

The Accounts and Audit Regulations 2015 require that local authorities undertake a period of public inspection of the Council's draft financial statements. The statutory deadline by which this period of inspection was required to have commenced for the year ended 31 March 2024 was 1 June 2024. The Council did not meet this deadline, instead commencing its inspection period on 1 July 2024.

In addition, the Accounts and Audit Regulations 2015 require that prior to the commencement of the inspection period local authorities must publish the Annual Governance Statement and the Narrative Statement alongside the draft financial statements. The Council did not comply with this requirement as no Annual Governance Statement was published by the Council. Due to this fact, the inspection period run by the Council did not meet the requirements of the Accounts and Audit Regulations 2015 and the Council is required to re-run the inspection period. As a result, the Council will not be able to publish its final Statement of Accounts for 2023-24 by the statutory deadline of 28 February 2025 set out within the Accounts and Audit (Amendment) Regulations 2024. We have made a control recommendation to the Council to ensure it fully understands and has processes in place to ensure compliance with the Accounts and Audit Regulations 2015 as part of our audit observations on the Council's internal control environment.

# Value for Money Commentary

*How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee*

The Council issues and keeps up to date a record of what part of the Council or individual has responsibility for particular types of decisions or decisions relating to particular areas or functions. The Council's Constitution sets out the key roles and responsibilities for decision making, as well as the procedures that are followed to ensure that the decisions taken are efficient, transparent and accountable to local people. The Constitution is reviewed at full Council meetings as required and also more comprehensively on an annual basis at each Annual General Meeting, as required.

Part 2 of the Council's Constitution sets out the 'Cabinet Scheme of Delegations'. This governs the allocation of responsibilities and the discharge of executive functions by the Leader, the Cabinet and individual Cabinet Members. This is regularly updated to reflect changes to Cabinet Member portfolio responsibilities in line with business priorities and Directors' responsibilities.

Part 3 of the Constitution sets out the 'Scheme of Delegations to Officers'. This governs the responsibilities allocated to officers to perform the authority's activities and details what decisions may be taken by officers without member approval. Further specific delegations may be granted by Council committees during public meetings.

The Council is committed to the seven Nolan Principles of Public Life and these are detailed in the Constitution. All Council and committee meetings are held in public (the public are excluded only in limited circumstances of consideration of confidential or exempt information), with agenda and reports being produced and published on the Council's website. Key Council meetings are broadcast live on YouTube including full Council, Cabinet, Planning Committees, Licensing Sub Committee and Petition Hearings (subject to public interest).

The Audit Committee's role is to review, monitor and challenge the Council's internal and external audits, governance, risk management and the associated control environment.

As reported in our Audit Completion Report for the 2022/23 audit, the Council opted to delay publication of its draft financial statements for 2022/23 until the audit of the Council's 2021/22 financial statements was completed on 28 September 2023. Due to the timing of completion of the 2021/22 audit and delayed publication of the draft 2022/23 financial statements, we assessed that we did not have the audit resources necessary to perform the 2022/23 audit before the anticipated backstop date and advised the Council to focus its attention on its preparations to support the external audit of its 2023/24 financial statements.

As noted earlier in this commentary, the Council did not meet the statutory deadline to commence the inspection period of its draft 2023/24 financial statements by 1 June 2024 and commenced the inspection period on 1 July 2024.

Audit fieldwork to support the opinion on the Council's 2023/24 financial statements took place between July 2024 and December 2024. Despite the audit resources deployed during this period being in-line with the requirements of the size and complexity of the Council, we were able to complete less than half of our planned audit procedures and are therefore unable to form an overall opinion on the Council's 2023/24 financial statements. A significant driver of the inability to complete our audit work was the quality of working papers and other information produced by the Council. This includes information received from the Council's finance team and information received from other teams within the Council relevant to the production of its financial statements, though the finance team should provide a level of quality assurance over such information where it relates to the financial statements. The capacity and knowledge within the Council's finance team, which has seen the departure of several experienced individuals, was also a contributing factor. In our view, the Council did not have proper arrangements in place to support the timely production and audit of its 2023/24 financial statements.

# Value for Money Commentary



The overall opinion of the Council's Head of Internal Audit for 2023/24 was only able to offer 'Limited' assurance that the system of internal control in place for the year ended 31st March 2024 accorded with proper practice. The Council's commitment to engaging with internal audit to continuously improve, rather than focusing on traditional compliance-based audits, as well as the impact of significant transformation work ongoing across the Council were noted as contributing to the increase in the number of limited assurance internal audit reports, however in summarising the basis for this conclusion the Head of Internal Audit also noted that "poor data quality, reliance on manual records and reliance on outdated systems that are no longer fit for purpose also impacted on the quality of documentation and performance data available". In our view, this is indicative that the challenges encountered in the delivery of the Council's external audit extend beyond the production and audit of the financial statements and are likely to be undermining the reliability of information used across the Council, including where used in the monitoring of Council performance and to inform decision making.

The observations of the Council's internal auditor indicate that the inability of the Council to produce its draft financial statements by the statutory deadline or support the external audit of those statements is a symptom of more fundamental weaknesses in the way the Council records, processes and reports on the information it holds. Such weaknesses increase the risk that the Council is unable to make properly informed decisions, or makes incorrect decisions based on poor quality information, and is not able to support effective scrutiny of its financial and non-financial performance by reporting timely, accurate and meaningful data. We also note that poor data quality may be a contributing factor as to why the Council has ongoing difficulty in accurately predicting demand for its services, as noted earlier in this commentary.

Given these observations, we are unable to conclude that the Council had proper arrangements in place to ensure that it makes informed decisions and properly manages its risks and conclude that the absence of such arrangements represents a significant weakness in the Council's arrangements to secure value for money. We make the following recommendations to the Council to address this significant weaknesses in the Council's arrangements:

5. We recommend that the Council perform data quality assessments, using the Government Data Quality Framework or another suitable framework, of its key activities to enable it to better understand what its key data sources are, how it uses such data, the maturity of its data quality processes and any limitations in the data it uses;
6. We recommend that having completed the data quality assessments, the Council should develop actions plans to address any areas of weakness identified and ensure that implementation of those action plans is monitored and remedial action taken where necessary;
7. We recommend that the Council review the capacity and skill mix within the Council's finance team to ensure that the Council is able to support the production and audit of its financial statements within statutory timeframes, as this is a key enabler for supporting appropriate scrutiny of the Council's financial performance by stakeholders.

# Value for Money Commentary

## Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services

### *How financial and performance information has been used to assess performance to identify areas for improvement*

The Council's Performance Management Framework is a Council-wide framework requiring all service areas and teams to set annual service delivery plans and targets, identify delivery risks and report performance against Council priorities. Management's objectives are that key aspects of performance are monitored on a regular basis through a combination of reporting against service targets and performance scorecards, the results of which are regularly presented to Senior Management Teams and reported quarterly to the Corporate Management Team.

In addition, the monthly budget monitoring process, as described in the previous sections of this commentary, is the main tool used by the Council to assess its financial performance against set targets and to identify areas for savings and efficiencies. The Council's aspires for its budget monitoring processes to be aligned to key performance data, including in relation to workforce, demand-led activities and income from fees and charges, however recognises that further improvement in this area is required.

### *How the body evaluates the services it provides to assess performance and identify areas for improvement*

The effectiveness of the Council's interventions and the quality of its services is monitored through the preparation of regular performance reports showing progress towards goals and targets set in the budget and business plans. Key areas are highlighted for decision-makers to ensure that where corrective action may be required this is communicated.

The Council uses key performance indicators to monitor internally and externally produced services. Regular reporting of performance against key performance indicators is submitted to senior management teams, the corporate management team and members. Where Council services are procured from an external provider, expected performance against key performance indicators forms part of the contracting arrangement and is used to monitor the effectiveness of the services received.

The Hillingdon Improvement Programme ('HIP') is aimed at delivering a range of key improvements to the way the Council works and improving services to the Council's service users. The programme is led by the Leader of the Council, and the Chief Executive is the Programme Director. Cabinet Members and Corporate Directors have responsibility for the delivery of individual HIP projects.

The Council allows for members of the public, employees or organisations which deliver services on behalf of the Council to submit complaints in relation to the services it provides and reviews the nature of complaints received, along with the nature of enquiries from elected members, to identify themes which may indicate areas for improvement. Managers are encouraged to highlight areas of inefficiency or poor performance in their service area for improvement and build this in to future budgets.

The Council's children's services were subject to inspection by Ofsted in October 2023, with the Council receiving an 'outstanding' rating for overall effectiveness with Ofsted noting "Children in the London Borough of Hillingdon continue to receive highly effective services. Very strong political support and diligent partnerships have enabled the senior leadership team to be an excellent champion for children, families and young people. Since the last inspection of local authority children's services (ILACS) in 2018, leaders have continued to strengthen and improve practice, despite the increasing demands on services. An ongoing 'transformation' of services has improved frontline practice with children and families. There are areas of innovation that stand out as exceptional practice, improving children's experiences and progress, such as the enhanced offer to children and families out of hours".

# Value for Money Commentary

*How the body ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives*

The Cabinet is the primary forum through which the Council's engagement with other local public, private and voluntary sector organisations is overseen, and has responsibility for approving frameworks under which partnership working takes place.

The Cabinet has delegated specific authorities to the Cabinet Member for Corporate Services & Transformation to promote effective methods of partnership working in consultation with the appropriate Cabinet Member, if it relates to specific service areas, and to oversee proposed arrangements with public and other bodies for the delivery and funding of partnership initiatives which affect the Council.

The Corporate Director of Finance considers the overall corporate governance arrangements, legal matters (with input from the Monitoring Officer) and other risks when arranging contracts with external partners. Chief officers are responsible for ensuring that appropriate approvals are obtained before any negotiations are concluded in relation to partnership arrangements.

The Council works closely with a broad range of stakeholders and partners, co-ordinated through the Community Engagement Team, to ensure that partnerships deliver the expected outcomes. An annual review of the voluntary sector grants programme is reported to Cabinet to support monitoring of the impact of grants and the reallocation of resources, where appropriate.

Contact details for key partners are published on the Council's website along with contact information and details of any complaints procedures operated by partners.

*Where the body commissions or procures services, how it assesses whether it is realising the expected benefits*

The Council's Constitution lays out the framework for procurement and contract standing orders for every contract awarded by or on behalf of the Council in respect of goods, works or services. Compliance with the procurement standard operating procedures is mandatory across all Council departments, together with the application of best practice.

Corporate Directors, Directors, Deputy Directors and Heads of Service are responsible for ensuring that all officers who procure goods, works or services comply with the Constitution and the Procurement Standard Operating Procedures. Only officers who are deemed to be qualified and competent by the Head of Procurement, in conjunction with the appropriate Corporate Director, are allowed to procure goods, works or services. These officers are identified within each Department's individual Scheme of Delegations.

Where external or specialist advice is required, a specific legal budget exists within procurement that is used to mitigate risks in the work the Council undertakes. Procurement is a recurring area of focus for internal audit activity and where recommendations are made, appropriate action is taken.

The Council's overall process for assessing performance, as discussed previously in this commentary, is also applied to the performance monitoring of services delivered by third parties and enables the assessment of the benefits received from partner organisations against the relevant pre-determined key performance indicators.

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UKC-024050 (UK) 07/22. Creative UK.

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