HILLINGDON
LONDON

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VIRTUAL Audit Committee

Date: **TUESDAY, 24 NOVEMBER 2020**

Time: **5.10 PM**

Venue: **VIRTUAL - LIVE ON THE COUNCIL'S YOUTUBE CHANNEL: HILLINGDON LONDON**

Members of the Committee

John Chesshire (Chairman)
Councillor Martin Goddard (Vice-Chairman)
Councillor Tony Eginton (Opposition Lead)
Councillor Duncan Flynn
Councillor Edward Lavery

This Agenda is available online at: www.hillingdon.gov.uk or use a smart phone camera and scan the code below:

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Putting our residents first

Lloyd White
Head of Democratic Services
London Borough of Hillingdon,
Phase II, Civic Centre, High Street, Uxbridge, UB8 1UW

Terms of Reference

The Constitution defines the terms of reference for the Audit Committee as:

Introduction

The Audit Committee's role will be to:

- Review and monitor the Council's audit, governance, risk management framework and the associated control environment, as an independent assurance mechanism;
- Review and monitor the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and/or weakens the control environment;
- Oversee the financial reporting process of the Statement of Accounts.

Decisions in respect of strategy, policy and service delivery or improvement are reserved to the Cabinet or delegated to Officers.

Internal Audit

1. Review and approve (but not direct) the Internal Audit Strategy to ensure that it meets the Council's overall strategic direction.

2. Review, approve and monitor (but not direct) Internal Audit's planned programme of work, paying particular attention to whether there is sufficient and appropriate coverage.

3. Through quarterly Internal Audit summary reports of work done, monitor progress against the Internal Audit Plan and assess whether adequate skills and resources are available to provide an effective Internal Audit function. Monitor the main Internal Audit recommendations and consider whether management responses to the recommendations raised are appropriate, with due regard to risk, materiality and coverage.

4 Make recommendations to the Leader of the Council or Cabinet Member for Finance, Property and Business Services on any changes to the Council's Internal Audit Strategy and Internal Audit Plans.

5. Review the Annual Internal Audit Report and Opinion Statement and the level of assurance this provides over the Council's corporate governance arrangements, risk management framework and system of internal controls.

6. Consider reports dealing with the activity, management and performance of Internal Audit.

7. Following a request to the Corporate Director of Finance, and in consultation with the Leader of the Council or Cabinet Member for Finance, Property and Business Services, to request work from Internal Audit.

External Audit

8. Receive and consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.

9. Monitor management action in response to issues raised by External Audit.

10. Receive and consider specific reports as agreed with the External Auditor.

11. Comment on the scope and depth of External Audit work and ensure that it gives value for money, making any recommendations to the Corporate Director of Finance.

12. Be consulted by the Corporate Director of Finance over the appointment of the Council's External Auditor.

13. Following a request to the Corporate Director of Finance, and in consultation with the Leader of the Council or Cabinet Member for Finance, Property and Business Services, to commission work from External Audit.

14. Monitor arrangements for ensuring effective liaison between Internal Audit and External Audit, in consultation with the Corporate Director of Finance.

Governance Framework

15. Maintain an overview of the Council's Constitution in respect of contract procedure rules and financial regulations and where necessary bring proposals to the Leader of the Council or the Cabinet for their development.

16. Review any issue referred to it by the Chief Executive, Deputy Chief Executive, Corporate Director, any Council body or external assurance providers including Inspection agencies.

17. Monitor and review, but not direct, the authority's risk management arrangements, including regularly reviewing the Corporate Risk Register and seeking assurances that appropriate action is being taken on managing risks.

18. Review and monitor Council strategy and policies on anti-fraud and anti-corruption including the 'Raising Concerns at Work' policy, making any recommendations on changes to the relevant Corporate Director in consultation with the Leader of the Council.

19. Oversee the production of the authority's Annual Governance Statement and recommend its adoption.

20. Review the Council's arrangements for corporate governance and make recommendations to the Corporate Director of Finance on suggested actions to improve alignment with best practice.

21. Where requested by the Leader of the Council or Cabinet Member for Finance, Property and Business Services or Corporate Director of Finance, provide recommendations on the Council's compliance with its own and other published standards and controls.

Accounts

22. Review and approve the annual statement of accounts. Specifically, to 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.

23. Consider the External Auditor’s report to those charged with governance on issues arising from the external audit of the accounts.

Review and reporting

24. Undertake an annual independent review of the Audit Committee’s effectiveness and submit an annual report to Council on the activity of the Audit Committee.

Agenda

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APPROVAL OF THE 2019/20 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT ON THE AUDIT FOR THE YEAR ENDED 31 MARCH 2020

Committee name	Audit Committee
Officer reporting	James Lake, Chief Accountant
Papers with report	EY London Borough of Hillingdon Audit Results Report EY Pension Fund Audit Results Report Draft Statement of Accounts 31 March 2019 EY Redmond Review Update EY Financial Reporting Council Inspection Results
Ward	All

HEADLINES

The attached two results reports summarise the findings of EY, the External Auditor, on the audit of the 2019/20 Statement of Accounts including the Pension Fund Accounts. The first report summarises the main financial statements and the second the Pension Fund accounts audit.

At the time of writing the reports the auditor expects to issue an unqualified opinion and that the Statement of Accounts give a 'true and fair' view. Additionally, in terms of value for money, the auditor has reported they have no matters arising to include in the auditor's report about arrangements to secure economy, efficiency and effectiveness in the use of Council resources.

The statement of accounts is inclusive of the Pension Fund accounts; the Pension Fund accounts are audited separately due to the specialist nature. The auditor has reported that this part of the Financial Statements is also expected to receive an unqualified opinion and that the Statement of Accounts give a 'true and fair' view.

The report addresses key audit risks that were identified prior to audit and reported to Audit Committee on 3 February 2020 and additional risks as a result of COVID-19 and new regulations which came into force 30 April 2020.

RECOMMENDATIONS:

That the Committee:

1. **Approve the audited Statement of Accounts for 2019/20.**

SUPPORTING INFORMATION

The arrangements for keeping and publishing the Council's accounts are set out in the Accounts and Audit (England) Regulations 2015. Under these regulations the Corporate Director of Finance is responsible for determining the Council's accounting system, form of accounts and supporting accounting records.

In accordance with the requirements of the Accounts and Audit (England) Regulations 2015 and subsequently, Accounts and Audit (Coronavirus) Amendments Regulations 2020 which extended the requirement for draft accounts to be published by 31 August, the Corporate Director of Finance approved the Statement of Accounts on 7 August 2020 prior to the accounts release to the Council's external auditor, EY.

Once the accounts are audited, the 2020 Coronavirus amended regulations require the Audit Committee consider and approve the audited Statement of Accounts by 30 November 2020 and for these accounts to be signed and dated by the Committee Chairman and Corporate Director of Finance.

Scope of external audit

The Council's auditor, EY, is responsible for undertaking an audit of the Statement of Accounts. The outcome of the audit is set out in the attached reports.

The International Standard on Auditing Report 260 (ISA 260) requires that auditors should communicate to elected members matters of governance that arise from the audit of the financial statements. These cover:

- Significant qualitative aspects of accounting practices including accounting policies and financial reporting
- Any significant difficulties encountered during the audit
- Any significant matters arising from the audit
- Written representations requested by the auditor
- Expected modifications to the audit report
- Consideration of laws and regulations
- Any other matters significant to overseeing the financial reporting process

At this stage EY have nothing they need to bring to the attention of the Audit Committee which is not included elsewhere in their reporting.

In addition, the Auditor requires a "Management Representation Letter" to be signed by management. The contents of this letter are set out at Appendix D of the EY main audit report and Appendix C of the EY Pension Fund audit report. The letters have to include representations from management on matters material to the statements where sufficient appropriate evidence cannot reasonably be expected to exist.

Comment on the contents of the report

Main Accounting Statements

The report gives a comprehensive account of the work undertaken during the audit with a focus on significant risks, as identified at the planning stage and subsequently due to COVID-19. EY will discuss the findings of their audit work in detail at Committee and provide an update from the report date.

Two judgmental misstatements are noted regarding the different approaches taken by the professionals employed by the Council and EY. These include the valuation by Wilks Head and Eve of two secondary schools and Hymans Robertson's approach to McCloud and Goodwin legal judgements within the IAS19 pension liability. The Council stands by the approaches and results of its external professionals and as these two issues fall below the materiality threshold no adjustments were made. There are no misstatements greater than the audit threshold or errors in the accounts to report and no recommendations at this stage. Due to COVID-19, EY may present an emphasis of matter in the audit opinion relating to the valuation of property. Although subject to internal review, EY state there is nothing within the going concern disclosure which requires an emphasis of matter disclosure. An emphasis of matter disclosure does not constitute a modification or qualification of the audit report.

Pension Fund Statements

The report gives an account of the work undertaken during the audit and includes several auditor mandatory reporting requirements. EY draw attention to an emphasis of matter regarding valuation uncertainly of pooled fund property investments as a result of COVID-19 and following RICS guidance; this is not a modification or qualification of the audit report. There are no unadjusted audited differences to report.

Annual Governance Statement

The London Borough of Hillingdon is required to prepare an Annual Governance Statement (AGS) to meet its responsibilities for safeguarding public money and managing business functions in accordance with the Accounts and Audit Regulations 2015. The Council also has a duty under the Local Government Act 2003 to conduct a continuous assessment and improvement of business functions and demonstrate Economy, Efficiency and Effectiveness.

The Council has developed a system to evaluate the management of risks, internal controls and governance arrangements across all services, which form part of the process to compile this document. This process concludes with a formal statement outlining overall performance and any measures needed to address identified governance weaknesses as part of the Statement of Accounts. The AGS has been signed and agreed by the Leader of the Council and the Chief Executive; approval of the Statement of Accounts includes adoption of the AGS.

Accounts Summary

The Balance Sheet of the Council sets out the assets and liabilities at the end of the financial year and is a guide to the financial health of the Council. There was an overall increase to the wealth of the Council shown through the balance sheet of £80m, this was mainly due to a revaluation rise in property value and reduction in the pension fund liability.

Usable reserves fell £36m in year with a reduction in General Fund and HRA reserves along with a drawdown of capital reserves. In 2019/20 Schools reserves are now presented within Earmarked Reserves; overall Earmarked Reserves show a reduction of £6.8m, however of these there is as small increase in Council Earmarked reserves offset by a £7.6m reduction in Schools' reserves.

The Comprehensive Income and Expenditure Statement shows a deficit of £80.7m on the provision of services. However much of the deficit is reversed out due to accounting requirements, to represent the statutory cost of the general fund and HRA for Council Tax and rent setting purposes. The ultimate impact to the General Fund was an in-year deficit of £7.4m, whilst the HRA had an in-year deficit of £1.2m.

Going Concern

In the context of the COVID-19 pandemic and resulting impact on local government finances, a greater emphasis has been placed on ensuring that going concern disclosures within the statement of accounts are appropriate and reflect the latest financial position and risk. The disclosure included in the statement of accounts sets out the latest financial position of the Council, including the COVID-19 overspend, cashflow forecasts and borrowing projections. The EY audit results report notes that the Authority has headroom within the General Fund to mitigate the impact of COVID-19 in the short to medium-term and that the Council proactively manages its cashflows. EY therefore do not expect to include an emphasis of matter paragraph in the audit opinion.

Post Balance Sheet Events

There are no post balance sheet events since 31 March 2020 to report.

Additional information

EY have produced two updates which are included for reference. The first relates to the Redmond Review and summarises proposed audit and accounting changes. The second provides an update on the Financial Reporting Council's review of the performance of the seven largest audit firms on Local Authority and NHS audits for the year ended 2019.

FINANCIAL IMPLICATIONS

Proposed scale fees detailed in the original audit plan for the London Borough of Hillingdon audit have increased by 72% from £121.0k to £208.0k. For the London Borough Pension Fund proposed scale fees have increased by 175% from £16.2k to £44.5k. Other fees relating to additional work may follow. The Pension Fund currently shows £17k in other fees.

These additional scale fees are being considered by the PSAA as part of the national consideration of EY's fee proposals. The Corporate Director of Finance will also consider these fees in line with benchmarking information and in consultation with EY.

An allowance for increased fees has been made within the Council's statement of accounts.

Included within the EY reports is further information on the proposed fees for 2019/20.

LEGAL IMPLICATIONS

The Secretary of State for Communities and Local Government delegated statutory functions (from the Audit Commission Act 1998) to PSAA on a transitional basis under powers contained in the Local Audit and Accountability Act 2014. In Hillingdon, EY have been appointed by the PSAA to carry out this function. Other legal implications are included in the body of the report.

BACKGROUND PAPERS

Appendices as attached.

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London Borough of Hillingdon

Audit results report

Year ended 31 March 2020

16 November 2020

Building a better working world

16 November 2020

Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of London Borough of Hillingdon for 2019/20. We will issue our final report soon after the Audit Committee meeting scheduled for 24 November 2020.

We have substantially completed our audit of London Borough of Hillingdon for the year ended 31 March 2020. However, subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 of this report.

As set out on pages 5 to 7, a number of issues have arisen as a result of Covid-19 which may impact on our audit opinion. We confirm that we expect to issue our audit opinion on the financial statements before the accounts publication date of 30 November 2020. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 24 November 2020.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This 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 (updated April 2018)' issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywell Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

Scope update

In our audit planning report presented at the 03 February Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- Valuation of Property Plant and Equipment - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
- Disclosures on Going Concern – Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.
- Events after the balance sheet date – We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic may need to be disclosed. The amount of detail required in any disclosure would need to reflect the specific circumstances of the Local Authority.
- Impairment of receivables – We identified impairment of receivables as a new area of focus. The Authority hold material third party receivable balances as at 31 March 2020. There is a risk of increasing amounts written off as irrecoverable and impairment of year-end balances due to the increased number of businesses and residents unable to meet their financial obligations. We have reviewed significant judgements made by management.
- New Accounting Standards on Leases (IFRS16) – The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

Changes to the scope of our audit as a result of Covid-19

- We revised our risk assessment on the key estimate of Pensions and are using internal specialists to support our work in this area. We also will complete some additional testing of Covid-19 expenditure.

Executive Summary

Scope update

Changes in materiality - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our planning materiality measure of 2% of gross expenditure on provision of services and performance materiality at 75% of planning materiality:

Materiality	Audit Plan	Final
Planning	£12.973 m	£14.827 m
Performance	£9.730 m	£11.121 m
Reporting	£0.649 m	£0.741 m

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.
The continued impact of the Covid-19 pandemic increases the risks to the material accuracy of financial statements and disclosures. To ensure we are providing the right assurances to the Authority and its stakeholders the firm has introduced a rigorous consultation process for all auditor reports to ensure that they include the appropriate narrative.

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee on page 35.

Executive Summary

Status of the audit

We have substantially completed our audit of the London Borough of Hillingdon's financial statements for the year 31 March 2020 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

Internal consultation on the going concern assessment, disclosure and any impact on the audit opinion	Review of EY Pensions consideration of assumptions by Hymans Robertson and work on the IAS 19 Liability including updates for assets	Review of final version of statements
Receipt of IAS19 assurance from PF auditor	Final review of audit work	Review of management representations
Final review of Property, Plant and Equipment	Completion of post balance sheet events review	Whole of Government Accounts Review

We do not expect to issue the audit certificate at the same time as the audit opinion because of changes in the Whole of Government Accounts timetable.

Our audit opinion may include two emphasis of matter paragraphs. These are not modifications or qualifications to the audit report. They relate to:

- Property, plant and equipment valuation – We may draw users attention to the valuation uncertainty disclosure in Note 9 of the accounts.
- Going concern and the impact of the Covid-19 pandemic – We may draw users attention to the Authority's going concern disclosure.

The draft audit report is attached at Section 3.

Audit differences

At the date of this report there are no adjusted audit differences which we wish to bring to your attention which are greater than our reporting threshold of £11.121 m for corrected mis-statements.

There are two unadjusted differences: one relating to secondary school sites accounted for as Property, Plant and Equipment in the financial statements. Based on the work of our valuation specialist we have concluded that the value of secondary schools is overstated by approximately £4.151 m in the financial statements. We consider this to be a judgemental difference involving estimation which relate to facts or circumstances that are uncertain or open to interpretation. Management considers this to be a difference in professional opinion between two sets of valuers and therefore that no adjustment should be made. The second unadjusted mis-statement is in respect of pension adjustments in respect of the Goodwin case. No adjustment has been made for the impact of this cases in the 2019/20 financial statements. Our internal specialists have concluded that the potential impact of these on the liability could be £1.004 m. We consider this to be a judgemental difference. The Authority have not adjusted for these amounts on the grounds of materiality. We will seek representations from management on this unadjusted mis-statement in our Letter of Representation.

Executive Summary

Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Management Override: Misstatements due to fraud or error	We have completed our testing and found no indications of management override of controls.
Incorrect capitalisation of revenue expenditure	We have completed our testing, subject to review, and have nothing to report.
Valuation of land and buildings	We have completed our work and have reported an unadjusted audit difference on page 7 and provide further detail in Section 04. We may include an emphasis of matter paragraph in our audit report about the material uncertainty reported by the Authority's valuer. This is not a modification to the audit report but highlighting to the reader an important disclosure. We will provide an update on our final assessment in this respect at the Audit Committee meeting.
Incorrect classification of the Dedicated Schools Grant (DSG)	We have reviewed the Authority's accounting treatment of the DSG deficit and can confirm that it meets the requirements of the Code.

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Other area of audit focus	Findings & conclusions
Pension liability	We have agreed the Authority's pension liability disclosures to the actuarial report. However, we are awaiting the IAS19 assurance letter from the auditor of the Hillingdon Pension Fund to enable us to conclude against this area of audit focus. We also used our EY Pensions specialists to support us with a specific review of the assumptions being applied by the Authority's actuary, Hymans Robertson. We note some unadjusted mis-statements on IAS 19 at Section 4.
Going concern	The draft accounts included the Council's initial disclosure on going concern. Officers have used the assessment of the impact of Covid-19 on the Authority's finances, as reported to Cabinet, to draft a new going concern disclosure note. We have scrutinised the financial assessment, cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. We have also reviewed the revised going concern disclosure and subject to the EY consultation process. We are consulting internally with our professional practice directorate on the Going Concern disclosure and will also consider this in light of our audit opinion. We will provide an update on our consideration and final conclusion of this matter at the Audit Committee meeting.

Executive Summary

Areas of audit focus

This report sets out our latest observations and conclusions on the above matters, and any others identified, in the "Areas of Audit Focus" section of this report. We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues; and
- You agree with the resolution of the issues; and there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.
We have not identified any key control deficiencies as part of the audit process. Please refer to Section 7 for details.

Value for money

We identified one significant risk relating to sustainable resource deployment and in particular the Authority's arrangements to manage the financial challenges outlined in the Medium Term Financial Strategy. We have no matters to report. Please refer to Section 5 for details.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission. However Treasury has extended the reporting timetable for WGA so we may not certify completion of the audit at the same time as issuing the audit opinion.

Independence

Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

02 Areas of Audit Focus

Significant risk

Management Override: Misstatements due to fraud or error

(Fraud risk)

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

For the Authority, we have assessed that this risk could manifest in:

- Inappropriate journal entries; specifically manual journals posted by management in the preparation of the financial statements.
- Significantly unusual transactions entered into by management that are outside of the normal scope of business of the Authority.
- Management bias in key accounting estimates and judgements.

What judgements are we focused on?

We have considered the specific risk of management override in respect of the Authority's judgements over capitalisation of revenue expenditure (see over).

What did we do?

- Identified fraud risks during the planning stages.
- Asked management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Determined an appropriate strategy to address those identified risks of fraud.
- Performed mandatory procedures in relation to journal entries and other adjustments
- Assessed the nature of significantly unusual transactions
- Considered if management bias was present in key accounting estimates and judgments in the financial statements

What are our conclusions?

Our testing is complete. We did not identify any:

- material weaknesses in controls or evidence of material management override;
- instances of inappropriate judgements being applied; or
- any other transactions during our audit which appear unusual or outside the Authority's normal course of business.

Significant risk

Incorrect capitalisation of revenue expenditure (Fraud Risk)

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What is the risk?

Under ISA240 there is also a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

For London Borough of Hillingdon, we consider this specific risk to be present in:

- Additions to property, plant and equipment and Revenue Expenditure Financed from Capital Under Statute (REFCUS).

We have considered the capitalisation of revenue expenditure on property, plant and equipment as a specific area of risk given the extent of the Authority's capital programme.

What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure, including Consideration of REFCUS.

What did we do?

We sample tested additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.

What are our conclusions?

We have not identified any issues with management's accounting policies or practices in relation to opting to finance expenditure from capital sources.

Capital expenditure in relation to Investment is not material, therefore we focused our testing on property, plant and equipment capital additions and also Revenue Expenditure Financed from Capital Under Statute (REFCUS) capital additions.

Our testing of capital additions is complete. We did not identify any instances where expenditure had been inappropriately capitalised.

Significant Risk

Significant risk

Accounting for the Dedicated Schools Grant (DSG)

Significant Risk

What is the risk?

The Authority is forecasting a year end cumulative deficit on DSG of £14-15m. The CIPFA Code has previously not permitted the use of negative reserves.

At the date of our planning report in March 2020 there was uncertainty as to whether the Department for Education would provide funding to councils impacted by this issue. The Department, the NAO and CIPFA have been discussing options for the accounting treatment of the deficit for local authorities and we were expecting them to issue further guidance.

There was a risk that the Authority's accounting treatment of the DSG balance will not be in line with the Code. This would specifically impact on the relevant Balance Sheet and Income and Expenditure assertions specifically Completeness, Existence/Occurrence and Measurement/Valuation.

What judgements are we focused on?

We will review the latest guidance available from the Department for Education and CIPFA on the accounting for DSG and consider the Council's treatment of DSG in the draft 2019/20 financial statements.

What did we do?

- We continued to monitor the DSG balances throughout the year including forecast outturn;
- We regularly discussed the position with senior management and to understand the accounting treatment being proposed in 2019/20 in light of the guidance available to the Authority at the time of production of the financial statements; and
- Considered the latest guidance available from the NAO, CIPFA and the Department for Education to support the closedown of the financial statements.

What are our conclusions?

We note the outturn position on DSG High Needs of a deficit of £15 m as per the draft unaudited financial statements.

We have considered the disclosure in light of the revised guidance. The Authority has correctly accounted for the negative DSG Reserve within Earmarked Reserves in line with the revised CIPFA Code.

In September 2020 we were advised that CIPFA was reviewing the 2019/20 accounting treatment for DSG with a possible new statutory override which would enable councils to transfer the amount of the negative DSG High Needs balance to a new ring-fenced Unusable Reserve. We were also made aware that the proposal to create an Unusable Reserve would be implemented from 2020/21.

It has now been confirmed that the creation of a new unusable reserve will now not occur until 2020/21 and will be established through a statutory override option.

Significant risk

Risk of error in the valuation of land and buildings - Schools (updated post Covid-19)

What is the risk?

The fair value of Property, Plant and Equipment and Investment Properties represent significant balances in the Authority's accounts, totalling approximately £2.2 billion and are subject to valuation changes, impairment reviews and depreciation charges.

In calculating amounts recorded in the Authority's balance sheet, management are required to make material judgements and apply estimation techniques.

What judgements are we focused on?

We focused on aspects of the land and buildings valuation which could have a material impact on the financial statements, primarily:

- harder to value assets – such as schools which are valued on a depreciated replacement cost basis;
- the assumptions and estimates used to calculate the valuation; and
- changes to the basis for valuing the assets.

What did we do?

We confirmed that the Authority's valuers are members of RICS and registered valuers. We reviewed the instructions provided to the valuer against the requirements of the Code and IFRS and found no issues.

For a sample of assets we assessed whether the valuation basis was appropriate and whether the assumptions used were supportable and reperformed the valuers' calculations.

We challenged the information provided by the valuer as the management's expert.

We have considered the impact of assets not revalued in year, and whether this could lead to a material misstatement of the closing asset valuation.

What are our conclusions?

We updated our risk assessment in light of the impact of Covid-19 and the fact that the external valuer had highlighted a 'material uncertainty' in their valuation report. As a result we instructed our internal valuers to support us with our work in this area.

We asked our internal valuation specialists to review a sample of assets across the portfolio including primary schools, and secondary schools In the main. In addition, to reflect the 'material uncertainty' referenced above we also asked them to review the council offices which are valued at market value.

We have considered the impact of assets not revalued in year and the fact that assets valuations occur effective as at 1 April 2019. We have challenged officers on the material correctness of valuations at that date and officers are considering possible indexation and the impact that this could have across the portfolio.

We note some unadjusted mis-statements in respect of asset valuations at Section 4.

Other risk

Risk of error in the valuation of the net pension liability (updated post Covid-19)

What is the risk?

The Code and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hillingdon Pension Fund. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2020 this totalled over £820 million.

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the Pension Fund.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What judgements are we focused on?

We focused on aspects of the pension liability which could have a material impact on the financial statements, primarily:

- significant changes in assumptions made by the actuary; and
- the assessments of the actuary undertaken by PWC, as consulting actuary commissioned by the National Audit Office, and the EY actuarial team.

What did we do?

- Liaised with the auditors of Hillingdon Pension Fund, to obtain assurances over the information supplied to the actuary in relation to London Borough of Hillingdon;
- Assessed the work of the Pension Fund actuary Hyman Robertson including the assumptions they have used by relying on the work of PWC and considering any relevant reviews by the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

What are our conclusions?

We are satisfied that the Authority has correctly reflected the IAS 19 entries provided by the actuaries in the draft financial statements. We are also satisfied that the actuaries are appropriately qualified. This year, as in the previous year, there has been a national issue which resulted in a change to the Authority's pension net liability. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the "McCloud ruling". In addition, there is also another national issue, referred to as the Goodwin case.

We have also asked our internal EY Pension actuarial specialists to support our review of the potential impact of McCloud and Goodwin in 2019/20. The Council did take account of McCloud but not the Goodwin case in the financial statements. Based on our specialists the potential impact on the total liability could be in the following ranges:

McCloud: 0-0.2% increase in IAS 19 liability

Goodwin: 0.2% increase in 19 liability
The IAS 19 liability is £500.8 m, which equates to the following potential increases:
McCloud: £0-£1.002 m
Goodwin: £1.002 m
The cumulative potential impact of these to cases would be a maximum of £2.004.
The Council had made an adjustment of £1.3 for McCloud. The difference is not material. For further consideration of these see Section 4.

Other areas of audit focus

Going Concern

What is the risk?

ISA 570 was revised in September 2019. The revised standard increases the work we are required to perform when assessing whether an entity is a going concern and means UK auditors will follow significantly stronger requirements than those required by current international standards. Whilst the standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, EY have revised current audit procedures, recognising the importance of the forthcoming revisions.

Financial plans for 2020/21 and medium term financial plans may need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the financial statements may not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Pension Fund's year end financial position and performance

What did we do and what management judgements did we focus on?

- Obtained management's going concern assessment and reviewed for any evidence of bias and checked consistency with the accounts;
- Reviewed the financial modelling and forecasts prepared by management. We considered and challenged key assumptions, focusing on the reasonableness of the liquidity forecasts up to a date of 12 months after the expected signing date of the accounts;
- Considered the appropriateness of the going concern disclosure within the financial statements. The updated Going Concern disclosure note is included at Section 1 of the financial statements; and
- Considered the impact on our audit report by undertaking internal EY consultation.

What are our conclusions?

The draft accounts included the Council's initial going concern disclosure. Management have carried out a detailed consideration of the impact of Covid-19 on the finances of the Authority and have prepared an updated accompanying going concern disclosure for the statements.
The Authority's cash flow forecast extends beyond the 12 months from the date of approval of the financial statements and the Authority continues to forecast significant and material levels of short-term and long-term investments, including liquid investments. We provide further details of our assessment on the following slide.
We are satisfied that management have prepared a robust going concern assessment and the resultant going concern disclosure is appropriate. We are consulting with EY's Professional Practice Directorate our view that there is nothing within the Authority's going concern disclosure that is so fundamental to the reader's understanding of the accounts that we need to include an emphasis of matter paragraph in our audit opinion. We will update the Audit Committee of the outcome of the EY internal consultation.

Areas of Audit Focus

Going concern disclosure

There is presumption that the Authority will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Authority revenue as a result of Covid-19 increases the need for the Authority to undertake a detailed going concern assessment to support its assertion. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, this year, for example, we will need to see evidence of the going concern assessment up to and including around October/November 2021.

Findings and conclusions

The draft accounts included a going concern disclosure with officers carrying out an assessment on a monthly basis and fully participating in the monthly returns to MHCLG to evaluate the impact of the Covid-19 pandemic on the Authority's income, expenditure, balances and reserves to inform reporting to Cabinet. Officers have used these assessments, and working in collaboration with the audit team, drafted a new going concern disclosure note for inclusion in the final version of the statements.

We have reviewed the assessment, focusing on the reasonableness of the financial impact assessment, cashflow and liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions, particular around reductions in fees and charges. We have also considered the adequacy of management's new disclosure note and its agreement with the financial assessment.

The Authority is forecasting that as at September 2020 it will incur an overspend in 2020/21 of £26m which is solely Covid-19 related. Whilst the Authority continues to review all service areas revenue and capital budgets to identify options for delivering efficiency savings and / or generating income with the aim of setting a balanced budget in 2021/22 and reducing the overspend in 2020/21, The Authority has the following reserves to call on in delivering its services:

General Fund	£34 m	Earmarked	£36 m
Capital grants	£3 m	Capital receipts	£23 m

If required the Authority is prepared to 'un-earmark' certain reserves to meet its Covid-19 related commitments.

We therefore note that the Authority has headroom within the General Fund to absorb the estimated financial impact of the Covid-19 pandemic in the short to medium-term.

In terms of cash and liquid deposits we know that the Council proactively manages its cashflows, maintaining a daily forecast of available funds and ensuring that liquid cash and deposits of at least £10 m are available at all times. This minimum of liquid cash is held in a combination of UK banks and Money Market Funds with additional deposits of £15 m held in Strategic and Long Dated Pooled Funds accessible within 4 working days.

We have now reviewed the new going concern disclosure which officers plan to include at Note 1 of the statements, and are satisfied that it adequately reflects the Authority's assessment and informs the reader of the impact of the pandemic on the Authority's finances. We are completing our final review procedures and subject to EY internal consultation process we will not be including an emphasis of matter paragraph in the audit opinion.

03 Audit Report

Draft audit report

This is an example report – our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF HILLINGDON

Opinion

We have audited the financial statements of the London Borough of Hillingdon for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority Movement in Reserves Statement,
- Authority Comprehensive Income and Expenditure Statement,
- Authority Balance Sheet,
- Authority Cash Flow Statement and the related notes 1 to [x].
- Collection Fund and the related notes 1 to [x]

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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Hillingdon as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. 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 the Comptroller and Auditor General's (C&AG) AGN01, 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.

Emphasis of Matter – Disclosure in Relation to the Effects of Covid-19 and Property, Plant and Equipment

We draw attention to Note 1 of the financial statements, which describes the economic consequences the Authority is facing as a result of Covid-19 which is impacting the financial and operational position and performance during 2020/21 and beyond.

We also draw attention to Note 30 'Sources of Estimation Uncertainty' and Note 9 Property, Plant and Equipment of the financial statements, which describe the valuation uncertainty the Authority is facing as a result of Covid-19 in relation to property valuations.

Draft audit report

This is an example report – our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

• the Corporate Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

• the Corporate Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts 2019/20, other than the financial statements and our auditor's report thereon. The Corporate 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 this report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, the London Borough of Hillingdon put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

• in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;

• we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;

• we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;

• 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;

• we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or

• we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Draft audit report

This is an example report – our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

Responsibility of the Corporate Director of Finance

As explained more fully in the Statement of the Responsibilities, the Corporate 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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Corporate 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 the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether the London Borough of Hillingdon had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Hillingdon put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the London Borough of Hillingdon had put in place proper arrangements to secure 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 satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

Draft audit report

This is an example report – our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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.

Delay in the certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Use of our report

This report is made solely to the members of the London Borough of Hillingdon, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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.

Suresh Patel (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

London

Xx November 2020

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

Known misstatements

We have identified no audit mis-statements greater than our threshold of £11.121 m. As our work is ongoing in a number of areas it is possible that further amendments may arise.

We know, for example, that the IAS Pension asset figures are being updated as at the date of this report. We will provide an update at the Audit Committee meeting.

We have identified a number of other adjustments to management which have been corrected.

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of Unadjusted differences

Judgemental misstatements

1) IAS 19 Liability:

We assessed the Authority’s treatment in the 2019/20 financial statements of the McCloud and Goodwin cases. We reviewed the actuarial reports and held discussions with officers that confirmed that a subsequent adjustment had been made for McCloud. A revised report was obtained and updated for the McCloud impact only. This concluded that the potential impact of McCloud in 19/20 was £1.3 m. No adjustment was made for Goodwin. We engaged our internal actuarial specialists (EY Pensions) to support our conclusions. EY Pensions specialists concluded that the potential impact on the IAS liability (£500.747 m in 19/20) could be:

- McCloud: 0-0.2% range increase in liability with the likely impact somewhere closer to 0.
- Goodwin: 0.2% increase in liability

Taking these two cases together therefore we assumed a potential impact of 0.2% on the liability. This would equate to a potential increase in the liability of £2.004 m. The Council’s adjustment for McCloud was £1.3 m and therefore we note a potential under-statement of approximately £0.7 m in total.

2) Property, plant and equipment (PPE):

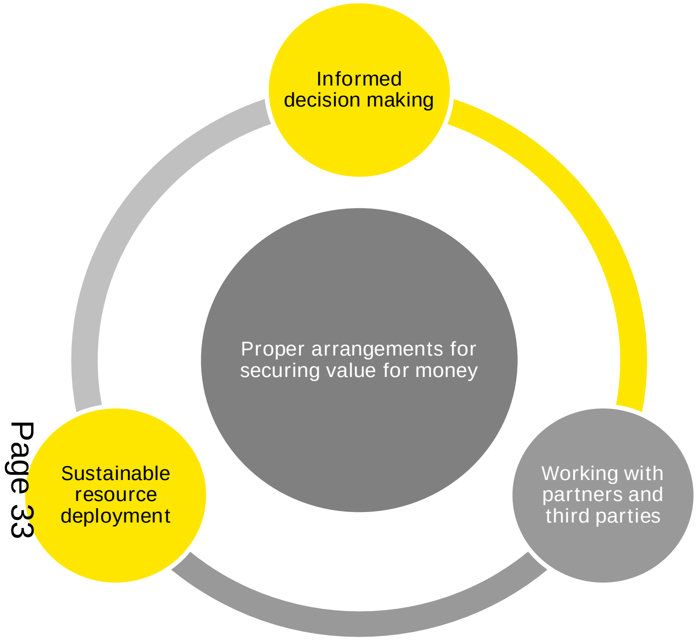
We assessed the Authority’s treatment in the 2019/20 financial statements of the valuation of property, plant and equipment (PPE). We identified a significant risk on schools valuations. In addition, as a result of the ‘material uncertainty’ clause inserted by external valuers in their year end valuation reports for 2019/20 we also reviewed one additional asset valued using Existing Use Value (EUV) methodology. In our sample of assets we specifically noted differences in two assets of £4.151 m where the assets were overstated. These assets were secondary schools. We note these are the only two secondary schools on the Authority’s balance sheet and therefore we have isolated this amount and treated this as a judgemental difference with a difference of opinion between valuers in the treatment of these assets.

In terms of general commentary we would note the following in respect of the assumptions applied by the external valuer:

1) Modern Equivalent Asset (MEA) Approach: We note that the external valuer values the MEA using the actual site sizes of the assets. We have seen a number of valuers adopting emerging guidance and using pupil numbers as a basis for assessing MEA values.
2) External works: We note that the valuers make no allowance for external works in their valuations. Our internal valuation specialists would typically expect to see an allowance of between 3-5% being allowed for the Gross Replacement Cost.
3) Obsolescence: The external valuer makes no allowance for obsolescence in the first 10 years of the life of the building. Our valuers believe that this overstates the value of the buildings as typically we would expect the assets to experience some use of its economic life in that period.
4) Land Values: Our valuation specialists assessed the land values being adopted by the external valuer and concluded that in their opinion the residential land values being applied understated the values and that the rates assumed for the playing fields were overstated.

05 Value for Money

Value for Money



Background

We are required to consider whether the Authority has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:
“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities’ response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor’s attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

Overall conclusion

We identified one significant risk around these arrangements. The tables on the following page presents our findings in response to the risk in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.
We have not identified any new significant risks around these arrangements.
We have no matters to include in the auditor’s report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

We present below the findings of our work in response to the risk area in our audit plan.

What is the significant value for money risk?

Sustainable resource deployment

In the February 2020 Audit Plan we reported that like other local government bodies, the Authority continued to have a challenging financial outlook. To balance the budget over the medium term i.e. the next three years it was planning to deliver cumulative agreed savings of approximately £42 million. The budget for the next 2 financial years also included a drawdown of general balances of £9.3 m. This will enable the majority of the savings to be profiled into later years. Approximately half of the £42 m has been identified to date and the remainder will be identified through a renewed BID savings programme.

In addition, the Authority is overspending against its Dedicated Schools Grant (DSG) budget.

We consider all of the above to be relevant to the sustainable resource deployment VFM criterion and as a result it constituted a significant risk.

Since the March 2020 Audit Plan, we have clarified with the NAO that the overspend relating to the DSG budget should not be a consideration for our VFM conclusion work around sustainable resource deployment because the revised DfE regulations make it clear that local authorities are not required to fund the DSG deficit with general fund monies. However, there remains an expectation that authorities will put in place arrangements to manage DSG related spending. We have noted the latest position in respect of the DSG and have discussed the matter with senior officers. The trajectory of the deficit is one of significant increase with the deficit on the DSG increasing from £8.4 m at the end of 2018/19 to £15 m at the end of 2019/20. Forward projections show similar pressures on the DSG with forward projections reaching a cumulative deficit of approximately £24m in 2020/21. This deficit is specifically in respect of 'High Needs' school block pressures/looked after children. We will continue to liaise with senior officers to understand the latest position and significant variations to the above.

In summary, our work on financial resilience including Going Concern has not identified a Going Risk. The Council has demonstrated that there is sufficient reserves and balances to support the Council in the medium term. As noted above however the next few years present a challenge and a key area of focus for us will be how the Council responds to that challenge.

06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. Financial information in the Statement of Accounts 2019/20 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts (WGA) return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters arising to the Audit Committee. The deadline for certification and return of the work on the WGA is 04 December 2020.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit; Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested; Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process; Related parties; External confirmations; Going concern; and
- Consideration of laws and regulations.

We have nothing we need to bring to the attention of the Audit Committee in respect of these Other Matters which we have not already covered elsewhere within this report.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention/details of issues noted.

08 Independence

08 - Independence

Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated March 2020.
We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 24 November 2020.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, 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 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020. We have included the fees paid by the Authority in engaging us as a reporting accountant on DWP's the housing benefits assurance programme. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

In our Audit Plan and subsequent reporting to the Audit Committee, we have communicated our proposal to increase the scale fee for 2019/20 to £208,000. This proposal is currently being considered by PSAA as part of their national consideration of EY's fee proposals. The table below does not reflect those proposals and includes items where we need to determine the final fee to present to the Corporate Director of Finance.

	Final fee 2019/20 (£)	Planned fee 2019/20 (£)	Final Fee 2018/19 (£)
Scale Fee – Code work	121,096	121,096	121,096
Changes in work required to address professional and regulatory requirements and scope associated with risk (see narrative above)	86,904		
Additional work:			
• PPE including RICS related material uncertainty	TBC	TBC	6,995
• IFRS 9	-	-	1,275
• Correspondence from the public	-	-	1,758
• VFMC significant risk	TBC	TBC	-
• Going concern assessment and disclosure	TBC	TBC	-
• EY consultation on auditor's report on the statements involving EY professional practice directorate to ensure the auditor's report is appropriate.	TBC	TBC	-
Total audit	TBC	TBC	131,124
Non-audit services:			
Housing Benefits	TBC	28,290	27,600
Capital receipts return	TBC	TBC	7,000
Teachers' Pensions	TBC	12,500	12,000
Total other non-audit services	TBC	TBC	TBC
Total fees	TBC	TBC	TBC

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
  - Tax advocacy services - Remuneration advisory services - Internal audit services - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Standards and General Purposes Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Standards and General Purposes committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019

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 2019: https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf

09 Appendices

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Appendix A

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Trade receivables	Substantively tested all assertions	Substantively tested all assertions	No change
Trade payables	Substantively tested all assertions	Substantively tested all assertions	No change
Investments	Substantively tested all assertions	Substantively tested all assertions	No change
Tangible fixed assets	Substantively tested all assertions	Substantively tested all assertions	No change
Cash	Substantively tested all assertions	Substantively tested all assertions	No change
Borrowing	Substantively tested all assertions	Substantively tested all assertions	No change
Capital grants receipts in advance	Substantively tested all assertions	Substantively tested all assertions	No change
Pensions liability	Substantively tested all assertions	Substantively tested all assertions	No change

Appendix B

Summary of communications

Date	Nature	Summary
20 January 2020	Report	The audit planning report, including confirmation of independence, was issued to the audit committee.
03 February 2020	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the audit committee and senior members of the management team to discuss the audit planning report.
16 April 2020	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the Corporate Director of Finance to discuss the impact of the Covid-19 pandemic on the operational and financial management of the Council.
June to October 2020	Meeting	The senior manager on the engagement met with the Chief Accountant to discuss the preparation of the financial statements
01 October 2020	Meeting	The senior manager on the engagement met with the Chief Accountant and other senior members of the finance team to discuss the outcome of the work on property valuations and to discuss the next steps to follow up question with the external valuer
13 October 2020	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the Corporate Director of Finance and the Deputy Director of Finance to discuss the status of the audit and also matters identified as part of the audit.
11 November 2020	Report	The audit results report, including confirmation of independence, was issued to the audit committee.
24 November 2020	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the audit committee and senior members of the management team to discuss the audit results report.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

Appendix C

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report presented at the 3 February 2020 Audit Committee meeting
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report presented at the 3 February 2020 Audit Committee meeting
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report presented at the 24 November 2020 Audit Committee meeting

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Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Public Interest Entities	For the audits of financial statements of public interest entities our written communications to the audit committee include: • A declaration of independence • The identity of each key audit partner • The use of non-member firms or external specialists and confirmation of their independence • The nature and frequency of communications • A description of the scope and timing of the audit • Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits • Materiality • Any going concern issues identified • Any significant deficiencies in internal control identified and whether they have been resolved by management • Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee • Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof • The valuation methods used and any changes to these including first year audits • The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework • The identification of any non-EY component teams used in the group audit • The completeness of documentation and explanations received • Any significant difficulties encountered in the course of the audit • Any significant matters discussed with management • Any other matters considered significant	Audit planning report presented at the 3 February 2020 Audit Committee meeting; and Audit results report presented at the 24 November 2020 Audit Committee meeting

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit results report presented at the 24 November 2020 Audit Committee meeting
Misstatements	• Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Audit results report presented at the 24 November 2020 Audit Committee meeting
Subsequent events	• Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit results report presented at the 24 November 2020 Audit Committee meeting
Fraud	• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility.	Audit results report presented at the 24 November 2020 Audit Committee meeting

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority	Audit results report presented at the 24 November 2020 Audit Committee meeting
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place: • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit	Audit planning report presented at the 3 February 2020 Audit Committee meeting; and Audit results report presented at the 24 November 2020 Audit Committee meeting

Appendix C

Required communications	What is reported?	Our Reporting to you When and where
	• Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	Audit results report presented at the 24 November 2020 Audit Committee meeting
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	Audit results report presented at the 24 November 2020 Audit Committee meeting
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	Audit results report presented at the 24 November 2020 Audit Committee meeting

Appendix C

Required communications	What is reported?	Our Reporting to you When and where
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	Audit results report presented at the 24 November 2020 Audit Committee meeting
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report presented at the 24 November 2020 Audit Committee meeting
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report presented at the 24 November 2020 Audit Committee meeting
Fee Reporting	• Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report presented at the 3 February 2020 Audit Committee meeting; and Audit results report presented at the 24 November 2020 Audit Committee meeting

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]
[Date]

Ernst & Young
FAO: Suresh Patel
EY LLP
More London Place
London
SE1 2AF

Dear Suresh

This letter of representations is provided in connection with your audit of the council financial statements of London Borough of Hillingdon ("the Council") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the council financial statements give a true and fair view of the Council financial position of London Borough of Hillingdon as of 31 March 2020 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 for the Council.

We understand that the purpose of your audit of our council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 for the Council.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the council financial statements. We believe the Council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and are free of material misstatements, including omissions. We have approved the council financial statements.
3. The significant accounting policies adopted in the preparation of the Council financial statements are appropriately described in the Council financial statements.
4. As members of management of the Council, we believe that the Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 for the Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].

Management representation letter

Management Rep Letter (cont.)

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the Council financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
   - involving financial statements;
   - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
   - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
   - involving management, or employees who have significant roles in internal controls, or others; or
   - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
   - 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;
   - Additional information that you have requested from us for the purpose of the audit; and
   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the council financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting of the Cabinet on 12 November 2020.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

Management representation letter

Management Rep Letter (cont.)

D. Liabilities and Contingencies
1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent. No guarantees have been given to third parties.

E. Subsequent Events
1. There have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the council financial statements or notes thereto.

F. Other information
1. We acknowledge our responsibility for the preparation of the other information.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Going Concern
1. Accounting policy a) General Principles to the council financial statements discloses all of the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

I. Ownership of Assets
1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the council financial statements.

J. Reserves
1. We have properly recorded or disclosed in the council financial statements the useable and unusable reserves.

K. Use of the Work of a Specialist
1. We agree with the findings of the specialists that we engaged to evaluate the asset valuations and net pension liability valuation and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

L. Asset Valuation and IAS 19 Estimates
1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 for the Council.
2. We confirm that the significant assumptions used in making the asset valuation estimates appropriately reflect our intent and ability to carry out planned uses of assets valued.

Management representation letter

Management Rep Letter (cont.)

3. We confirm that the disclosures made in the council financial statements with respect to the accounting estimate(s) are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 for the Council.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the council financial statements due to subsequent events, including due to the COVID-19 pandemic.

M. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

____

Paul Whaymand – Corporate Director of Finance

____

John Chesshire - Chair of the Audit Committee

Appendix E

Regulatory update

Since the date of our last report to the Audit Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on London Borough of Hillingdon
Code of Audit Practice 2020	• The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.	• The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. • Further updates will be provided when possible.
Going Concern - ISA (UK) 570 (Revised September 2019)	• The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020. • This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.	• Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. • Further updates will be provided when possible.
Independence	• The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs) . This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed.	• We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales. • To date we have not identified any non-audit services which would be prohibited under the new standard.

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EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.
EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ED None

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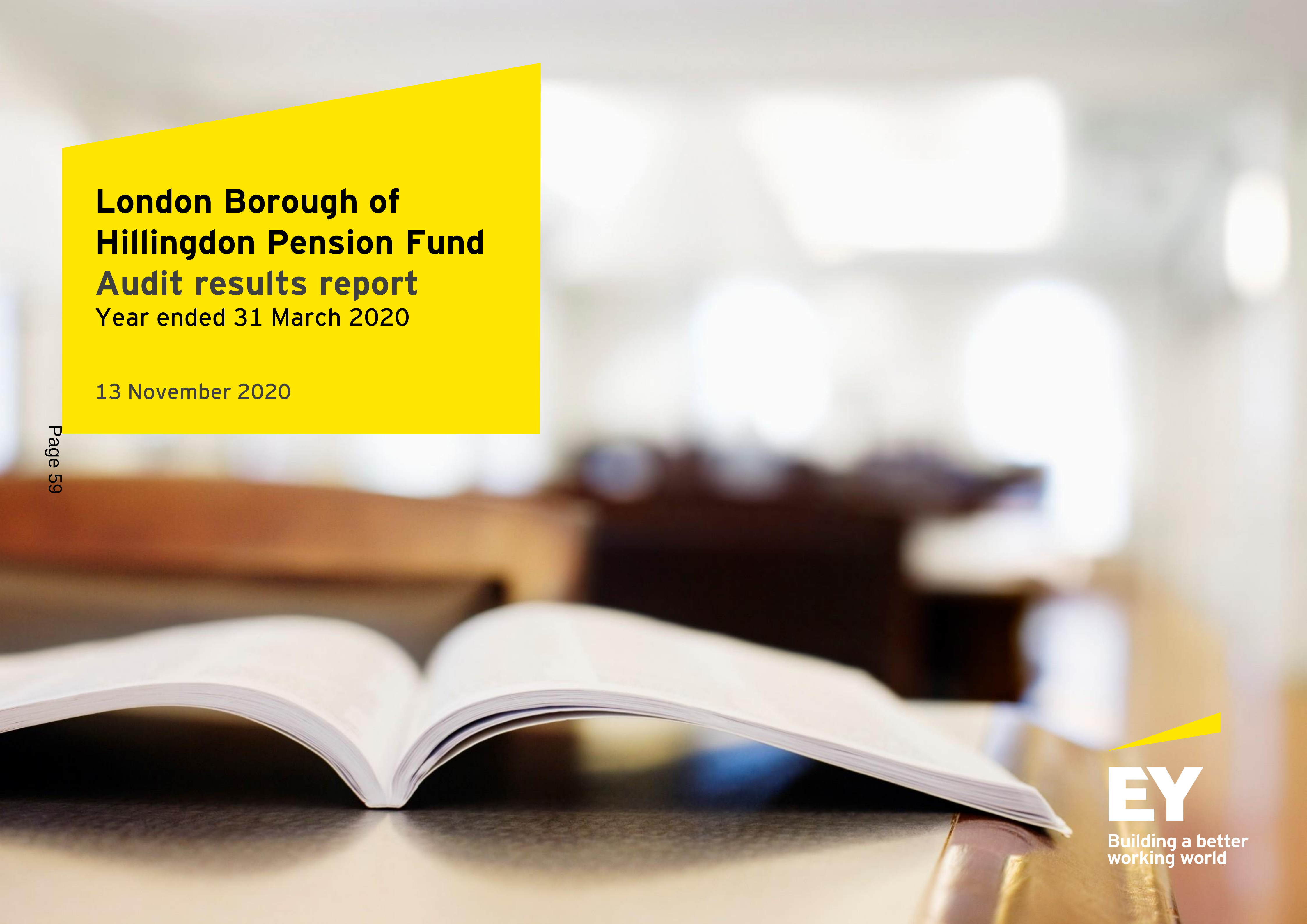


London Borough of Hillingdon Pension Fund

Audit results report

Year ended 31 March 2020

13 November 2020

EY
Building a better working world

Hillingdon Pension Fund

13 November 2020

Dear Audit Committee Members

We are pleased to attach our audit results report in relation to the audit of Hillingdon Pension Fund for 2019/20 ('Pension Fund') for the forthcoming meeting of the Audit Committee. This report follows the Audit Results Report we presented to the 28 October Pensions Committee and summarises our final audit conclusion in relation to the audit of Hillingdon Pension Fund for 2019/20.

We have substantially completed our audit of Hillingdon Pension Fund for the year ended 31 March 2020. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements. We will include an emphasis of matter paragraph in the opinion in relation to the Fund's disclosure of material uncertainty on the valuation of its pooled property funds. This is not a qualification or modification to the opinion but highlights something we consider is fundamental to the reader's understanding of the accounts. We expect to issue our audit opinion before the 30 November 2020.

As set out on page 5, a number of issues have arisen as a result of Covid-19 which have impacted our work, and may yet have an impact on our audit report.

This report is intended solely for the use of the Audit Committee, Pensions Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their ongoing help during the engagement, especially as they have themselves also needed to adapt to remote working and the pressures and strains that come with that. We are very grateful for their help.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on the 24 November 2020.

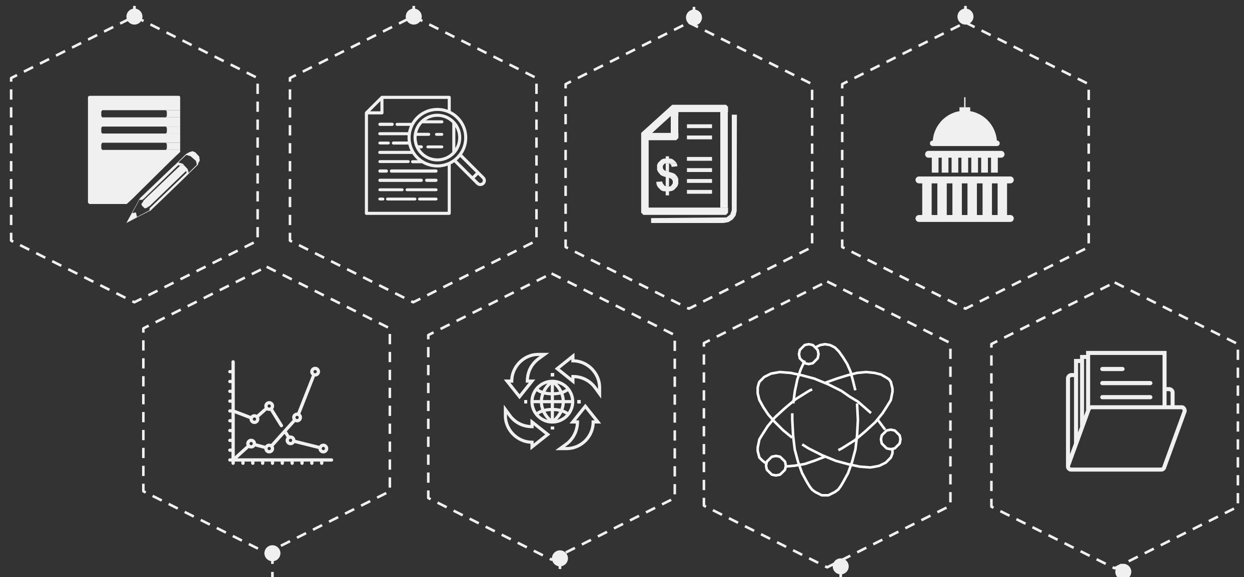
Yours faithfully

Suresh Patel, Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This 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 (updated April 2018)' issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

Scope update

In our Audit Plan tabled at the 3rd of February 2020 Audit Committee meeting, we provided an overview of our audit scope and approach for the audit of the financial statements. We conducted our audit in accordance with this plan.

Changes to reporting timescales

As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- **Valuation of Investments-** financial markets have experienced some volatility even before the advent of Covid-19. The virus created uncertainty on markets which have had an impact on pooled property funds with the valuation of underlying property investments being subject to the Royal Institute of Chartered Surveyors (RICS) 'material uncertainty' paragraphs in their valuation reports. There are also increased risks that market and economic trends may not be adequately reflected in assets classified as Level 3 – valued according to unobservable information. The Fund's officers have challenged valuations, especially those which are classified as level 3 (and are the most complex to value because of their nature, see p.11.). We considered level 3 investment valuations to be a significant risk when we planned the audit, and Covid-19 has exacerbated the position.
- **Disclosures on Going Concern** – Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We determined that the unpredictability of the current environment gave rise to a risk that the Pension Fund would not appropriately disclose the key factors relating to going concern, underpinned by a management assessment with particular reference to Covid-19 and the Pension Fund's actual year end financial position and performance.
- **Events after the balance sheet date** – We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Pension Fund and in particular changes to the value of its investments post 31 March 2020.

Changes to the scope of our audit as a result of Covid-19

- We updated our enquiries and understanding of the significant classes of transactions and the relevant controls in light of Covid-19.
- We challenged officers on the valuations provided to them by their specialists and tested the additional disclosures related to investment valuation uncertainties due to Covid-19.

Changes in materiality

We updated our planning materiality assessment using the draft statements and have also reconsidered our risk assessment. Based on our materiality measure of net assets, we have updated our overall materiality assessment to £9.920m (previously £10.669 m). This results in updated performance materiality, at 75% of overall materiality, of £7.440 m, and an updated threshold for reporting misstatements of £0.496m.

We have considered whether any change to our materiality is required in light of Covid-19 and the audit adjustments. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

Executive Summary

Scope update (continued)

Additional audit procedures as a result of Covid-19

Other changes in the Fund and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but resulted in the following impacts on our audit strategy were as follows:

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Pension Fund's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports. The uncertainty created by Covid-19 increases the importance of giving the right assurance to the Pension Fund and its stakeholders. As a result, EY's risk management team have instigated additional consultation processes on the wording of the auditor's report. In light of issues with asset valuations and going concern, this consultation process involves significant senior level input from the audit team and EY's risk management team.

The changes to audit risks and audit approach have increased the level of work we have been required to undertake. We are currently quantifying the impact on the audit fee and will present our final fee to the Corporate Director of Finance on completion of the audit.

Status of the audit

We have substantially completed our audit of Hillingdon Pension Fund's financial statements for the year ended 31st March 2020 and have performed the procedures outlined in our Audit Plan and the scope update outlined on page 5 of this report. Subject to satisfactory completion of the outstanding items listed in Appendix B, we expect to issue an unqualified opinion on the Fund's financial statements with an emphasis of matter on the material uncertainty disclosed by the Fund in the valuation of pooled property funds. However, until work is complete, further amendments may arise.

In light of the required professional consultations on our audit opinion in progress at the date of this report, the draft audit report included in Section 03 is subject to final review.

The Fund already completed its Annual Report and, as a result, we expect to issue the consistency statement at the same time as the audit opinion.

Executive Summary

Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Fund's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Misstatement due to Fraud or Error – Posting of investment journals	We have found no indications of inappropriate posting of investment journals.
Risk of incorrect valuation of investments	In the draft statements, pooled property assets (£165m) were initially defined as level 2, consistent with previous years. Covid-19 impacted the valuation of investments and the underlying property assets included material uncertainty paragraphs in their valuation reports. This increases the uncertainty around the valuation of these funds. Following discussions with management it was agreed that the pooled property assets should be classified as level 3 investments during 19/20. The disclosures in the accounts have been adjusted to reflect this agreement. We have included an emphasis of matter paragraph in the audit opinion to highlight to the reader of the accounts something we consider to be fundamental to their understanding of the accounts given the scale of pooled property assets within the Fund's total investments.

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Other area of audit focus	Findings & conclusions
Going concern	Note 2 of the draft accounts stated that they are prepared on a going concern basis but included no further disclosures. Following audit queries, the Fund has prepared a going concern assessment and drafted an associated disclosure. We challenged the assessment, focusing on cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. Based on the assessment and the Fund's response to our queries, we are satisfied that the Fund's disclosure adequately reflects the impact of the Covid-19 pandemic on its future finances. At the core of the Fund's assessment is that its contributions are derived from government-backed institutions, the Fund has sufficient liquid assets to meet its obligations and the actuarial triennial review is designed to close the funding gap in the long term
Post balance sheet events	Note 22 of the accounts adequately reflect the Fund's consideration of events after the balance sheet date.

This report sets out our latest observations and conclusions on the above matters, and any others identified, in the "Areas of Audit Focus" section of this report. We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues; and
- You agree with the resolution of the issues; and there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.

Executive Summary

Audit differences

There are currently no unadjusted audit differences arising from our audit which we need to bring to your attention.

We have identified some audit differences in disclosures which have been adjusted in consultation with management. Two of the main differences are in respect of the reclassification of level 2 investments to level 3 and the revised going concern disclosure.

Further details of the thresholds which we apply to report audit differences can be found in Section 04.

IAS19 and membership data testing

In common with prior years we were requested by the auditor of the London Borough of Hillingdon to carry out work on the IAS19 related information that informs the pension liability disclosures in the Authority's statement of accounts. For 2019/20, because of the triennial valuation of the fund, we were required to carry out additional testing on a sample of 125 members and the membership data that the Fund provides to the actuary. Our testing sought to test the validity of the key membership data that informs the actuarial valuation to give some assurance to the auditor of the Authority that the resultant information from the actuary is reliable. We sought to agree membership details, such as pensionable salaries and key dates (such as dates pensions were deferred or dates when pensions were taken) to the source evidence that was used to support the data submitted by the Fund to the actuary. In common with other Funds across the country, we found that the Fund struggled to provide all the requested evidence due largely to some of the age of the information. Whilst we were able to complete sufficient procedures to respond to the auditor of the Council and we are aware that the Fund has already taken action to improve the quality of membership data we have included a recommendation for further improvement in Section 06.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.
During the audit, we identified some observations and improvement recommendations in relation to management's financial processes and controls. For more details refer to Section 06.

Independence

We have no new independence matters top report but provide an update on Independence at Section 07.

02 Areas of Audit Focus

Significant risk

Risk of Management Override: Misstatements due to fraud or error

What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

We focused our testing on key areas of the accounts that are susceptible to management bias.

What did we do?

- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Gained an understanding of the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.

Performed mandatory procedures regardless of specifically identified fraud risks, including:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessed accounting estimates for evidence of management bias, and
- Evaluated the business rationale for significant unusual transactions.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

Our journal entry testing did not identify any issues.

We have not identified any instances of management bias being applied to accounting estimates.

We did not identify any other transactions during our audit which appeared unusual or outside the Fund's normal course of business.

Significant risk

Misstatement due to Fraud & Error – Posting of investment journals

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

There is a risk that due to fraud or error, journals posted into the general ledger for the investment values are incorrect.

What judgements are we focused on?

We focused on aspects of the financial statements related to investment journal entries as this area in particular is a manual process from receiving the investment report from the Custodian to inputting the results of the report into the accounting system.

What did we do?

Our approach focused on testing the appropriateness of manual journal entries recorded in the general ledger posting investment values ensuring:

- The amount is supported by the fund manager/custodian report;
- Correct authorisations have been obtained.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Fund's normal course of business.

We did not identify any evidence of inappropriate accounting for investment values.

Significant risk

Risk of Incorrect Valuation of Investments

What is the risk?

The Fund's investments include unquoted pooled investment vehicles such as private equity, private debt and infrastructure funds. Judgements are taken by the Investment Managers to value those investments whose prices are not publicly available. The material nature of Investments means that any error in judgement could result in a material valuation error.

Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

What judgements are we focused on?

The proportion of the fund comprising these investment types in 2019/20 is at circa 11.1% (2018/19: 10.8%), and as these investments are more complex to value, we have identified the level 3 investments as higher risk, as even a small movement in these assumptions could have an impact on the financial statements.

We have assessed that the risk of incorrectly valuing investments is significant for level 3 investments held by the pension fund.

Total of level 3 investments held by the Fund at 31 March 2020, after audit adjustments is £275 million.

What did we do?

- Reviewed the latest available audited accounts for the relevant funds, where available, and ensured there are no matters arising that highlight weaknesses in the fund's valuation;
- Where the latest audited accounts as at 31 March 2020 were not available, we performed analytical procedures and other procedures to assess the valuation for reasonableness against our own expectations; and
- Confirmed that accounting entries were correctly processed in the financial statements.

What are our conclusions?

In the draft statements, pooled property assets (£165m) were initially defined as level 2, consistent with previous years. As a result of the impact of Covid-19 on investments, many property valuers issued valuations for the underlying property assets including material uncertainty paragraphs in their valuation reports. This increases the uncertainty around the valuation of these funds. Following consultation with management on the appropriateness to classify pooled property investments as level 2, management agreed that the pooled property assets should be transferred to level 3 during 19/20. The disclosures in the accounts have been adjusted to reflect this finding.

We recommend that management regularly review the appropriateness of asset classifications (e.g. the judgements between what is a level 2 and level 3 asset) - See Section 06 for further details.

We did not identify any other transactions during our audit which appeared unusual or outside the Fund's normal course of business.

Our response to inherent risks

New Inherent Risk - Disclosures on Going Concern and Events after the balance sheet date

Financial statement impact

We have identified an Inherent risk relating to disclosures concerning the Covid-19 pandemic.

We consider the risk applies to going concern and post balance sheet disclosures.

What is the risk?

Going concern:
This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

We believe the risk has increased following Covid-19. We consider the unpredictability of the current environment to give rise to a risk that the Pension Fund will not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19.

Events after the balance sheet:
There is increased risk that events after the balance sheet date concerning the Covid-19 pandemic may impact on the value of assets in the statement and may need to be disclosed. The amount of detail required in the disclosure will need to reflect the specific circumstances of the Pension Fund.

What did we do?

- Assessed the adequacy of disclosures required in 2019/20, and the impact on our opinion, should these be inadequate;
- Discussed management's going concern assessment and considered any evidence of bias and consistency with the accounts;
- Ensured that an appropriate going concern disclosure has been made within the financial statements;
- Reviewed the Authority's approach to identifying and disclosing events after the balance sheet date; and
- Considered the impact on our audit report and compliance with EY consultation requirements.

What our are conclusions?

Note 2 of the draft accounts did not explicitly state that the accounts were prepared on a going concern basis and did not include any further disclosures around going concern.

As a result of our challenge, management acknowledged the need to disclose the factors that were considered in assessing the going concern basis of the Fund's accounts. They explicitly disclosed that the accounts are prepared on a going concern in Note 2 and they also disclosed the factors that were considered in the assessment of going concern in Note 18.

We have considered management's going concern assessment, challenged the underlying assumptions, including assertions around the liquidity of the fund up to November 2021. We are satisfied that the revised disclosures are appropriate and reasonable.

Note 23 of the draft accounts reflects management's consideration of events after the balance sheet date. We have challenged management over the consideration of the impact of Covid-19. We are satisfied that the disclosure is appropriate and reasonable.

03 Draft Audit Report

Draft audit report – SUBJECT TO CONSULTATION

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HILLINGDON

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 23. 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 2019/20.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and the amount and disposition of the fund's assets and liabilities as at 31 March 2020; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund 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 the Comptroller and Auditor General's (C&AG) AGN01, 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.

Emphasis of matter – Pooled property funds

We draw attention to Note 3 Accounting Policies - Critical Judgments and Uncertainties and Note 14C Reconciliation of fair value measurements within level 3 investments of the financial statements, which describe the valuation uncertainty the Fund is facing as a result of Covid-19 in relation to the valuation of pooled property funds. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Corporate Director of Finances' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Corporate Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Draft audit report

Our opinion on the financial statements

Other information

The other information comprises the information included in the London Borough of Hillingdon Statement of Accounts 2019/20, other than the financial statements and our auditor’s report thereon. The Corporate 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 this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- 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;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Draft audit report

Our opinion on the financial statements

Responsibility of the Corporate Director of Finance

As explained more fully in the Statement of the Responsibilities, the Corporate Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Corporate 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 the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://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 Hillingdon Pension Fund, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of unadjusted differences

We report to you any uncorrected misstatements greater than our nominal value of £0.496 million.
There are no uncorrected misstatements to bring to your attention as at the date of this report.

Summary of adjusted differences

We highlight any misstatements greater than £7.440 million which have been corrected by management during the course of our audit.
There are no corrected misstatements to bring to your attention as at the date of this report that had an impact on the Pension Fund Account and/or the Net Assets Statement.

We highlight the following corrected disclosure adjustments that merit the attention of the Audit Committee:

- Transfer of pooled property assets in the amount of £165m from level 2 to level 3 fair value hierarchy; and
- Disclosing facts and circumstances considered by management in its assessment of the Pension Fund's ability to continue as a going concern in light of Covid-19 impact.

We will provide a verbal update of any further identified differences at the Audit Committee meeting on 24th November 2020.

05 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements. The Fund has recently provided the additional information pertaining to the Statement of Accounts for 2019/20. We expect to conclude on the consistency with the financial statements when we issue the audit opinion.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Pension Fund to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest at this stage of the audit.

We also have a duty to make written recommendations to the Pension Fund, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues at this stage of the audit.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Pension Fund's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

We currently have no matters to report, but as noted earlier in this report our procedures remain ongoing particularly in respect of completing the assessment of going concern and post balance sheet events disclosures, and the final form of the audit report.

06 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

During the audit, we identified a couple of observations and improvement recommendations in relation to management's financial processes and controls.

(1) The first observation relates to controls around maintaining access to accurate and complete primary supporting evidence on the membership data submitted to the actuaries as input for their work on the actuarial triennial valuation. As part of our triennial testing of the 31 March 2019 membership data submitted to the actuaries, we identified that a series of documents are missing or the data recorded in the membership reports submitted to the actuaries does not exactly match the information supported by the primary evidence available. This has been communicated to management in the course of our audit procedures and the findings will be included in our reporting to the auditors of London Borough of Hillingdon on the IAS19 protocol.

(2) To increase the consistency and comparability in fair value measurements and related disclosures of financial assets, IFRS13 establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The Pension Fund shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred. Our recommendation is that management regularly review the appropriateness of financial assets' fair value hierarchy classification.

07 Independence

Independence

Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated February 2020.
We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Committee on 24 November 2020.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, 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 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.
As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020.

In our Audit Plan and subsequent reporting to the Audit Committee, we have communicated our proposal to increase the scale fee for 2019/20 to £45,000. This proposal is currently being considered by PSAA as part of their national consideration of EY's fee proposals. We include this increase as item 1 in the table below.

	Final fee 2019/20	Planned fee 2019/20	Final Fee 2018/19
	£	£	£
Scale Fee – Code work	16,170	**16,170**	16,170
Changes in work required to address professional and regulatory requirements and scope associated with risk **(1)**	28,290		-
Additional 2019/20 work and associated fees:			
Additional work to address significant risks and to audit the restated membership numbers **(2)**	2,500	-	1,265
Going concern, property material uncertainty and PBSE assessments and disclosures including EY consultations **(3)**	5,500	TBC	-
Work on IAS19 and 2019 triennial valuation of the Fund **(4)**	9,000	TBC	-
Total indicative Pension Fund fee	**TBC**	**TBC**	**17,435**

Notes: These items are outside of the PSAA scale fee and will be subject to agreement with the Corporate Director of Finance and then PSAA.

2. *We have been required to carry out additional work on investments and restated membership numbers.*
3. *We reported in the update to the Audit Plan that we would need to carry out additional work to review, assess and challenge the Authority's going concern assessment and associated disclosure. We also highlighted that to ensure that we are giving the right assurance to the Authority, EY have instigated a consultation process involving the Firm's Professional Practice Directorate. We will confirm the final fees associated with this additional work on completion of the audit.*

The IAS19 work is not part of the PSAA fee regime so we will seek to agree this fee with the Corporate Director of Finance

4. *We reported in the Audit Plan that we are required to carry out IAS19 work and also as a result of the triennial valuation of the Fund we would be required to undertake additional testing of membership date.*

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New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Audit Committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales. We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2020
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 2020: https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2020/ey-uk-2020-transparency-report.pdf

08 Appendices

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report on 3 February 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report on 3 February 2020
Significant findings from the audit	▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process	Final Audit Results Report on 24 November 2020
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements	Final Audit Results Report on 24 November 2020
Misstatements	▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management	Final Audit Results Report on 24 November 2020

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Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Subsequent events	▸ Enquiry of the Pensions/Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Final Audit Results Report on 24 November 2020
Fraud	▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Pension Fund ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the Pension Fund, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to Audit Committee responsibility.	Final Audit Results Report on 24 November 2020
Related parties	Significant matters arising during the audit in connection with the Pension Fund's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the Pension Fund	Final Audit Results Report on 24 November 2020
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats - Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit Planning Report on 3 February 2020 and Final Audit Results Report on 24 November 2020

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Appendix A

Required communications	What is reported?	Our Reporting to you When and where
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	Final Audit Results Report on 24 November 2020
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Final Audit Results Report on 24 November 2020
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Final Audit Results Report on 24 November 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Final Audit Results Report on 24 November 2020
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Final Audit Results Report on 24 November 2020
Fee Reporting	▸ Breakdown of fee information when the audit planning report is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit Planning Report on 3 February 2020 Final Audit Results Report on 24 November 2020

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Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Annual Report and accounts	Review of the Annual Report and associated support for disclosures Incorporation of EY review comments on disclosure notes	EY and management
Going concern and subsequent events disclosures	Finalisation of EY's internal consultations on the appropriateness of going concern disclosure; Agreement of any proposed changes with management;	EY and management
Management representation letter	Receipt of signed management representation letter	Management and audit committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management

Management representation letter

Management Rep Letter

To be prepared on the entity's letterhead

Date

Suresh Patel
Ernst & Young
Apex Plaza
Forbury Rd
Reading RG1 1YE

Dear Suresh,

This letter of representations is provided in connection with your audit of the financial statements of the Hillingdon Pension Fund ("the Fund") for the year ended 31st March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1st April 2019 to 31st March 2020 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2020, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

Management representation letter

Management Rep Letter

6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non Compliance with Laws and Regulations including Fraud

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. 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.
4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- Involving financial improprieties;
- Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements;
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties;
- Involving management, or employees who have significant roles in internal control, or others; or
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- 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;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence

2. You have been informed of all changes to the Fund rules.

3. All material transactions have been recorded in the accounting records and are reflected in the financial statements, including those related to the COVID-19 pandemic.

4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund held through the period to the most recent meeting of the Pensions Committee the Audit Committee.

Management representation letter

Management Rep Letter

5. We confirm the completeness of the information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We confirm the completeness of information provided regarding annuities held in the name of the members of the management of the Fund.

7. We have disclosed to you, and 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, including all covenants, conditions or other requirements of all outstanding debt.

8. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

9. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

10. We have disclosed to you any cybersecurity breach that either occurred or that third parties (including regulatory agencies, law enforcement agencies and security consultants) had brought to our attention during the period under audit that could potentially be material to the financial statements.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

4. No claims in connection with litigation have been or are expected to be received.

E. Subsequent Events

Other than the events described in Note 23 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other Information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the London Borough of Hillingdon Pension Fund Annual Report 2019/20.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

Management representation letter

Management Rep Letter

H. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto.

Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

I. Pooling Investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

J. Actuarial Valuation
1. The latest report of the actuary Hymans Robertson as at 31st March 2020 and dated April 2020 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

K. Use of the Work of a Specialist
1. We agree with the findings of the specialists that we have engaged to evaluate the valuation of investments and the classification of assets under fair value levelling requirements and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

L. Estimates
1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2019/20.

2. We confirm that the significant assumptions used in making the accounting estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2019/20.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

Yours faithfully,

Paul Whaymand – Corporate Director of Finance

Councillor Martin Goddard – Chairman of Pensions Committee

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London Borough of Hillingdon

Statement of Accounts
for the year to 31 March 2020

HILLINGDON
LONDON

www.hillingdon.gov.uk

London Borough of Hillingdon

Statement of Accounts for the year ended 31 March 2020

Contents **Page**

Leader's Statement

1. Leader's Statement
Introduction by Councillor Sir Ray Puddifoot MBE, Leader of the Council

Welcome to Hillingdon's Statement of Accounts for 2019/20, which shows the council's financial performance in delivering high quality services to residents during the year and outlines the council's financial standing at 31 March 2020.

Sound financial management is at the heart of the council's flagship Hillingdon Improvement Programme, which delivers an ambitious improvement agenda and continues to put residents first. Council tax was frozen for an eleventh successive year for all residents in 2019/20, with those aged over 65 seeing bills frozen for thirteen years while frontline services have been maintained despite declining government funding and an increasing demand for services from a growing population.

Our people, our environment and our heritage continue to be at the heart of what we do, key achievements for the last financial year include:

- Hillingdon remains committed to the wellbeing of its residents, which includes protecting the environment in which we all live. To this end, the council declared a climate change emergency at January's Full Council meeting. The council laid out its intentions for the borough to meet ambitious targets to become carbon neutral by 2030. In addition, after years of tireless work to protect residents from the disastrous impacts of proposed expansion at Heathrow, the council was thrilled to win its fight against Heathrow expansion in the Court of Appeal on Tuesday 27 February 2020.
- Hillingdon collected a string of accolades at the London in Bloom awards in 2019, collecting 20 awards and achieving an additional 5 Green Flags across the borough taking the total to 55. This is the highest number of green flags held for a local authority nationally. For the second year running, the council's Rural Activities Garden Centre, which provides educational and employment opportunities for adults with additional needs, was voted best 'Small Park of the Year.'
- Whilst other authorities have been closing libraries, Hillingdon has been investing in these facilities with a new refurbishment programme and continues to use these much loved community resources to bring our residents together. Ruislip Manor Library was the first to benefit from a £3 million library refurbishment programme, officially reopening in January. Fifteen of the borough's libraries are set to be refurbished during the next two years, with two due to be rebuilt.
- The council is proud of its heritage, and was delighted to win the Best Small Building trophy at the Society for Public Architecture, Construction, Engineering and Surveying (SPACES) National Awards for the Battle of Britain Bunker Visitor Centre in October 2019. A number of events were held at the centre during 2019/20, including a four day programme of events for the D Day celebrations in June, a series of special events in August marking the 80th anniversary of the outbreak of the Second World War and a special reception for RAF Fighter Command's newly reformed No.11 Group in April.
- Hillingdon continues to put the health and wellbeing of its residents at the forefront of service delivery with continued investment in 2019/20 in leisure facilities and parks. The Field End state-of-the-art sports centre opened in South Ruislip in June 2019 following £1.43 million investment from the council. A number of newly refurbished playgrounds were also opened during the course of the year.
- The opening in October of a second new Extra Care site; Park View Court. The development in Farmer Close, Yiewsley has 57 one-bed and three two-bed flats and will help older residents to live independently.
- The Council continues to improve its services to Children and Adults. The council has developed a multi award winning approach to vulnerable adolescents called Axis which utilises intelligence software to target early intervention services. An Ofsted focused visit on adolescents concluded that the service had some of the best practice in the country. The Council has also made significant improvements to the Home to Schools Transport provision and in the Education Psychology provision and has become the first borough to offer apprenticeships to social workers to enable a 'grow your own' future supply.
- The council continues to invest in its assets for young people; and a ceremony was held in November at Vyners School in Ickenham to mark the completion of the council's £10.5 million building and expansion project at the school. In October, the Capital Programme Works Service celebrated the success of a two-year project, which saw two Northwood primary schools receive new facilities.
- During this time of uncertainty, the council's vision of putting its residents first has never been so meaningful. Since lockdown, the council has supported its residents in providing amongst other services, food parcels in partnership with H4All, bespoke shopping deliveries and regular phone calls for those feeling lonely or isolated.

Leader's Statement

This Statement of Accounts clearly demonstrates Hillingdon's commitment to putting its residents first, which has led to improved services, no cuts or reductions to frontline services, general balances of £34 million held and further earmarked reserves of £5.6m set aside at the year end to deal with the impact of Covid-19. This resilience means Hillingdon is in a strong position to meet the ongoing challenges of government funding constraints and growing demand as well as the financial impact of Covid-19.

Cllr Sir Ray Puddifoot MBE
Leader of the Council

Narrative Report

This document sets out the annual accounts of the London Borough of Hillingdon for the year ended 31 March 2020. The accounts are in the format for local authority accounts set by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The purpose of this narrative report is to provide a guide to the most significant matters reported in the financial statements. Included within this document are a number of technical terms that are specific to local government finance and a glossary has been provided to assist the understanding of the financial statements.

2.1 Organisational overview and external environment

Hillingdon, situated on the western edge of Greater London, is the second largest London borough, covering a total area of about 42 square miles. It is just 14 miles from central London and bordered by the counties of Buckinghamshire, Hertfordshire and Surrey, as well as the London Boroughs of: Hounslow, Ealing and Harrow. Hillingdon is home to Heathrow, one of the world's busiest airports, which caters for more than 60 million passengers a year. The borough, Hillingdon, has some of the best sports and fitness facilities in London including: Hillingdon Sports and Leisure Complex with 50 metre indoor competition pool; leisure pool; outdoor lido; 100 station gym; athletics stadium and 400 metre running track; 3G floodlit pitches, sports hall and more. There are also 17 libraries; 2 theatres, and over 200 green spaces covering approximately 1,800 acres, including Ruislip Woods; the Nature Reserve, and Lido.

The Council's vision is 'Putting Our Residents First'. This underpins its actions and decision-making process and is achieved by applying the following themes:

- Our People - Putting our residents first and at the heart of all that we do, promoting civic pride.
- Our Natural Environment - We will protect and enhance the borough's natural environment.
- Our Built Environment - We will continue to improve our buildings, roads and footways and ensure that new buildings fit with the surrounding environment.
- Financial Management - Maintain the solid approach to financial management that has delivered our success to-date and which will be vital going forward.

The London Borough of Hillingdon was one of the 32 London Boroughs created by the London Government Act 1963. It was formed by the amalgamation of the Borough of Uxbridge and the Urban Districts of Hayes/Harlington, Ruislip/Northwood and Yiewsley/West Drayton. The new borough came into existence on 1 April 1965, when the new Council started work. As well as taking on the work of the four previous district authorities, the Council became responsible for local services such as education, libraries, and children's services. These had previously been run by the Middlesex County Council, which ceased to exist on 1 April 1965. Hillingdon's purpose-built Civic Centre opened its doors to the public in 1977.

The London Borough of Hillingdon provides care and support to older people in residential nursing homes and for youngsters in residential children's and foster homes. The Council provides housing through ownership and maintenance of over 10,000 houses and flats held for Council tenants. The Council maintains a large proportion of the road networks within the borough, as well as collecting waste from homes and businesses. In addition, the Council runs a number of refurbished public libraries; deals with planning applications, and provides sports and leisure facilities. Instead of reducing services, the Council has made steps to invest in facilities available to residents because of sound financial management and a comprehensive Capital programme.

The Council employs approximately 2,780 staff, 3,060 inclusive of casual staff and has a population of around 309,300 (according to the 2020 Office of National Statistics). There is a growing proportion of young people, particularly of school-age children. Hillingdon is an ethnically diverse borough with 49.5% of residents from black and minority ethnic groups.

Hillingdon is rich in wildlife and wildlife habitat, including waterways; lakes; meadows, and nature reserves. Ruislip Woods has been designated London's first National Nature Reserve; whist nearby Ruislip Lido boasts 40 acres of water. The borough also offers a host of sporting activities, including sports centres, many with newly refurbished gyms and two exceptional 18-hole and one 12-hole golf courses, including a championship standard course at Stockley Park. The arts and entertainment thrive, with The Beck professional theatre in Hayes, The Compass Theatre in Ickenham, and various other venues.

2.2 Financial Performance

General Fund

The financial challenges facing the Council due to years of the Government's austerity programme, increased demand for services and the wider economic environment continued through 2019/20. Councils are continuing to see central government funding decline, however Hillingdon was still able to successfully freeze Hillingdon's share of Council Tax for another year in 2019/20, without impacting on front-line services to the public. In addition, the Council was able to manage significant increases in demand for services and keep fees and charges 10% cheaper than neighbouring boroughs.

Despite the challenges faced by the Council, of the savings target of £8,141k, £7,891k are either banked in full or classed as 'on track for delivery', while £250k were covered by alternative measures during 2019/20 and are expected to be delivered in full during 2020/21. This balancing of local demand for services and financial constraints has been successfully managed through the Council's Business Improvement Delivery (BID Transformation) Programme.

The Council's net revenue budget for 2019/20 totalled £230m, excluding those services such as schools and housing benefit, which are funded by specific funding streams. This net budget was supported by a combination of central government grant and locally raised Council Tax and business rates. Significant changes in funding from 2018/19, include locally generated income from Council Tax and business rates, which were budgeted to grow by £7,133k as a result of tax base growth, with a further £1,200k expected additional income from the 75% Retention Pilot, however this was offset by a reduction in Revenue Support Grant from central government of £7,222k.

Throughout the year, monthly budget monitoring reports were reviewed by Cabinet, enabling corrective action to be taken in response to emerging pressures, whilst continuing to deliver on the Council's priorities for residents. Strong financial management, coupled with an ambitious BID Transformation Programme, delivered an improved position against budget at outturn.

General Fund revenue budgets reported an overall underspend of £1.7m against planned expenditure budgets, with underspends against both Directorate and Corporate Budgets. As a result, the planned drawdown of £7,776k from general balances was not needed in its entirety and balances decreased by a reduced £6,104k. The General Fund balance totalled £34.2m at year-end. Underspends across the Council include savings from staffing vacancies and reductions in the cost of borrowing driven by a reduction in spend associated with the capital programme, all of which offset a number of pressures within the reported position.

Since April 2013, local authorities have been able to retain a proportion of business rate growth income from their area, until 2017/18 this proportion was 50% retention, with 30% of this value retained locally by the Council. In November 2017, Leaders of London local authorities collectively approved the principle of a Business Rates Retention Pilot Pool for the capital. Government supported the pilot pool in the Autumn Budget resulting in increased Business Rates income to Hillingdon in 2018/19 and 2019/20, with the value of the retention set at 75% for the year. Of the 75% retention, the Council retains 30%. Government confirmed the London pilot would cease to operate for 2020/21, however, the London local authorities would be allowed to operate a non-pilot retention pool, thereby maximising the top-up and tariff system across the capital for a third year covering 2020/21; this is at the standard retention rate of 50%.

As a result of increased flexibility over use of capital receipts, the Council was able to finance the costs associated with service transformation from capital receipts, with both one-off implementation costs and the support for service transformation, including the Business Improvement Development team, being funded from this resource. £3.9m of costs were funded from capital receipts during 2019/20 (£2.6m in 2018/19), this expenditure is not included in service lines.

Narrative Report

The outturn for the General Fund revenue budget is set out below:-

General Fund Services	Revised Budget £'000	Outturn £'000	Outturn Variance £'000
Chief Executive's Office	6,923	6,957	34
Finance Directorate	15,893	15,877	(16)
Residents Service	73,319	73,032	(287)
Social Care	116,975	116,622	(353)
Directorate Operating Budgets	**213,110**	**212,488**	**(622)**
Development & Risk Contingency	10,074	8,829	(1,245)
Corporate Budgets	7,225	6,612	(613)
HIP Initiatives			
Unallocated Budget Items	(481)	(691)	(210)
Exceptional Items	0	1,019	1,019
Total Net Expenditure	**229,928**	**228,257**	**(1,671)**
Corporate Funding	(222,152)	(222,153)	(1)
Net Total	**7,776**	**6,104**	**(1,672)**

Details on how the General Fund outturn position for management decision-making links through to the Comprehensive Income and Expenditure Statement (CIES) surplus for the year, in accordance with accounting standards, can be seen in the Expenditure and Funding Analysis (EFA) note which precedes the CIES.

The table below provides a reconciliation between the General Fund overview shown in the Council's budget revenue outturn and the opening position reported in the Expenditure & Funding Analysis (EFA) as required by the CIPFA Code. The monthly budget monitoring reports separately on areas of different funding streams such as General Balances, Housing Revenue Account, and other reserve movements.

General Fund Services	Outturn 2019/20 £'000	Service Allocation and Rounding £'000	EFA - Total Net Expenditure Charged to GF Balances £'000
Chief Executive's Office	6,957	1	6,958
Finance Directorate	15,877	1	15,878
Residents Services	73,032	1,423	74,455
Social Care	116,622	8,136	124,758
Directorate Operating Budgets	**212,488**	**9,561**	**222,049**
Corporate Operating Budgets	6,612	(72)	6,540
Development and Risk Contingency	8,829	(8,829)	0
Unallocated Budget Items	(691)	691	0
Exceptional Items	1,019	(1,019)	0
Corporate Funding	(222,153)	944	(221,209)
Outturn Total	**6,104**	1,276	**7,380**
Prioir Year Drawdown	0	(1,276)	0
Total	**6,104**	**0**	**7,380**

Note: in accordance with local authority accounting practice, income and favourable variances in the table above, and elsewhere in these accounts are shown as bracketed figures

Housing Revenue Account

The Housing Revenue Account (HRA) delivered an in-year overall call on its HRA general balances of £1.2m against the budgeted drawdown of £1.2m. As a result, HRA general balances total £17.0m at 31 March 2020 (£18.2m 31 March 2019). In addition the HRA holds £15.2m in the major repairs reserve (MRR) (£31.8m 2018/19) to fund future capital works.

There have been 52 Right-to-Buy sales of Council dwellings as at the end of March 2020 (52 in 2018/19) which resulted in a gain on sale of assets when comparing the sale price to the Social Housing value in the Council's accounts.

Capital Investment

The Council's programme of capital investment for 2019/20 totalled £106.4m (£82.6m in 2018/19) and was funded from a range of sources. These sources of funding included grants, contributions from revenue resources; proceeds from asset sales, and prudential borrowing.

An under spend of £28m is reported against the 2019/20 General Fund capital programme, consisting of £2m cost underspends and £26m re-phasing for various projects and programmes that are continuing into future years.

Investment during 2019/20 on the general fund totalled £59.6m (including transformation capitalisation) and HRA £46.8m. Investment focused heavily on the Council's flagship programme of school expansions to meet the increasing requirements of school places over the next few years. There was also significant spend on highways infrastructure and street lighting, replacement of the Council's fleet, and replacement of CCTV across the borough. In 2019/20 the Council also invested £6.9m in Hillingdon First Limited and began a major investment in the construction of the new leisure centre at Yiewsley.

In 2019/20, the HRA completed 2 major developments the construction of 33 general needs and shared ownership flats at Roundel House, Acol Crescent and 60 supported housing flats at Park View Court, Ruislip. A total of £26m was invested in acquisitions of numerous properties to increase the number of available Council housing stock, and a further £11.5m was invested in improvements to the existing council housing stock.

Investment Strategy

In 2019/20 a new standalone document was introduced, which provides further detail from the Capital Strategy on Investment objectives and parameters, focused on service and commercial investment activities.

The Council lends money to, and has a 100% shareholding in one subsidiary, Hillingdon First Ltd this is classed as an "Investment for Service Purposes". The objective is to deliver a financial return to the Council and provide housing and or a commercial unit for sale or rent. This will be achieved this by generating long-term sustainable revenue streams through the delivery of high quality housing to meet the need of Hillingdon's residents. The Hillingdon First Ltd shareholder agreement and memorandum of association sets out in detail the governance arrangements and provides details of the operating framework, controls and reporting requirements. At the start of 2019/20, the Council invested £3.371m in equity in Hillingdon First Limited and on 30 March 2020 made a loan of £3.5m.

The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. While one of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit these risks, upper limits on the sums invested in each category have been set. Furthermore, the Council is protected against any loss through a charge over the assets of Hillingdon First Ltd.

The Council assesses the risk of loss before entering into and whilst holding service loans. The Council aligns loan durations with each specific development. A specific loan agreement will be drawn up for each development using the agreed schedule as a framework. Hillingdon First Ltd will be required to provide full development scheme details to the Shareholder Committee (acting on behalf of the Council as shareholder) before the loan facility can be drawn down for specific expenditure on that development.

Treasury Management

The Council takes a very prudent strategic approach in investing its cash balances to ensure money is invested at a very low level of risk. The strategy for investing funds first considers the security of the deposit, the liquidity of investments and then the return on the investment. The Bank of England for most of 2019/20 held the base rate 0.75% before cutting it to 0.25% on 11 March 2020. The global outbreak of COVID19 forced the UK Government to take drastic steps to stem the economic impact by slashing the base rate for the second time in a single month from 0.25% to 0.1% on 19 March 2020. This resulted in low levels being achieved in the short-term money markets where rates payable were comparable to other medium-term duration deposit options. The Council adheres strictly to counterparties that have been agreed through the Treasury Management Strategy, consisting of other local authorities, instant access funds, and institutions with a credit rating A- or above. Investment income returns for the year on internally managed cash yielded 0.65% (0.62% 2018/19). The Council also continued as part of its investment strategy to invest £15m in more strategic pooled funds that return dividends. The total investment income received this year was £777k.

The Council continued to utilise internal borrowing throughout the year to fund capital expenditure, however, some external borrowing was required during 2019/20 to ensure liquidity was maintained. Two £10m PWLB EIP loans in the first quarter of the year and temporary local authority loans were taken out throughout the period, peaking at £65m (£30m in 2018/19) in March. The council increased its use of temporary borrowing as a result of changes to the Treasury Management Strategy to reflect the need to borrow from broader sources. This followed the government's decision to raise the cost of PWLB loans by 1% in October 2019. Overall, the loan portfolio increased by £36.1m due to the £20m of new PWLB EIP borrowing, an increase of £35m in temporary borrowing held over year-end and £18.9m of naturally maturing longer-term debt. The interest paid over the year totalled £8.3m. Outstanding nominal borrowing at year-end was £308.9m. The Council's loan portfolio has an average rate of 3.11%.

Change in Accounting Practice

There were only minimal changes to the 2019/20 Code; mainly involving the presentation of the accounts and updates and clarifications on definitions within the Code. None of these changes had any material impact.

Property, Plant and Equipment

Profit on disposal of £6.71m has been recognised in the Comprehensive Income and Expenditure statement; of which £5.9m related to profits on Right-to-Buy sales. However, this profit is an accounting profit only, as social housing is accounted for in the balance sheet at 25% of its market value to comply with social housing valuation methodology in London, as a result replacement of these housing units would be more expensive. In 2019/20 the General Fund had one material asset disposal of South Ruislip Development Site for £3.2m. There were no academy transfers in 2019/20.

Within the HRA one of the housing blocks, which contained 41 units, remains decanted due to the concerns over the structural condition of the building. As a result, remedial action is being undertaken and the asset value remains impaired to nil in the Balance Sheet until the structure is sound.

2.3 Non-Financial Performance

Environment

At January's full Council meeting, a climate change emergency was declared and the Council laid out its intentions for the borough to meet ambitious targets to become carbon neutral by 2030. The Government is aiming for net-zero emissions by 2050. Hillingdon is one of London's greenest boroughs and has substantially invested in its award winning parks and open spaces while protecting and enhancing the local environment.

In July 2019 the Green Spaces team celebrated the council being awarded an additional five Green Flags. This brings Hillingdon's total to a record-breaking 55, making it once again the greenest borough in London and the local authority with the most flags nationally and internationally. In addition to the 50 awarded last year and retained for 2019 (which includes a joint application with Stockley Business Park), five more sites were given awards. These were Dowding Park, Harmondsworth Recreation Ground, Stafford Road Open Space, Pole Hill Open Space and Sipson Recreation Ground. Green Flags are the highest honour a park or open space can receive and they require a great deal of time and effort to achieve. The Green Flag Award is the benchmark national standard for publicly accessible parks, and recognises and rewards well managed green spaces.

The Green Spaces team project managed renovation works at Harefield Village pond, following an investment of £145,000 from the council. The idyllic pond sits in the southeast corner of the village green, which is a Green Flag award-winning site. To retain this accreditation, all aspects of the village green, including the pond, must be maintained to a high standard. The pond is of both ecological and historical importance - the green has been registered as a common since 1813. Renovation work was required to ensure its longevity as a premier heritage feature in Harefield. In recent years the pond had dried out during the summer months due to leakages in the pond's gravel bed foundations. To minimise the impact on existing wildlife, works were carried out during the winter period when wildlife activity is at its lowest and completed in April.

The Green Spaces team has also restored the pond and fountain in the grounds of the Beck Theatre to their former glory. The feature, which dates back to 1977, had fallen into disrepair. The fountains and waterfalls were no longer working and the pond was contaminated with silt and rubbish. Before works commenced a full ecological survey was undertaken to identify habitats and wildlife within the pond.

Leisure and Culture

In June a new State of the Art sports centre opened in South Ruislip following a £1.43 million investment from the council. The Field End Centre will provide a home for Bessingby Park Rangers Football Club and Ruislip & District Amateur Boxing Club. The new centre has a range of facilities, including a larger main sports hall which will house a full-size boxing ring, training area, boxing bags hanging from the walls and mirrors for shadow boxing. Dividers will allow the ring area to be partitioned and the hall to also be used for five-a-side football and social events. The site now also benefits from disabled access, bicycle stands, a car park and a new access road.

Also in June, a four-day programme of events, exhibitions, tours, specialist lectures, film screenings and more marked the 75th anniversary of the Normandy Landings at the Battle of Britain Bunker Exhibition and Visitor Centre. Taking place on the D-Day anniversary on Thursday 6 June and continuing into the weekend, activities included the launch of a commemorative exhibition.

In January, Ruislip Manor Library, the first library to benefit from a new £3 million refurbishment programme, officially reopened. The new-look interior, which is predominantly open plan, was transformed in 12 weeks and now has distinct zones, highlighting that each area has a different use. The zones have been created through the use of a varied colour palette of pinks, blues, greys and a warm white, and contrasting materials or features, such as carpets, vinyl flooring, different types of lighting, slatted timber and acoustic panels. Fifteen of the borough's libraries are set to be refurbished during the next two years, with two due to be rebuilt. Each will aim to follow the same design principles to ensure a consistent look and feel. However, as each library interior is unique, some features may need to be adapted.

Throughout the year, the Council has reopened 5 newly refurbished playgrounds in Bessingby Park, Brackenbridge Village Open Space, Brackenbridge Drive, Connaught recreation Ground and East Avenue playground through the council's Chrysalis scheme.

Schools & Children's Services

Following on from 2018/19 Good Ofsted Report Children's Services have continued to improve and transform service provision and delivery. Ofsted carried out a Focussed Visit in January 2020 looking specifically at vulnerable adolescents. The visit concluded that vulnerable adolescents in Hillingdon receive a highly effective service. Leaders give due priority to resources and offer high-quality support to workers who are skilled and committed. This enables them to adopt an innovative approach in their work.

The Council's success was acknowledged by the receipt of professional awards, this included Children's Services adolescent team receiving The Guardian Public Sector Award for Care for their 'pioneering new approach which is turning young lives around', the team was further honoured for their outstanding achievements after they took home the silver award at the National Social Worker of the Year Awards. The Councils AXIS Project won the top award for innovation in Children's Services at the Municipal Journal (MJ) achievement awards.

Social Care

The Capital Programme Works Service has been working very closely with Adult Social Care, culminating in the opening of a second new Extra Care housing scheme - Park View Court. The development in Farrier Close, Yiewsley, which will help older residents to live independently, will be home for up to 63 people after the Mayor of Hillingdon, Cllr David Yarrow, cut the ribbon on a plaque at the site's official opening on Thursday 17 October. Park View Court has 57 one-bed and three two-bed flats. Residents will have the security and privacy of their own home, with a range of on-site facilities and staff available day and night to provide care as required. Close attention was paid to detail, colour, and design of the buildings to enable residents with dementia, or impaired memory, learning and reasoning to navigate with ease and remain independent. The new complex has 24-hour care on-site plus communal landscaped gardens with a water feature, a restaurant, café and hairdressing salon, and each self-contained flat has its own balcony or winter garden. Many teams in the council have worked hard to deliver the new building. The Adult Social Care Provider and Commissioned Service team were involved in the setting up of the project to help ensure that the residents will be happy in their new homes, providing input into design aspects of the new development, including the wayfinding navigation where the floors feature different colour schemes. As a provider service, they also work with the care management team, which will place residents in the flats and the staff at Park View Court itself. Park View Court follows a similar development, Grassy Meadow Court in Hayes, which has 88 flats and was opened in 2018. Together they add up to a £39 million investment from the council in affordable supported housing for older people.

Protecting Residents

The council's CCTV contractor DSSL is working with the Programme and Asset Management team to install and maintain more than 1,000 brand new state-of-the art CCTV cameras across the borough. The new cameras, which are digital and wireless, provide more extensive coverage, capture better quality images and allow the police quicker access. CCTV is one of the most important tools at the Council's for keeping residents safe. It acts as an effective monitoring tool, a deterrent, and a reliable means of gathering evidence to bring lawbreakers to justice.

The Council has been cracking down on private landlords who allow tenants to live in substandard homes, with financial penalties served to those who have failed to comply with improvement notices. In addition, the Council has set tougher punishments for anyone found fly tipping in the borough.

The Council has taken part in an initiative to improve work between the government and councils, allowing better flow and quicker access to information on immigration status, with the arrival of a Home Office employee into the Hillingdon Team in April 2018. As a result, the Council has been able to improve enforcement on immigration issues, increasing the results of the Counter Fraud Team.

People Resources

The Council is continuing to recruit and develop existing staff onto apprenticeship programmes across a range of services and has increased our numbers from the previous year (76), with 93 apprentices across the Council in 2019/20. Hillingdon, again made significant progress out of all London Boroughs and was only one of five to exceed the Government set target.

As part of the Council's commitment to develop its talent base, 2019 saw the graduation of eight future leaders from the Hillingdon Academy leadership programme. The Council has now welcomed 12 new "Academicians" on to its thirteenth intake into the programme.

2.4 Risks and Opportunities

With pressure on resources available as a result of: reduced funding; demographic changes, and inflation pressures there could be a risk to future service provision. The Hillingdon Improvement Programme (HIP) is aimed at delivering a range of key improvements to the way the Council works and improving services to our residents. Since its introduction, it has delivered impressive savings across the Council and championed a variety of initiatives.

Strong financial management and a commitment to putting our residents first are at the core of the HIP programme and underpins all projects. Our Business Improvement Delivery (BID) programme aims to deliver services that resident's value, and to identify and improve the way the Council works. Projects are targeted through 6 strategic work streams covering: digitalisation; asset rationalisation; commercialisation; environment; transport and mobility, and organisational redesign.

The Council incorporates a number of service specific development and risk contingency provisions into its budget to provide for areas of expenditure where there is a greater degree of uncertainty or are subject to demographic pressures. In 2019/20, the Council utilised this budget resource for Impact of Welfare Reform on Homelessness; Waste disposal Levy, and Social Care demographic pressures, in addition this budget was offset by additional Better Care Fund income received above the budgeted assumption. The Council has provided for a headline provision of £13.7m development and risk contingency in 2020/21 (£10.1m in 2019/20).

2.5 Looking Ahead – Strategy and Resource allocation

Looking into the medium financial outlook, the underlying savings requirement is driven primarily by inflation; demand-led pressures managed through contingency, and capital financing costs. An uplift in funding is projected over this period as a result of steady growth in the Council Tax base alongside steady growth within Retained Business Rates. Following the 2019 Spending Review, the Council's grant funding from Central Government grew by £5,678k in to

2020/21, but a level of uncertainty exists within this funding stream following confirmation that this was a one-year settlement.

The combined effect of the medium term forecast position is a headline savings requirement of £41,862k over the next three years, which represents a challenge on a similar scale to the £49,460k of pressures managed over the period from 2017/18 to 2019/20. In contrast to the previous three years, when reductions in funding were the single largest contributor to the budget gap, the projected gap is very much driven by growth in expenditure, partially mitigated through continuation of the increased government support from 2021/22 onwards.

The budget for 2020/21 includes releasing £9,334k across 2020/21 and 2021/22 from general balances to enable the majority of the savings requirement to be profiled into 2021/22 and 2022/23. This would still leave sufficient general balances, above the recommended minimum level available, to manage emerging risks.

A cumulative deficit of £15,003k is shown in the accounts on the retained element of the Schools Budget at 31 March 2020; there is the potential for this to rise to £23,355k by 31 March 2021. This deficit primarily relates to funding as determined under the Department for Education's national funding formula, failing to keep pace with growing demand for high needs placements for pupils with Education, Health and Care Plans, following introduction of the 2014 Children and Families Act. In light of the systemic nature of this risk, the Council's Medium Term Financial Strategy has been developed on the assumption that Government will ultimately provide adequate funding to support implementation of the 2014 Act and therefore bring the Schools Budget back into balance – both locally and nationally.

On the basis of the current medium term outlook, there is a residual savings requirement of £41,862k over the period to 2022/23. Some of this savings requirement has been established through expected funding increases, predominantly within Council Tax, leaving a remaining budget gap of £19,987k still to be identified. Given the size of the budget gap going forward and the fact that savings are on a reducing trend line the approach to savings identification and delivery will need to be stepped up. This will include the need for an expanded and accelerated BID Programme. Alongside the more strategic BID workstreams under development, the routine MTFF work streams such as zero based budgeting and annual reviews of charging policies will continue.

Looking forward the Councils Capital Programme 2020/21 to 2024/25 has an approved budget of £359m, with £200m to be funded from Prudential borrowing, after prioritising use of grants and third party funding, maximising application of developer contributions and where possible using capital receipts. Specific projects on the Capital Programme include a continuation of the Secondary Schools Expansion project, a new theatre and a new leisure centre; Street lighting replacements; expanding and improving CCTV coverage, as well as investments into technology and highways.

Hillingdon First Limited came into operation during 2019/20 and started the construction of new homes on a site it purchased in South Ruislip. It is expected that the development will be completed shortly, with the new homes coming to market in 2020/21. Future sites within the borough will be identified and additional developments are expected to follow.

Looking into the medium financial outlook, the underlying savings requirement is driven primarily by: inflation; demand-led pressures managed through contingency, and capital financing costs. An uplift in funding is projected over this period as a result of steady growth in the Council Tax base and an assumption that the upcoming Spending and Fair Funding Reviews will direct £10,000k additional funding towards Hillingdon phased over three years, including baselining the temporary benefits of the London Rating Pilot Pool. This sort of injection of funding however, is not guaranteed, hence there is a risk that the savings requirement will be higher than that stated in the current MTFF strategy.

2.6 Covid-19

Hillingdon Council is committed to Putting Residents First. From the start of the Covid-19 pandemic, the Council has proactively provided advice, support and assistance to residents, businesses and schools to help keep residents safe and minimise the impact of changes to everyday life from the restrictions that have had to be put in place to help protect residents' health. This includes organising and delivering food parcels to vulnerable residents, administering grants to support local businesses and working with a wide range of commercial, voluntary and charitable organisations to put in place measures to protect health, such as social distancing markers outside shops and schools and the provision of Personal Protective Equipment (PPE) to care providers and schools.

Local authorities have been called upon to develop Covid-19 Local Outbreak Control Plans (LOCP) to establish systems to identify and suppress possible outbreaks before they gain momentum. This LOCP states how the Council will work together with partners in Hillingdon to help reduce the likelihood of further outbreaks of Covid-19, particularly for some of the most vulnerable residents, such as those living in care homes, deprived communities and what the rapid response will be, should there be an outbreak. The plan sets out:

- Governance arrangements with clear roles and responsibilities.
- Key processes to be followed in the event of an outbreak.
- The approach to communications and engagement in the event of an outbreak, including information sharing with stakeholders.

The Council working with its partners is committed to doing what is necessary to reduce the likelihood of further outbreaks of Covid-19 and protect residents from the virus.

The additional costs of Covid-19 have not had a dramatic impact on the financial outturn for 2019/20 as the pandemic only started to make a notable impact on the public's and businesses' behaviour in the last two weeks of March. The true scale of its impact on the Council's finances will be incurred during 2020/21.

2.7 Statements within the accounts

The core accounting statements comprise:-

Comprehensive Income and Expenditure Statement
This statement reports the net cost for the year of all functions for which the Council is responsible, and demonstrates how that cost has been financed through income from taxpayers and general government grants. The income and expenditure is split by Council department. The surplus or deficit on this account represents the amount by which income is greater than, or less than expenditure.

The statement shows a deficit of £80.7m (£18.6m surplus 2018/19) on the provision of services for 2019/20. Of this, a deficit of £59.7m relates to General Fund balances and a deficit of £14.1m relates to the Housing Revenue Account. Additional reserve movements include a drawdown of £7.6m on Schools Balances.

To comply with statutory accounting requirements there are various items that are accounted for through the Comprehensive Income and Expenditure Statement such as depreciation; revaluation and impairment losses, and losses on disposal. These items are removed for the purposes of Council Tax setting as they are accounting items and do not affect the funding of services, as a result these items of expenditure are reversed out of the General Fund Balance in the Movement in Reserves Statement.

Movement in Reserves Statement

This statement reconciles the outturn on the Comprehensive Income and Expenditure Statement to the balance on the Council Reserves, established by complying with relevant statutory provisions, showing the true economic cost of providing the Council's services. The statement splits the Council's reserves into usable and unusable balances, and shows movement to and from them during the year. Usable reserves are those that can be applied to fund expenditure or reduce local taxation. Unusable reserves are those balances over which the Council has no direct control, which arise from differences in accounting and statutory reporting requirements.

Usable reserves decreased by £36.4m from £165.7m in 2018/19 to £129.3m in 2019/20. Within this movement there were deceases in General Fund and HRA balances of £7.4m and £1.2m respectively. There was a slight increase in Earmarked reserves' (excluding Schools' reserves) of £0.8m. Other large reductions included a drawdown of the Major Repairs Reserve of £16.7m and £4.6m being applied from the Capital Receipts Reserve.
Unusable reserves increased from £855.6m in 2018/19 to £972.3m in 2019/20, mainly due to the upwards movement in property values to the Revaluation Reserve of £23.0m. In addition, there was a reduction in the Pension Fund liability of £98.7m reflected in the pensions reserve reducing by the same amount.

To support the Movement in Reserves Statement, note 4 to the accounts shows the Adjustments between Accounting Basis and Funding Basis under Regulations. This note reverses the items of income and expenditure that are required to be credited or charged to the Comprehensive Income and Expenditure Statement, that do not affect the General

Fund balance for Council Tax purposes. Total adjustments for 2019/20 were £52.4m within the General Fund, adjusting the General Fund position for Council Tax purposes to a deficit of £7.4m.

Balance Sheet

This shows balances and reserves at the Council's disposal at year-end, together with its long-term indebtedness, net current assets employed in its operations and summarised information on non-current assets held. It excludes funds held in trust for others and Pension Fund assets that are reported in the separate Pension Fund accounts.

The total net worth of the Council in 2019/20 was £1,101.6m (£1,021.3m in 2018/19). The largest items within the Balance Sheet consist of long-term assets valued at £1,919.6m, net pension liabilities of £518.0m and long-term borrowing of £218.0m.

The Council maintains reserve balances to meet the cost of unforeseen demands or events and as a result keeps a minimum level of balances. As at 31 March 2020 the Council has £34.2m General Fund balances and £41.2m Earmarked Reserves (excluding Schools' balances) held for specific purposes. Further details on Earmarked Reserves can be seen in note 5 to the accounts.

Cash Flow Statement

This summarises all movements in cash and cash equivalents arising from both revenue and capital transactions with third parties. It excludes funds held in trust for others and the Pension Fund.

There was a decrease in cash and cash equivalents in 2019/20 of £17.5m.

Supplementary accounting statements comprise:

Housing Revenue Account (HRA) Comprehensive Income and Expenditure Statement

There is a statutory duty to account separately for Local Authority housing provision. The HRA Income and Expenditure Statement shows in detail the income and expenditure on HRA services included in the Council Comprehensive Income and Expenditure Statement. It includes the major elements of Council housing revenue expenditure on maintenance; administration; capital financing costs, and major income sources such as rents.

There was a deficit in 2019/20 on HRA services of £14.1m (£10.9 deficit in 2018/19).

Statement of Movement on the Housing Revenue Account Balance

This shows how the HRA Income and Expenditure Statement surplus or deficit for the year reconciles to the movement on the Housing Revenue Account balance for the year. It shows income and expenditure that is credited or charged to the HRA balance by statute or non-statutory practices, so as to reconcile the amounts charged to Housing tenants. For example, revaluation gains and losses on Council dwellings and gains/losses on disposal of asset are reversed.

Overall, the HRA deficit was £1.2m in 2019/20, after adjustments made in the Statement of Movement on the HRA Balance and transfers to the Major Repairs Reserve (deficit of £18.8m in 2018/19).

Collection Fund Revenue Account

The Collection Fund is a separate account into which amounts raised from local taxation are paid through Council Tax and Business Rates, and from which payments are made to precepting authorities including the Council itself. An in-year deficit of £1,135k is reported on Council Tax with a carried forward deficit of £384k.

An in-year surplus of £12k is reported on Business Rates, reducing the deficit on the bought forward balance on NNDR to £2.0m.
The share of Collection Fund activity relating to the Council is reflected in the main statement of accounts, with the remainder being treated as agency activity on behalf of the Greater London Authority and Central Government. 78% of Council Tax and 30% of Business Rates activity relates to the London Borough of Hillingdon.

Narrative Report

Pension Fund Accounts

These show contributions to the Council's Pension Fund for members during the year, together with pensions and other benefits paid from it, movements in investments during the year and the financial position of the Fund at the end of the year. These accounts do not include any liabilities relating to payment of pensions and benefits in future years. The activity of the Pension Fund is not incorporated within the Council's core accounting statements.

This document also includes the following:-

Notes to the Accounts

The notes provide further explanation of figures contained in the core and supplementary accounting statements. The notes to the accounts include the Expenditure Funding Analysis, which precedes the core financial statements of this document to help the flow of information.

Statement of Accounting Policies

The accounts are produced in line with a set of policies and principles and can only be understood fully with awareness of these accounting policies.

Annual Governance Statement

This statement is a report from the Leader of the Council and Chief Executive setting out the: systems; processes; culture, and values by which the Council is directed and controlled, and its activities through which it accounts to, engages with, and leads the community. The framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate cost-effective services.

Glossary of Terms

The glossary provides a definition of key terms used to aid understanding the accounting statements.

Statement of Responsibilities for the Statement of Accounts

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 Corporate Director of Finance;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Statement of Accounts

Corporate Director of Finance Responsibilities

The Corporate 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 Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ('the Code').

In preparing this statement of accounts the Corporate Director of Finance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent; and
- Complied with the Local Authority Code.

The Corporate Director of Finance has also:

- Kept proper accounting records that were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate Director of Finance Approval of Accounts

I certify that these accounts present a true and fair view of the financial position of the London Borough of Hillingdon, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in United Kingdom ('the Code'), as at 31 March 2020 and its income and expenditure for the year then ended.

Paul Whaymand
Corporate Director of Finance
24 November 2020

Audit Committee Certificate for the Approval of the Accounts
I confirm that these accounts were considered and approved by the Audit Committee at the meeting held on 24 November 2020.

Signed on behalf of London Borough of Hillingdon
AUDIT COMMITTEE
24 November 2020

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HILLINGDON

Opinion

TO BE ADDED

Independent Auditor's Report

Independent Auditor's Report

Independent Auditor's Report

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HILLINGDON

Opinion

To Be added

Statement of Accounting Policies

The Council is required to prepare an annual Statement of Accounts which summarises the Council's transactions for the 2019/20 financial year and its position as at the year-end of 31 March 2020. The Statement of Accounts must be prepared in accordance with proper accounting practices as per the Accounts and Audit Regulations 2015. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by periodic revaluation of certain categories of non-current assets and financial instruments.
The accounts are prepared on a going concern basis, assuming that the functions of the Council will continue in operational existence for the foreseeable future from the date that the accounts are approved.

The accounts are prepared on a going concern basis; that is, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future from the date that the accounts are authorised for issue.

The Council has carried out a detailed assessment of the likely impact of Covid-19 on its financial position and performance during 2019/20 and refreshed its Medium-Term Financial Forecast (MTFF) position which will be published as part of the 2021/22 Budget Consultation papers in December. This work has included consideration of the following: -

- Loss of income on a service by service basis, due to temporary closures, reduction in demand, and increased collection losses.
- Additional expenditure on a service by service basis, e.g. provision of new and expanded services in response to the crisis and additional costs associated with changes to working practices.
- Changes to government policy, e.g. changes to business rate reliefs, guidance on supplier relief, additional funding for local authorities, and additional responsibilities which sit alongside this.
- The impact on the Council's capital programme, e.g. delays caused by government restrictions, and whether there is a need to rephase work for other reasons.
- The impact on the Council's subsidiary.
- The impact of all of the above on the Council's cash flow and treasury management, including availability of liquid cash, impact on investment returns, and availability of external borrowing if required.
- The estimated overall impact on the Council's General Fund and Housing Revenue Account reserves.

Based on the Council's assessment dated 30 September 2020, the net total impact of Covid-19 on the General Fund was estimated to be a pressure of £26.391 million. Specific Covid-19 funding announced by government is estimated at £22.591m which results in a net in year unfunded cost of £3.800m. The Council set aside £3.293m in the outturn for 2019/20 and holds £2.356m of earmarked Public Health Reserves. In addition to this and by way of context, the General Fund balance as at 31 March 2020 is £34.240 million. The Council's prudent minimum balance on the General Fund is £15 million. At the end of September 2020 General Fund balances were forecast to be £30.463 million at 31st March 2021, 9% above the budgeted level of £27.905 million. The latest medium-term forecast, prior to confirmation of the local government funding settlement and other grants, projects general balances to be £25.4 million by the end of 2021/22, which is slightly above the £24.9 million assumed in the February 2020 budget strategy.

The Council proactively manages its cashflow, maintaining a daily forecast of available funds and ensuring that liquid cash and deposits of at least £10m are available at all times. Together with the reprofiling of funding and payments to government, this has ensured that COVID-19 pressures have been managed within the available cash envelope. This minimum level of liquid cash is held in a combination of UK banks, Money Market Funds and HM Treasury's Debt Management Account Operational Facility (DMADF), with additional deposits of around £15m held in Strategic and Long Dated Pooled Funds accessible within four working days. The Council's cashflow forecasts project to maintain at least £10 million in liquid cash and deposits at 31 March 2021 through to 31 March 2022. Liquid deposits are supplemented by the Council's ability to borrow short-term from other local authorities and ultimately borrowing from the Public Works Loans Board could be secured within two working days. The borrowing position at 31 March 2021 is forecast to be £130 million increasing to £195 million by 31 March 2022 The Council retains significant borrowing headroom against the Capital Financing Requirement and would therefore have no operational or governance barriers to securing borrowing at short notice if required. The latest forecasting of capital financing requirements is that these are in line with the February 2020 budget projections and a strategy is in place to secure all required borrowing over the medium-term.

There remains a significant degree of uncertainty over how long lockdown restrictions will be in place and the resulting economic impact. This will impact on the financial modelling that informs these forecasts and this will continue to be reflected in the Council's monthly budget monitoring reports to Cabinet and regular updates to the MTFF position.

It is therefore noted that there is significant headroom within the General Fund to absorb the estimated financial impact of Covid-19 in the short to medium-term. Furthermore, the Code requires that local authorities prepare their accounts on a going concern basis, as they can only be discontinued under statutory prescription. For these reasons, the Council does not consider that there is material uncertainty in respect of its ability to continue as a going concern for the foreseeable future.

CAPITAL

1. 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 for administration purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis in the accounts, provided that the asset yields benefits to the Council for a period of more than one year and the cost of the item can be measured reliably. This excludes expenditure on routine repairs and maintenance of non-current assets that is charged directly to service revenue accounts when incurred.

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; and
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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 will not increase the cash flows of the Council. In the latter case, 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 valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and guidance notes issued by the Royal Institution of Chartered Surveyors (RICS). Property, Plant and Equipment are included in the balance sheet on the following basis:

- Infrastructure assets, community assets and assets under construction are included in the balance sheet at depreciated historical cost;

- Dwellings are carried at fair value, determined using the basis of existing use value for social housing;

- Surplus assets are measured at fair value, estimated at highest and best use from a market participants perspective;

- All other asset classes are measured at fair value in its existing use. For land, buildings and assets which are not held for the purpose of generating cash flows, the fair value represents the amount that would be paid for the asset in its existing use. Where there is no market-based evidence of fair value due to the specialised nature of the asset, the asset is valued at its depreciated replacement cost;

- Plant and machinery forming an integral part of the property is included in the valuation of the buildings. Other plant and machinery has been given a value on the basis of historical costs as a proxy for current value.

Statement of Accounting Policies

Assets included in the Balance Sheet at fair value are re-valued regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum, assets are valued 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 revaluation loss previously charged to a service).
Where decreases in value are identified, the revaluation loss is accounted for as follows:

- 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) with any excess written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

- 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 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.

A de minimis value of £10k has been set for capital purchases. This limit also applies to valuations. De minimis expenditure is charged to revenue but, where permissible and appropriate, it is financed as though it were capital expenditure.

The Council only includes maintained schools in its asset register and only where it owns or controls the assets; this includes foundation schools. Academies are external to local authorities and are not included. The Council does not own or control Voluntary Aided school assets as they are owned by the Diocese or Church of England and the value of these assets are not included in the Council's Balance Sheet.

The equity investment in the 100% wholly owned subsidiary of Hillingdon First Limited is classified as capital expenditure.

Impairment / Revaluation Loss

An impairment review of all assets is undertaken at the end of each financial year. Losses arising from an impairment or revaluation loss are written off against any revaluation gain attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account in the Comprehensive Income and Expenditure Statement.

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

Depreciation

Depreciation is provided in the accounts in accordance with the International Accounting Standard (IAS) 16 and CIPFA guidelines. IAS 16 states that depreciation is to be provided on all Plant, Property and Equipment, other than for assets without a determinable finite useful life (i.e. freehold land, certain Community Assets and certain heritage assets) and assets that are not yet available for use (i.e. Assets Under Construction). The depreciation policy is that depreciation is calculated on a straight-line method and is based on the following useful lives or approach unless specific information exists for an asset:

Infrastructure	40 years
Vehicles, Plant, Furniture & Equipment	3 to 30 years
Council Dwellings	Depreciated on straight line basis over maximum useful life up to 60 years
Other Land & Buildings	Useful life varies depending on the condition, type and usage of the asset, up to 60 years for buildings and infinite life for Land.
Surplus Assets	Useful life varies depending on the condition, type and usage of the asset
IT Equipment and Intangible Assets	5 to 7 years

Where an item of Property, Plant and Equipment has major components with useful lives different to the main asset, and the cost of that component is material (20% or £1m), the asset is split into component parts and depreciated separately. Where component assets are replaced, the carrying value of the asset is reviewed with an estimate made on the carrying amount of the old component being replaced to be written out.

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.

Depreciation is charged annually and is charged in full in the year of disposal and not in the year of acquisition. Assets under construction do not incur depreciation until they are complete. Depreciation is not charged on assets classified as held for sale.

Disposals

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction expected within the following year, rather than through its continuing use, it is reclassified as an Asset Held for Sale. There must be a management decision that the asset will be sold and it must be actively marketed. The asset is re-valued 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 net loss on disposal of non-current assets line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses.

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

When an asset is disposed or decommissioned, any loss or profit on disposal is recognised on the face of the Comprehensive Income and Expenditure Statement. 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 £10k are categorised as capital receipts. A proportion of receipts relating to housing disposals are payable to the Government. 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 or Housing Revenue Account Balance in the Movement in Reserves Statement.

The flexibility over the use of capital receipts generated in the year in which they were received will be taken as per statutory guidance from the Ministry of Housing, Communities and Local Government to finance costs associated with service transformation.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Therefore, the loss or profit on sale is appropriated to the Capital Adjustment Account from the General Fund Balance via the Movement in Reserves Statement.

Council houses are sold at a discount in accordance with the legislative requirements. Some land and property may be sold at a discount or at nil value to housing associations in return for nomination rights (i.e. taking tenants from the Council's waiting list); other assets are sold at market value.

Commitments to make stock transfers are valued at estimated tenanted market value at the time the transfer is agreed and an adjustment made to the non-current assets with any loss charged to the HRA Comprehensive Income and Expenditure Statement. An adjustment is made to non-current assets for any change to this valuation at the time of actual disposal.

Deferred credits on the Balance Sheet relate mainly to the sale of Council houses and reflect the amount of mortgage principal outstanding on sales, which will be transferred to capital receipts when paid.

Grants and contributions: Where grants and contributions are received that are identifiable for spend on Property, Plant and Equipment, the income is credited to the Comprehensive Income and Expenditure Statement under Taxation and Non-Specific Grant Income. These are then transferred to the Capital Grants Unapplied Reserve if not used and the Capital Adjustment Account when applied. If the grants have a condition for repayment and remain unapplied at the end of the year, they are held on the Balance Sheet as creditors.

2. Heritage Assets

The Council owns a number of heritage assets across the borough. The primary objective of holding these assets is for increasing the knowledge understanding and appreciation of the local history within the borough.

Where there is an open market, such assets will be valued at market value; assets with no marketable value will be held at replacement cost.

Where it is impossible to establish a value by either of these methods, the Council will consider other valuation methodologies such as insurable value; otherwise the asset will be held at nil value but disclosed as a note to the accounts. Further details can be found in the Heritage assets note to the accounts.

Acquisitions of heritage assets can be made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at market value or other valuation methodology.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Councils general policies on impairment.

3. 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, such as software licences, are only recognised on the Balance Sheet when they are purchased or where internally developed and the Council can demonstrate:

- The technical feasibility of completing the asset;
- Its intention and the availability of adequate resources to complete the asset;
- Its ability to use or sell the asset;
- How the asset will generate future economic benefits or deliver service benefits; and
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets are included at historical cost and only re-valued in line with IAS 38, 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. Intangible assets are amortised over their useful life to the relevant service line in the Comprehensive Income and Expenditure Statement. 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 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 net loss on disposal of non-current assets 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.

4. Charges to Revenue for Non-Current Assets

Service revenue accounts, support services and trading accounts are charged the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Impairment losses on tangible non-current assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off; and
- Amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by a revenue provision 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.

5. Revenue Expenditure Funded from Capital under Statute

Revenue Expenditure Funded from Capital under Statute represents expenditure that may properly be capitalised, but which does not result in the creation of a non-current asset, for example housing association grants, capital expenditure on non-maintained schools and housing improvement grants. Such expenditure is taken to service revenue in the year in which the expenditure is incurred. Where the Council has determined to meet the cost of this from existing capital resources or by borrowing, a transfer to the Capital Adjustment account reverses the amounts charged to the Comprehensive Income and Expenditure Statement via the Movement in Reserves Statement so there is no impact on the level of Council Tax.

During the period 1 April 2016 to 31 March 2022 the Council are allowed under Guidance published by MHCLG to flexible use of capital receipts on areas of revenue cost to reform which generate ongoing savings to the Council. In the case where revenue spend is identified as meeting the criteria to use flexible capital receipts the Council will meet the cost of the reform through capital receipts generated during the same financial year. Where the Council has determined to meet this cost from capital receipts a transfer to the Capital Adjustment Account reverses the amounts charged to the Comprehensive Income and Expenditure Statement via the Movement in Reserves Statement so there is no impact on the level of Council Tax.

6. Investment Properties

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are re-valued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the Net 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.

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 £10k) the Capital Receipts Reserve.

7. Leases

Assets are acquired under finance leases when the risks and rewards relating to the asset transfer to the Council. 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 a 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 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 years 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.

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 provision is made from revenue towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore replaced by revenue provision in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

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

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Net Loss on Disposal of non-current assets line in the Comprehensive Income and Expenditure Statement. 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 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)

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The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and will be 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 Unapplied Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are paid, the element for the charge for the acquisition of the interest in the property is used to write down the lease asset. 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 non-current assets 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.
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 relevant service 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.

REVENUE

8. 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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract

- 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 those rendered by the Council's officers) 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 there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. Disclosures will be omitted if the information is not material.

- The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

- Where the authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the applicable exchange rate.

9. 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 working hours. Cash equivalents are investments that are held in instant access accounts, readily convertible to known amounts of cash with insignificant risk of change in value. Amounts held in fixed-term deposits not accessible within 24 working hours are not classified as cash equivalents, but as short-term investments. Any accrued interest will be treated in the same manner as the principal investment except for long-term investments with remaining terms in excess of 365 days; in these cases accrued interest will be shown as short-term investments.

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

10. Changes in Accounting Policies and Estimates and Errors

Changes in accounting policies are only made when required by proper accounting practices when 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 by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change.

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

11. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits (those that fall due wholly within 12 months of the year-end), such as wages and salaries, paid annual leave, paid sick leave, other leave and non-monetary benefits, where material, are recognised as an expense in the year in which employees render service to the Council. An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. Any accrual made is required under statute to be 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 Comprehensive Income and Expenditure Account when the Council is demonstrably committed to either terminating the employment of an officer or group of officers.

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 year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pension Reserve to remove the notional debits and credits for termination benefits related to pensions enhancements 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

The Council participates in four defined benefit pension schemes-

- The Teachers' Pension Scheme;
- The NHS Pension Scheme;
- The London Borough of Hillingdon Pension Fund of the Local Government Pension Scheme (LGPS), administered locally by the Council; and
- The London Pension Fund Authority Pension Fund of the LGPS, which is a closed arrangement for former employees administered by the London Pension Fund Authority.

The accounts fully conform to the International Accounting Standard 19 (IAS 19) relating to pension fund liabilities. Both the Comprehensive Income and Expenditure Statement and the Balance Sheet reflect the effects of these requirements.

Teachers' Pension Scheme

- The Teachers' Pension Scheme is unfunded and administered on behalf of the Department of Education (DfE) by Capita. The pension cost charged to the accounts is the contribution rate set by the DfE on the basis of a notional fund. The arrangements for the teachers' scheme mean that the liabilities for the benefits cannot be identified specifically to the Council. As such the scheme is accounted for as if it was a defined contribution scheme and no liability for future payment has been recognised in the Council's Balance Sheet. The Schools Budget line in the Council's Comprehensive Income and Expenditure Statement is charged with the employers contributions made into this scheme.

NHS Pensions Scheme

- The NHS Pension Scheme is unfunded and is administered by NHS Business Services Authority. The arrangements for the NHS scheme mean that liabilities for the benefits cannot be identified specifically to the Council. These schemes are therefore accounted for as if they are a defined contribution scheme and no liability for future payments of benefits is recognised in the Council's Balance Sheet. The relevant service line in Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

The Local Government Pension Scheme

- The pension liabilities attributable to the Council under the LGPS 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 projected earnings for current employees.

- Liabilities are discounted to their value at current prices.

- The pension fund assets attributable to the Council is included in the Balance Sheet at fair value:

  - Quoted securities – current bid price
  - 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 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 years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Operating 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 – debited to the Financing and Investment Income and Expenditure line in 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.

  - Remeasurements comprising:

    - The return on assets – excluding amounts included in net interest on the net defined benefit liability (asset) the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – debited 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 as Other Comprehensive Income and Expenditure.

- Contributions paid to pension funds – cash paid as employer's contribution 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 Pension 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 year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact on 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 for 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.

12. Long Term Contracts

The Council has entered into a number of long term contracts that have commitments beyond the period of account. These are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year. Material future fixed commitments are outlined in a note to the accounts.

13. Private Finance Initiative (PFI) Contract

The Council has one PFI contract which relates to an Academy school. The asset is not recognised on the Council's Balance Sheet as it is leased out to the Academy under a finance lease. The PFI liability continues to be recognised in the Council's accounts.

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

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.

- Finance cost – an interest charge on the outstanding Balance Sheet liability, 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 a finance lease)

14. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants, 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.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Account until conditions attaching 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 where 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/contributions) or Taxation and Non-Specific Grant Income (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 Grant Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grant Unapplied reserve are then 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 for the Council) 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 fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area. 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 small proportion of the charges may be used to fund revenue expenditure.

15. Inventories and Work in Progress

Inventories at the year-end are included at the lower of cost or net realisable value. Work in Progress on uncompleted jobs is valued at cost including an allocation of overheads.

16. Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council. The non-current assets of Voluntary aided schools owned by faith organisations are found not to be controlled by the Council and as such the assets are not held within the Councils balance sheet under Property, Plant and Equipment.

17. Fair Value

Fair value measurement is defined by IFRS13 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition is applied to all fair value measurement for non-operational property, plant and equipment, investment property as well as for financial instruments. Operational property, plant and equipment continue to be valued in line with its existing use. Fair value assumes the transaction to sell the asset takes place in the principle market for the asset or liability or in the absence of the principle market in the most advantageous market. When measuring non-operational property, plant and equipment, the fair value at highest and best use is adopted. Valuation techniques maximise known data and minimise the use of estimates or unknowns. This takes into account three levels of valuation inputs

- Level 1 - Quoted prices
- 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.

18. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation the existence of which will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise 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.

19. 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 where it is probable that there will be an inflow of economic benefits or service potential.

20. Provisions and Reserves

The Council is required to set aside money to cover future known or anticipated liabilities and each reserve or provision should be clearly identifiable as to its purpose and usage.

Provisions

Provisions are established for any liabilities of uncertain timing or amount that have been incurred. Provisions are recognised when:-

- There is a present obligation (legal or constructive) as a result of a past event;
- It is probable that a cost will have to be met to settle the obligation; and
- A reliable estimate of the cost can be made.

Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and 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 a payment for expenditure against a provision is made, the expenditure is charged directly to that provision. All provisions are reviewed each year.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. 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.

Provision for bad and doubtful debts

No provision is made for debts that are secured except in exceptional circumstances. Of all remaining debts, and excluding financial instruments where an expected credit loss model is applied, the Council makes a provision for bad debts based upon continuous reviews of likely recovery undertaken by service managers and supporting finance staff.

Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund and/or HRA Balance. 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 transferred back into the General Fund Balance so that there is no net charge against Council Tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council.

21. 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 cash flow characteristics. There are three main classes of financial assets measured at:

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

Amortised Cost

Where the Council's business model is to hold investments to collect contractual cash flows these are classified as amortised cost. Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority 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 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 agreement.

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. Lifetime losses using the simplified approach are recognised for trade receivables held by the Council. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Fair Value through Profit or Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

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

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels shown described in item 18 Fair Values.

The Council has applied the statutory override to its long term strategic pooled fund holdings and any movements in the fair value will be reversed through the MIRS into an unusable reserve.

As the equity investment in Hillingdon First Limited is classified as capital expenditure any change in fair value will be adjusted through the MIRS into the Capital Adjustment Account.

Fair Value through Other Comprehensive Income (FVOCI)

Financial assets that are measured at FVOCI are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Gains or losses arising from a change in the fair value will be reflected in the carrying amount of the instrument and updated in the Financial Instrument Revaluation Reserve.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement with any accrued fair value change being released from the Financial Instrument Revaluation Reserve.

Financial guarantees entered into before 1 April 2006 are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

Financial assets and liabilities are set-off against each other where the Council has a legally enforceable right to set-off and it intends either to settle on a net basis or realise the asset and settle the liability simultaneously.

22. Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the authority 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.

- Amortised Cost - contains all of an authority's financial liabilities that are not 'held for trading' or derivatives.

The liability is maintained in the Balance Sheet at amortised cost. Initial measurement will be at fair value, normally the amount of the originating transaction, less transaction costs where material. The effective interest rate is then calculated, 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. Annual charges to the Comprehensive Income and Expenditure Statement are made for interest payable and are based upon the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The amount presented in the Balance Sheet for most borrowings is the outstanding principal payable plus any accrued interest.

23. Redemption of Debt

The Council sets aside resources each year for the repayment of historical debt. Debt held by the Council is distinguishable into three types of loans:

(a) Maturity loans - where the principal is repaid in full on the date the loan matures and interest is paid every 6 months. The accrued interest is shown as part of the carrying value of the loan on the Balance Sheet.

(b) Equal Instalment of Principal (EIP) Loans - where an equal instalment of principal based on the life of the loan is repaid every six months. Interest is paid every six months based on the outstanding balance. The accrued interest is shown as part of the carrying value of the loan on the Balance Sheet.

(c) LOBO (lender's option, borrower's option) loans - where the principal is borrowed at a fixed rate of interest for a specified period of time, after which the lender has the option to change the rate of interest and the borrower has the option to continue with the loan at the new rate or repay the principal before maturity without penalty. If the lender does not change the rate, the principal is repaid in full on the date the loan matures. In the interim, interest payments are made every six months. The accrued interest is shown as part of the carrying value of the loan on the Balance Sheet.

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the Net 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 calculated by discounting the revised contractual cash flows with the original effective interest rate. This 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/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.

24. Minimum Revenue Provision

Where the Council finances its capital programme through borrowing it must set aside resources annually through a Minimum Revenue Provision (MRP). This is within the revenue budget to repay the debt in later years. MRP will generally be charged over the useful life of the assets, beginning in the year after the asset becomes operational. In all cases the Council will consider the most prudent method of providing for debt repayment. The HRA makes a form of MRP to pay down its self-financing settlement debt over the 30 year business cycle on which the settlement is based as a provision for repayment of debt.

25. Collection Fund

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and national non-domestic rates (NNDR). The key features relevant to accounting for Collection Fund activity in the core financial statements are:

- In its capacity as a billing authority the Council acts as agent; it collects and distributes income on behalf of the major preceptors and itself.
- While the income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released and transferred to the General Fund of the billing authority or paid out of the Collection Fund to major preceptors.

As the collection of Council Tax and NNDR income is in substance an agency arrangement, cash collected by the billing authority from Council Tax debtors belongs proportionately to the billing authority and the major preceptors as do the risks. There will therefore be a debtor/creditor position between the billing authority and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of the cash collected from Council Taxpayers and local Business Ratepayers.

The Council Tax and NNDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the Council's share of accrued income for the year. However, regulations determine the amount of Council Tax and NNDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the CIES 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.

26. VAT

Income and Expenditure excludes any amounts relating to VAT, as all VAT collected is payable to HM Revenue & Customs. VAT is included in the Income and Expenditure statement whether of a capital or revenue nature only to the extent that it is irrecoverable.

27. Events after the Reporting Period

Events after the reporting period 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.

28. Exceptional Items and Prior Year Adjustments

Exceptional items are included in the cost of the service to which they relate or on the face of the Income and Expenditure Statement if required to give a fair presentation of the accounts.

Account is taken of material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors by restating the comparative figures for the preceding period. The cumulative effect of prior period adjustments is included within the Comprehensive Income and Expenditure Statement for the current period.

29. Assumptions Made About 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 as at 31 March 2020 for which there is significant risks of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the levels of repairs and maintenance that will be incurred in relation to individual assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge would increase by £2.2m for every year that useful lives had reduced.
	Assets are subject to a 5 year rolling valuation and assumptions are made by the specialist valuer regarding market indicators and other data available to asses an asset's value. Assets of high value are valued annually to reduce this risk.	A fall in value of the Council's Property, Plant and Equipment would impact on the net worth of the Council, however would not impact on the Council's usable balances. Fluctuations in the value of assets will not correlate with normal market conditions; however a 1% movement in asset values would move the Council's balance sheet position by £19m.
	COVID19 The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement.	To mitigate this uncertainty the Council has commissioned it's external valuers Wilks Head & Eve LLP to carry out a post balance sheet market review to assess if any material changes would need to be made to the valuations as at 31st March 2020.
	Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation. Investment properties are required to be measured at fair value, reflecting market conditions at the end of the reporting period. As with operational and surplus property valuations, investment property valuations are being impacted by current market uncertainty created by the Covid-19 pandemic.	The external valuers are confident that valuations made on DRC (Depreciated Replacement Cost) and EUV (Existing Use Value) would not materially change. These consist the majority of the asset base. The main area of risk would be the Council's Investment Properties which have a total value of £5.5m and represent a small proportion of the total fixed assets value.
Fair Value Measurements	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (ie Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the authority's assets and liabilities. Where Level 1 inputs are not available, the authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value. Information about the valuation techniques and inputs used in determining the fair value of the	Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the authority's financial assets and liabilities.

	authority's assets and liabilities are disclosed in the relevant sections within the accounts.	
Provisions	Provisions are defined as probable future liabilities based on past events and there are therefore inherent uncertainties related to provisions that have been made and the amounts set aside.	If future liabilities exceed the amounts set aside, the additional amounts would have to be met from the Council's revenue account.
Arrears	Provisions have been made for debt owed to the Council for which payment may not be received. The Council reviews its basis for calculating doubtful debts and impairments making the current levels appropriate. However, particularly in the current economic climate, it is not certain that allowances made would be sufficient.	Any deterioration in the collection rates may lead to a larger number of debtors not being able to pay the Council than already provided for. These would have to be written off to reduce the balance of outstanding debt and be charged to the Comprehensive Income and Expenditure Statement.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The IAS19 balance sheet is based on financial market values and future market expectation indicators as at 31 March 2020 to comply with the accounting standard. The financial markets at the accounting date will have taken into account COVID19 risks and opportunities as one of many national and worldwide economic considerations.	The assumptions interact in complex ways. The actuaries review the assumptions triennially and changes are adjusted for in the accounts. Sensitivity analysis is represented in note 45 to the accounts. Any impact on the liabilities relating to COVID-19 will be reflected within the regular triennial valuation and the effect will be absorbed into the 20 year long-term funding strategy.

30. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The Code of Practice requires that the Council discloses information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. on or before 1 January 2020 for 2019/20). Disclosure requirements are expected to be included in a subsequent edition of the Code. Changes in the 2020/21 Code of practice that will be introduced in future versions of the accounts include :–

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

The Council does not expect the first two changes to have a material impact upon the financial statements.

In terms of to IAS 19 Employee Benefits there will effectively be no impact on the balance sheet as a result of this change. Any impact on the Income & Expenditure Statement is not quantifiable as future market conditions are impossible to predict. Any changes would be driven by the difference in the net discount rate on the event date compared to the 31 March 2020 net discount rate. If the net discount rate is broadly in the same range at the start of the accounting period and event date during the year then the impact would be minimal.

The implementation of IFRS 16 has been deferred until 1 April 2021.

Main Financial Statement

The various financial statements that follow are prepared on an accruals basis and follow best practice recommended by the Chartered Institute of Public Finance & Accountancy (CIPFA) and International Financial Reporting Standards (IFRS) as defined by the Code of Practice on Local Authority Accounting in the United Kingdom. Further details of these requirements are detailed in the Statement of Accounting Policies.

These statements are published in accordance with the Accounts and Audit Regulations 2015. They summarise the overall financial position of the Council and in particular include the following:

Restatement of 2018/19 Published Accounts (page 40)
This note provides an overview of changes to the Financial Statements from the published Statement of Account in 2018/19 as a result of changes in reporting requirements. This statement reconciles the position reported to management and that reported in the CIES.

Expenditure and Funding Analysis (page 41)
This note shows how Council funding has been used in providing services in comparison to those resources consumed or earned by authorities in accordance with generally accepted accounting practices.

Comprehensive Income and Expenditure Statement (page 43)
The first of the core financial statements. This shows the expenditure and the income relating to all the services provided by the Council and how the net cost of these services has been financed by local taxpayers and government grants.

Balance Sheet (page 44)
This sets out the assets and liabilities of the Council as at 31 March 2020, but excludes the assets and liabilities of pension and trust funds.

Movement in Reserves Statement (page 45)
This statement sets out the reserves held by the Council, split into usable and unusable reserves, and shows how they have moved during the year.

Cash Flow Statement (page 47)
This consolidated statement summarises the inflows and outflows of cash and cash equivalents arising from transactions with third parties for revenue and capital purposes. The statement excludes any transactions of the pension and trust funds.

Notes to the Main Financial Statements (page 48)
A selection of notes provided to support the information in the main financial statements with additional detail of movement breakdown and analysis.

Restatement of 2018/19 Published Accounts

The Expenditure and Funding Analysis (EFA), aims to demonstrate to council tax and rent payers how the funding available to the Council for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's directorates and other service departments.

Since the production of the 2018/19 Statement of Accounts the Council structure has altered with certain service departments now reporting to different directorates. As such the statement below shows the movement of funding used to provide services relating to the General Fund, from the originally published 2018/19 Statement of Accounts to the new Council structure.

The reported outturn position to Cabinet in June 2019 is reflected in the table below alongside the restatement required to align the comparator cost of service to the management structure as at 31 March 2020, for the opening EFA position. The EFA then shows how these figures feed through to the Comprehensive Income and Expenditure Statement.

Council Structure as per 2018/19 Statement of Accounts	Published EFA - Total Net Expenditure Charged to GF & HRA Balances £'000	Restated EFA - Total Net Expenditure Charged to GF & HRA Balances £'000	Movement £'000
Chief Executive's Office	6,840	6,840	0
Finance	12,028	15,733	3,705
Residents Services	74,543	71,142	(3,401)
Social Care	121,046	120,742	(304)
Corporate Operating Budgets	5,483	5,683	200
HIP Initiatives	200	0	(200)
Corporate Funding	(221,437)	(221,437)	0
Total General Fund	**(1,297)**	**(1,297)**	**0**
Schools Budget	2,774	2,774	0
Housing Revenue Account	18,848	18,848	0
Total Other Funds	**21,622**	**21,622**	**0**
Net Cost of Services	**20,325**	**20,325**	**0**

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 directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2019/20	Total Net Expenditure Charged to GF & HRA Balances	Adjustments between the Funding & Accounting Basis (Note 1A)	Earmarked Reserve Adjustments (Note 5)	Adjustments between Funding & Other Income and Expenditure on the Provision of Services (Note 1B)	Net Expenditure in Comprehensive Income and Expenditure Statement
General Fund	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Chief Executive's Office	6,958	1,233	(11)	0	8,180
Finance	15,878	2,785	1,613	0	20,276
Residents Services	74,455	51,346	88	(17,776)	108,113
Social Care	124,758	9,426	2,938	(15,699)	121,423
Corporate Operating Budgets	6,540	(4,840)	(6,921)	6,172	951
Corporate Funding	(221,209)	1,970	1,470	217,769	0
Total General Fund	**7,380**	**61,920**	**(823)**	**190,466**	**258,943**
Other Funds					
Schools Budget	7,647	663	0	(30)	8,280
Housing Revenue Account	1,185	21,328	0	(7,224)	15,289
Total Other Funds	**8,832**	**21,991**	**0**	**(7,254)**	**23,569**
Net Cost of Services	**16,212**	**83,911**	**(823)**	**183,212**	**282,512**
Other Income and Expenditure on the Provision of Services	0	(18,633)		(183,212)	(201,845)
(Surplus)/Deficit on Provision of Services	**16,212**	**65,278**	**(823)**	**0**	**80,667**

Movement in Balances 2019/20	£'000
Opening General Fund and HRA Balance	102,880
General Fund Declared Surplus	(6,104)
Prior Year Drawdown	(1,276)
General Fund Surplus	(7,380)
HRA Deficit	(1,185)
Schools Reserve Movements	(7,647)
Other Earmarked Reserve Movements	823
Closing General Fund and HRA Balance at 31 March 2020	**87,491**

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 directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2018/19	Total Net Expenditure Charged to GF & HRA Balances (Restated)	Adjustments between the Funding & Accounting Basis (Note 1A) (Restated)	Earmarked Reserve Adjustments (Note 5) (Restated)	Adjustments between Funding & Other Income and Expenditure to the Provision of Services (Note 1B)	Net Expenditure in Comprehensive Income and Expenditure Statement (Restated)
General Fund	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Chief Executive's Office	6,840	833	386	0	8,059
Finance	15,733	1,717	846	0	18,296
Residents Services	71,142	(31,673)	(344)	(18,388)	20,737
Social Care	120,742	6,132	1,008	(13,142)	114,740
Corporate Operating Budgets	5,683	2,425	445	(580)	7,973
Corporate Funding	(221,437)	1,297	(2,023)	222,163	0
Total General Fund	**(1,297)**	**(19,269)**	**318**	**190,053**	**169,805**
Other Funds					
Schools Budget	2,774	150	0	(30)	2,894
Housing Revenue Account	18,848	2,644	0	(7,055)	14,437
Total Other Funds	**21,622**	**2,794**	**0**	**(7,085)**	**17,331**
Net Cost of Services	**20,325**	**(16,475)**	**318**	**182,968**	**187,136**
Other Income and Expenditure on the Provision of Services	0	(22,770)	0	(182,968)	(205,738)
(Surplus)/Deficit on Provision of Services	**20,325**	**(39,245)**	**318**	**0**	**(18,602)**

Movement in Balances 2018/19	**£'000**
Opening General Fund and HRA Balance	123,523
General Fund Declared Surplus	1,297
General Fund Surplus	1,297
HRA Deficit	(18,848)
Schools Reserve Movements	(2,774)
Other Earmarked Reserve Movements	(318)
Closing General Fund and HRA Balance at 31 March 2019	**102,880**

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure 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 or rents. Councils raise taxation and rents to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

		31 March 2020			31 March 2019		
	Note	Expenditure £'000	Income £'000	Net Expenditure £'000	Expenditure (Restated) £'000	Income (Restated) £'000	Net Expenditure (Restated) £'000
EXPENDITURE ON SERVICES							
Chief Executive's Office		9,822	(1,642)	8,180	9,418	(1,359)	8,059
Finance		22,886	(2,610)	20,276	21,121	(2,825)	18,296
Residents Services		166,813	(58,700)	108,113	80,903	(60,166)	20,737
Social Care		212,745	(91,322)	121,423	186,417	(71,677)	114,740
Corporate Operating Budgets		117,140	(116,189)	951	147,526	(139,553)	7,973
Schools Budget		186,948	(178,668)	8,280	173,674	(170,780)	2,894
Housing Revenue Account		76,934	(61,645)	15,289	75,245	(60,808)	14,437
NET COST OF SERVICES		793,288	(510,776)	**282,512**	694,304	(507,168)	**187,136**
Other Operating Expenditure	*6*	4,810		4,810	3,094	0	3,094
Net loss/(gain) on disposal of non-current assets			(6,711)	(6,711)	0	(14,425)	(14,425)
Net Financing and Investment Income and Expenditure	*7*	25,639	(801)	24,838	23,329	(1,096)	22,233
Taxation and Non-Specific Grant Income	*8*		(224,782)	(224,782)	0	(216,640)	(216,640)
Other Income and Expenditure on the Provision of Services		30,449	(232,294)	**(201,845)**	26,423	(232,161)	**(205,738)**
(SURPLUS)/DEFICIT ON PROVISION OF SERVICES		**823,737**	**(743,070)**	**80,667**	**720,727**	**(739,329)**	**(18,602)**
(Surplus)/Deficit on revaluation of Property, Plant and Equipment assets				(29,702)			(315,784)
Actuarial (gain)/loss on pension assets and liabilities	*43*			(131,219)			58,639
(Surplus)/Deficit on revaluation of financial instruments				0			74
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE				**(80,254)**			**(275,673)**

* 2018/19 Residents Services includes an element of reduced expenditure relating to a £70m reversal of previous PPE impairments

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held.

Reserves are reported in two categories:

The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and requirement to maintain any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt).

The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were 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	31 March 2020 £'000	31 March 2019 £'000
Property, Plant & Equipment	*9*	1,888,330	1,866,279
Heritage Assets	*9*	5,376	5,341
Intangible Assets	*9*	2,424	637
Investment Properties	*9*	5,526	5,711
Long Term Investments	*14*	17,098	14,899
Long Term Debtors	*17*	864	2,290
LONG TERM ASSETS		**1,919,618**	**1,895,157**
Inventories		297	254
Short Term Debtors	*15*	56,975	52,657
Short Term Investments	*14*	4,759	1,202
Cash and Cash Equivalents	*20*	30,032	47,502
Assets Held for Sale	*9*	629	0
Current Intangible Assets		0	91
CURRENT ASSETS		**92,692**	**101,706**
Short Term Provisions	*21*	(4,995)	(6,581)
Short Term Borrowing	*14*	(82,366)	(49,369)
Short Term Creditors	*18*	(67,283)	(69,491)
CURRENT LIABILITIES		**(154,644)**	**(125,441)**
Long Term Provisions	*21*	(1,007)	(862)
Deferred Credits		(4)	(4)
Long Term Borrowing	*14*	(218,047)	(214,890)
Long Term Creditors	*19*	(3,891)	(3,780)
Capital Grant Receipts in Advance	*34*	(14,593)	(12,969)
Deferred Liabilities	*36*	(563)	(886)
Net Liabilities Related to Defined Benefit Pension Schemes	*44*	(517,966)	(616,690)
LONG TERM LIABILITIES		**(756,071)**	**(850,081)**
NET ASSETS		**1,101,595**	**1,021,341**
Usable Reserves		129,337	165,756
Unusable Reserves	*22*	972,258	855,585
TOTAL RESERVES		**1,101,595**	**1,021,341**

Paul Whaymand
Corporate Director of Finance
24 November 2020

Movement in Reserves Statement

This statement shows the detail of the movement from the start of the year to the end of the year on the different reserves held by the Council. These reserves are analysed into ‘Usable Reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'Unusable reserves'. The statement shows how the movements to the reserves in year are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to Council Tax (or rents) for the year. The Increase/(Decrease) line shows the net movement to the statutory General Fund Balance and Housing Revenue Account Balances in the year.

	Note	General Fund Balance £'000	Earmarked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Grants Unapplied Reserve £'000	Capital Receipts Reserve £'000	Total Usable Reserves £'000
Balance at 31 March 2019		**41,620**	**43,000**	**18,260**	**31,878**	**3,164**	**27,834**	**165,756**
Total Comprehensive Income & Expenditure		(59,743)	(6,824)	(14,100)	0	0	0	**(80,667)**
Adjustments between accounting basis & funding basis under regulations	*4*	52,363	0	12,915	(16,650)	194	(4,574)	**44,248**
Increase/(Decrease) in Year		**(7,380)**	**(6,824)**	**(1,185)**	**(16,650)**	**194**	**(4,574)**	**(36,419)**
Balance at 31 March 2020		**34,240**	**36,176**	**17,075**	**15,228**	**3,358**	**23,260**	**129,337**

	Note	General Fund Balance £'000	Earmarked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Grants Unapplied Reserve £'000	Capital Receipts Reserve £'000	Total Usable Reserves £'000
Balance at 31 March 2018		**40,323**	**39,572**	**37,108**	**18,463**	**2,532**	**30,247**	**168,245**
Transition to IFRS 9		**0**	**6,520**	**0**	**0**	**0**	**0**	**6,520**
Balance at 1 April 2018		**40,323**	**46,092**	**37,108**	**18,463**	**2,532**	**30,247**	**174,765**
Total Comprehensive Income & Expenditure		32,637	(3,092)	(10,943)	0	0	0	**18,602**
Adjustments between accounting basis & funding basis under regulations	*4*	(31,340)	0	(7,905)	13,415	632	(2,413)	**(27,611)**
Increase/(Decrease) in Year		**1,297**	**(3,092)**	**(18,848)**	**13,415**	**632**	**(2,413)**	**(9,009)**
Balance at 31 March 2019		**41,620**	**43,000**	**18,260**	**31,878**	**3,164**	**27,834**	**165,756**

*The 18/19 opening balance has been amended through transition arrangements to incorporate the adoption of IFRS9.

Movement in Unusable Reserves

This statement shows the detail of the movement from the start of the year to the end of the year on the Unusable Reserves held by the Council breaking down the total figure for these reserves which are represented on the Movement in Reserves note overleaf. The statement shows how the movements to the reserves in year are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to Council Tax (or rents) for the year.

	Note	Revaluation Reserve £'000	Capital Adjustment Account £'000	Financial Instruments Adjustment Account £'000	Pensions Reserve £'000	Collection Fund Adjustment Account £'000	Accumulated Absences Account £'000	Available for Sale Financial Instruments £'000	Pooled Investment Fund Adjustment Account £'000	Total Unusable Reserves £'000	Total Council Reserves £'000
Balance at 31 March 2019		**487,084**	**989,921**	**(318)**	**(616,690)**	**293**	**(4,549)**	**0**	**(156)**	**855,585**	**1,021,341**
Total Comprehensive Income & Expenditure		29,702	0	0	131,219	0	0	0	0	**160,921**	**80,254**
Adjustments between accounting basis & funding basis under regulations	*4*	(6,701)	(1,206)	32	(32,495)	(1,970)	(716)	0	(1,192)	**(44,248)**	**0**
Increase/(Decrease) in Year		**23,001**	**(1,206)**	**32**	**98,724**	**(1,970)**	**(716)**	**0**	**(1,192)**	**116,673**	**80,254**
Balance at 31 March 2020		**510,085**	**988,715**	**(286)**	**(517,966)**	**(1,677)**	**(5,265)**	**0**	**(1,348)**	**972,258**	**1,101,595**

	Note	Revaluation Reserve £'000	Capital Adjustment Account £'000	Financial Instruments Adjustment Account £'000	Pensions Reserve £'000	Collection Fund Adjustment Account £'000	Accumulated Absences Account £'000	Available for Sale Financial Instruments £'000	Pooled Investment Fund Adjustment Account £'000	Total Unusable Reserves £'000	Total Council Reserves £'000
Balance at 31 March 2018		**174,422**	**924,268**	**(305)**	**(524,468)**	**1,590**	**(4,678)**	**74**	**0**	**570,903**	**739,148**
Transition to IFRS 9		**0**	**0**	**0**	**0**	**0**	**0**	**(74)**	**74**	**0**	**6,520**
Balance at 1 April 2018		**174,422**	**924,268**	**(305)**	**(524,468)**	**1,590**	**(4,678)**	**0**	**74**	**570,903**	**745,668**
Total Comprehensive Income & Expenditure		315,784	0	0	(58,639)	0	0	0	(74)	**257,071**	**275,673**
Adjustments between accounting basis & funding basis under regulations	*4*	(3,122)	65,653	(13)	(33,583)	(1,297)	129	0	(156)	**27,611**	**0**
Increase/(Decrease) in Year		**312,662**	**65,653**	**(13)**	**(92,222)**	**(1,297)**	**129**	**0**	**(230)**	**284,682**	**275,673**
Balance at 31 March 2019		**487,084**	**989,921**	**(318)**	**(616,690)**	**293**	**(4,549)**	**0**	**(156)**	**855,585**	**1,021,341**

*Transition to IFRS 9 removes the Available for Sale reserve and introduces the Financial Instrument Revaluation Reserve. The 18/19 opening balance has been adjusted to reflect this change.

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.

	Note	2019/20 £'000	2018/19 £'000
Net deficit on the provision of services	*23*	80,667	(18,602)
Adjust net (surplus) on the provision of services for non cash movements	*23*	(131,121)	(22,542)
Adjust for items in the net deficit on the provision of services that are investing or financing activities	*23*	44,894	16,228
Net cash flows from operating activities	*23*	(5,560)	(24,916)
Net cash flows from investing activities	*24*	56,930	21,848
Net cash flows from financing activities	*25*	(33,900)	5,144
(Increase)/Decrease in cash and cash equivalents		**17,470**	**2,076**
Cash and cash equivalents at the beginning of the reporting period		**(47,502)**	**(49,578)**
Cash and cash equivalents at the end of the reporting period		**(30,032)**	**(47,502)**

1A. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

This note gives a summary of the adjustments allocated as 'Total Adjustments Between Funding & Accounting Basis' within the EFA which are required to adjust the General Fund and HRA management outturn reported to Cabinet to arrive at the Comprehensive Income and Expenditure Statement; recognised in accordance with proper accounting practices. Further information on these items can be found in note 4 to the accounts for Adjustments between Accounting Basis & Funding Basis Under Regulations which feed into the Movement in Reserves statement to align with the statutory amounts charged to the council tax payer.

Adjustments from the management reported General Fund and HRA Balances to arrive at the Comprehensive Income and Expenditure Statement amounts within Adjustments between Funding & Accounting Basis are analysed below.

2019/20	**Adjustments for Capital Purposes (1)**	**Net Change for the Pensions Adjustment (2)**	**Other Differences (3)**	**Total Adjustments between Funding & Accounting Basis**
	£'000	**£'000**	**£'000**	**£'000**
Chief Executive's Office	0	762	471	1,233
Finance	673	1,613	499	2,785
Residents Services	27,836	7,237	16,273	51,346
Social Care	665	5,881	2,880	9,426
Corporate Operating Budgets	(5,439)	625	(26)	(4,840)
Corporate Funding	0	0	1,970	1,970
Schools Budget	0	426	237	663
Housing Revenue Account	28,121	922	(7,715)	21,328
Net Cost of Services	**51,856**	**17,466**	**14,589**	**83,911**
Other Income & Expenditure on the Provision of Services from the Expenditure and Funding Analysis	(39,263)	15,029	5,601	**(18,633)**
Difference between General Fund surplus or deficit and CIES (Surplus) or Deficit on the Provision of Services	**12,593**	**32,495**	**20,190**	**65,278**

2018/19	**Adjustments for Capital Purposes (1) (Restated)**	**Net Change for the Pensions Adjustment (2) (Restated)**	**Other Differences (3)**	**Total Adjustments between Funding & Accounting Basis (Restated)**
	£'000	**£'000**	**£'000**	**£'000**
Chief Executive's Office	0	574	259	833
Finance	436	1,196	85	1,717
Residents Services	(43,870)	5,234	6,963	(31,673)
Social Care	(661)	4,421	2,372	6,132
Corporate Operating Budgets	(4,896)	7,268	53	2,425
Corporate Funding	0	0	1,297	1,297
Schools Budget	0	345	(195)	150
Housing Revenue Account	28,809	673	(26,838)	2,644
Net Cost of Services	**(20,182)**	**19,711**	**(16,004)**	**(16,475)**
Other Income & Expenditure on the Provision of Services from the Expenditure and Funding Analysis	(39,122)	13,872	2,480	**(22,770)**
Difference between General Fund surplus or deficit and CIES (Surplus) or Deficit on the Provision of Services	**(59,304)**	**33,583**	**(13,524)**	**(39,245)**

Notes to the Main Financial Statements

(1) Adjustments for Capital Purposes

Net Cost of Services
This column adds depreciation, impairment and revaluation gains and losses in the services line

Other Income and Expenditure on the Provision of Services
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 on the Provision of Services 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.

(2) Net Change for the Pensions Adjustments

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

The removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs.

Other Income and Expenditure on the Provision of Services
Financing and investment income and expenditure - the net interest on the defined benefit liability which is charged to the CIES.

(3) Other Differences

Net Cost of Services
Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute.

Other Income and Expenditure on the Provision of Services
Financing and investment income and expenditure - the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

Taxation and non-specific grant income and expenditure - represents the difference between what is chargeable under statutory regulations for Council Tax and NNDR 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.

1B. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

This note gives a summary of the adjustments allocated as "Adjustments Between Funding and Other Income and Expenditure" within the EFA which are required to adjust the General Fund and HRA management outturn reported to Cabinet to arrive at the Comprehensive Income and Expenditure statement. These adjustments remove items included within service lines of the Council's management presentation which relate to non-service items and reported under "Other Income and Expenditure on the Provision of Service" below the cost of service provision within the Comprehensive Income and Expenditure Statement. These items can be found within notes 6, 7 and 8.

Transfers include costs and income allocated between the service lines and also within items reported to management; transfers between General Fund and Earmarked Reserves.

Adjustments to General Fund and HRA net cost of services reported to management to Other Income and Expenditure on the Provision of Services in the Comprehensive Income and Expenditure Statement are analysed below.

2019/20	Precepts and Levies	Interest Payable	Interest Receivable	Taxation & Non Specific Grant Income (excl Capital)	Transfers	Total Adjustments
	£'000	£'000	£'000	£'000	£'000	£'000
Residents Services	0	(457)	0	0	(17,319)	(17,776)
Social Care	0	0	23	0	(15,722)	(15,699)
Corporate Operating Budgets	(584)	(2,154)	484	7,252	1,174	6,172
Corporate Funding	0	0	0	184,976	32,793	217,769
Schools Budget	0	0	0	0	(30)	(30)
Housing Revenue Account	0	(6,622)	294	0	(896)	(7,224)
Net Cost of Services	**(584)**	**(9,233)**	**801**	**192,228**	**0**	**183,212**

2018/19	Precepts and Levies	Interest Payable	Interest Receivable	Taxation & Non Specific Grant Income (excl Capital)	Transfers	Total Adjustments
	£'000	£'000	£'000	£'000	£'000	£'000
Residents Services	0	(558)	0	0	(17,830)	(18,388)
Social Care	0	0	9	0	(13,151)	(13,142)
Corporate Operating Budgets	(586)	(2,287)	572	465	1,256	(580)
Corporate Funding	0	0	0	191,478	30,685	222,163
Schools Budget		0			(30)	(30)
Housing Revenue Account	0	(6,456)	331	0	(930)	(7,055)
Net Cost of Services	**(586)**	**(9,301)**	**912**	**191,943**	**0**	**182,968**

2. SEGMENTAL INCOME AND EXPENDITURE

This note shows the Income and Expenditure received and paid on a segmental basis for material items reported in the Total Net Expenditure Charged to General Fund & HRA Balances within the Expenditure and Funding Analysis.

Segmental Income & Expenditure 2019/20	**Fees charges and other service income**	**Interest Receivable**	**Depreciation**	**Interest Payable**
	£'000	**£'000**	**£'000**	**£'000**
Chief Executive's Office	(1,128)	0	0	0
Finance	(1,796)	0	0	0
Residents Services	(32,069)	0	0	457
Social Care	(13,699)	(23)	0	0
Corporate Operating Budgets	378	(484)	0	2,154
Schools Budget	(9,125)	0	0	0
Housing Revenue Account	(61,645)	(294)	10,781	6,622
Net Cost of Services	**(119,084)**	**(801)**	**10,781**	**9,233**

Segmental Income & Expenditure 2018/19	**Fees charges and other service income (Restated)**	**Interest Receivable**	**Depreciation**	**Interest Payable (Restated)**
	£'000	**£'000**	**£'000**	**£'000**
Chief Executive's Office	(933)	0	0	0
Finance	(1,803)	0	0	0
Residents Services	(32,522)	0	0	558
Social Care	(11,955)	(9)	0	0
Corporate Operating Budgets	(235)	(572)	0	2,287
Schools Budget	(8,843)	0	0	0
Housing Revenue Account	(60,808)	(331)	10,473	6,456
Net Cost of Services	**(117,099)**	**(912)**	**10,473**	**9,301**

3. EXPENDITURE AND INCOME ANALYSED BY NATURE

The Council's expenditure and income is analysed as follows:

	2019/20	2018/19
Expenditure	**£'000**	**£'000**
Employee benefits expenses	214,404	204,837
Employee benefits of Voluntary Aided & Foundation Schools*	38,763	36,504
Other services expenses	457,637	442,800
Support service recharges	4,941	5,599
Depreciation, amortisation, impairment	77,543	4,564
Interest payments	24,262	23,173
Precepts and levies	584	586
Payments to Housing Capital Receipts Pool	4,226	2,508
Strategic pooled fund fair value adjustment	1,192	156
Change in the Fair Value of Investment Properties	185	0
Total Expenditure	**823,737**	**720,727**
Income		
Fees, charges and other service income	(119,084)	(117,099)
Interest and investment income	(801)	(912)
Income from Council Tax and Non Domestic Rates	(173,767)	(179,704)
Government grants and contributions	(442,707)	(427,005)
Change in the Fair Value of Investment Properties	0	(184)
Gain on the disposal of assets	(6,711)	(14,425)
Total Income	**(743,070)**	**(739,329)**
(Surplus)/Deficit on the Provision of Services	**80,667**	**(18,602)**

*Employee benefits of Voluntary Aided & Foundation Schools

*Voluntary aided and foundation school employees are not the employees of the Council but are consolidated into the single entity financial statements of the Council. The costs of employee benefits of voluntary aided and foundation schools have therefore been separately identified.

4. 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 by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of an authority are required to paid and out of which all liabilities of an authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. The balance is not available to be applied to fund HRA services which is ring fenced.

Housing Revenue Account Balance

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority Council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

Major Repairs Reserve

The Council is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS 2019/20

2019/20	General Fund Balance £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Grants Unapplied Reserve £'000	Capital Receipts Reserve £'000	Usable Reserves £'000	Revaluation Reserve £'000	Capital Adjustment Account £'000	Financial Instruments Adjustment Account £'000	Pensions Reserve £'000	Collection Fund Adjustment Account £'000	Accumulated Absences Account £'000	Pooled Investment Fund Adjustment Account £'000	Unusable Reserves £'000
Amortisation of intangible assets	(143)					**(143)**		143						**143**
Depreciation of non current assets	(20,724)		(10,781)			**(31,505)**	4,288	27,217						**31,505**
Revaluation and impairment of non current assets	(8,645)	(37,250)				**(45,895)**		45,895						**45,895**
Statutory provision for the financing of capital investment (MRP) and HRA debt provision	5,440	9,129				**14,569**		(14,569)						**(14,569)**
Revenue expenditure funded from capital under statute (REFCUS)	(19,671)	(39)				**(19,710)**		19,710						**19,710**
Capital grants and contributions applied	29,885	2,667		(194)		**32,358**		(32,358)						**(32,358)**
Capital expenditure charged in year to balances			35,208			**35,208**		(35,208)						**(35,208)**
Use of Capital Receipts Reserve to finance new capital expenditure					14,508	**14,508**		(14,508)						**(14,508)**
Amounts written off on disposal of non current assets	175	6,535			(14,160)	**(7,450)**	2,413	5,037						**7,450**
Finance Lease Principal	338					**338**		(338)						**(338)**
Gain/Loss Investment Property	(185)					**(185)**		185						**185**
Transfer from capital receipts reserve to meet payments to the housing capital receipts pool	(4,226)				4,226	**0**								**0**
Premiums and discounts	28	4				**32**			(32)					**(32)**
Strategic pooled fund fair value adjustment	(1,192)					**(1,192)**							1,192	**1,192**
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	(57,635)	(3,207)				**(60,842)**				60,842				**60,842**
Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	26,852	1,495				**28,347**				(28,347)				**(28,347)**
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,970)					**(1,970)**					1,970			**1,970**
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	(690)	(26)				**(716)**						716		**716**
Transfer to Reserve for Capital projects		7,777	(7,777)			**0**								**0**
Total Adjustments	**(52,363)**	**(12,915)**	**16,650**	**(194)**	**4,574**	**(44,248)**	**6,701**	**1,206**	**(32)**	**32,495**	**1,970**	**716**	**1,192**	**44,248**

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ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS 2018/19

2018/19	General Fund Balance £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Grants Unapplied Reserve £'000	Capital Receipts Reserve £'000	Usable Reserves £'000	Revaluation Reserve £'000	Capital Adjustment Account £'000	Financial Instruments Adjustment Account £'000	Pensions Reserve £'000	Collection Fund Adjustment Account £'000	Accumulated Absences Account £'000	Pooled Investment Fund Adjustment Account £'000	Unusable Reserves £'000
Amortisation of intangible assets	(138)		(2)			**(140)**		140						**140**
Depreciation of non current assets	(24,199)		(10,471)			**(34,670)**	2,620	32,050						**34,670**
Revaluation and impairment of non current assets	68,184	(37,938)				**30,246**		(30,246)						**(30,246)**
Statutory provision for the financing of capital investment (MRP) and HRA debt provision	4,896	9,129				**14,025**		(14,025)						**(14,025)**
Revenue expenditure funded from capital under statute (REFCUS)	(9,641)	(9)				**(9,650)**		9,650						**9,650**
Capital grants and contributions applied	22,879	1,819		(632)		**24,066**		(24,066)						**(24,066)**
Capital expenditure charged in year to balances		27	23,866			**23,893**		(23,893)						**(23,893)**
Use of Capital Receipts Reserve to finance new capital expenditure					19,054	**19,054**		(19,054)						**(19,054)**
Amounts written off on disposal of non current assets	4,969	9,456			(19,149)	**(4,724)**	502	4,222						**4,724**
Finance Lease Principal	247					**247**		(247)						**(247)**
Gain/Loss Investment Property	184					**184**		(184)						**(184)**
Transfer from capital receipts reserve to meet payments to the housing capital receipts pool	(2,508)				2,508	**0**								**0**
Premiums and discounts	(28)	15				**(13)**			13					**13**
Strategic pooled fund fair value adjustment	(156)					**(156)**							156	**156**
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	(55,942)	(2,717)				**(58,659)**				58,659				**58,659**
Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	23,757	1,319				**25,076**				(25,076)				**(25,076)**
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,297)					**(1,297)**					1,297			**1,297**
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	133	(4)				**129**						(129)		**(129)**
Transfer to Reserve for Capital projects		26,808	(26,808)			**0**								**0**
Total Adjustments	**31,340**	**7,905**	**(13,415)**	**(632)**	**2,413**	**27,611**	**3,122**	**(65,653)**	**13**	**33,583**	**1,297**	**(129)**	**156**	**(27,611)**

5. EARMARKED RESERVE TRANSFERS

	31 March 2018 £'000	1 April 2018 Restated £'000	Transfers In 2018/19 £'000	Transfers Out 2018/19 £'000	31 March 2019 £'000	Distribution of 2018/19 outturn surplus	Transfers In 2019/20 £'000	Transfers Out 2019/20 £'000	31 March 2020 £'000
Earmarked Reserves:									
Grants Unapplied	**2,612**	2,612	1,494	(2,734)	**1,372**	0	7,333	(2,332)	**6,373**
Member Initiatives	**13,445**	13,445	1,533	(2,056)	**12,922**	1,276	4,422	(5,545)	**13,075**
Other Reserves	**9,360**	9,360	3,684	(4,155)	**8,889**	0	3,908	(4,370)	**8,427**
Business Rates Reserve	**1,941**	1,941	3,118	(244)	**4,815**	0	298	(3,134)	**1,979**
*Treasury Management Reserve	**1,928**	8,448	0	(976)	**7,472**	0	0	(2)	**7,470**
Barnhill PFI	**620**	620	362	(213)	**769**	0	350	(325)	**794**
Public Health Reserve	**2,629**	2,629	60	(26)	**2,663**	0	54	(361)	**2,356**
Parking Revenue Account / New Roads & Street Works Reserve	**1,604**	1,604	0	(165)	**1,439**	0	0	(750)	**689**
Total Council Earmarked Reserves	**34,139**	**40,659**	**10,251**	**(10,569)**	**40,341**	**1,276**	**16,364**	**(16,817)**	**41,164**
Schools Reserves									
Dedicated Schools Grant	**(4,126)**	(4,126)	0	(4,366)	(8,492)	0	0	(6,510)	**(15,002)**
Other Schools Reserves	**9,559**	9,559	0	1,592	11,151	0	0	(1,137)	**10,014**
Total Schools Reserves	**5,433**	**5,433**	**0**	**(2,774)**	**2,659**	**0**	**0**	**(7,647)**	**(4,988)**
Total	**39,572**	**46,092**	**10,251**	**(13,343)**	**43,000**	**1,276**	**16,364**	**(24,464)**	**36,176**

Grants Unapplied

Funds set aside from specific revenue grants to support future investment in services, which will be drawn down as required to support on-going projects. Balances at 31 March 2020 include monies in respect of the Homelessness and Brexit funding alongside a range of other smaller sums.

Member Initiatives

Funds set aside to support delivery of specific local initiatives, including Hillingdon Improvement Programme, Highways maintenance and Leader's Initiatives amongst other balances. These monies are expected to be drawn down over the life of these initiatives.

Other Reserves

Funds set aside to manage cyclical or irregular expenditure, including Housing Needs Initiatives, the Corporate Insurance Reserve, Elections Reserve and provision for costs of service transformation amongst other balances. Funds will be drawn down as required to fund specific costs.

Business Rate Retention Reserve

Grant income received from Government to reimburse the Council for losses within the Collection Fund Adjustment Account relating to changes to Business Rates Reliefs. Under the current Business Rates Retention System, these grants are received in advance of deficits impacting upon the General Fund and therefore held in a separate reserve.

Treasury Management Reserve

Funds set aside to protect the Council against risk of volatility from investment returns to smooth the budget requirements. The opening balance has been adjusted through the application of IFRS 9 against a loan modification.

Barnhill PFI

Funds held to cover costs occurring over the lifecycle for the PFI school Barnhill Academy.

Public Health Reserve

A reserve required under statute to earmark any accounting under spend on Public Health activities transferred into the Council from the NHS from 1 April 2013. Monies set aside include funds to meet outstanding commitments and manage any risks associated with the service.

Parking Revenue Account / New Roads & Street Works Reserve

A statutory reserve earmarking monies primarily raised from on-street parking operations to support related investment in local infrastructure, further details on these operations are set out in note 27.

Schools Reserve

In 2019/20 the position on the DSG earmarking is a result of the statutory requirements for 2020/21, which affect the manner in which the council can use the general reserves held as at 31 March 2020.

Schools reserve includes balances for the Dedicated Schools Grant (DSG) and schools specific reserves. Although presented within earmarked reserves they are held separately from the Council's reserves. The Department for Education (DfE) regulations make clear the requirement for any DSG deficit balance to be held within the local authority's overall DSG, meaning authorities cannot fund a deficit from the general fund without the secretary of state's approval. The Council does not intend to seek this approval.

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 local authorities, the High Needs Block element has come under increased pressure in supporting children with special educational needs and spend is significantly higher than the funding provided by central government following the implementation of the Children and Families Act in 2014. The 2019/20 deficit on the DSG is £6,510k which is approximately 2.3% of the gross budget and increases the cumulative deficit to £15,002k. Further detail on the DSG performance during the year is disclosed at note 33.

The Dedicated Schools Grant has been deployed in accordance with the specified regulations set out in the Audit and Accounting Regulations 2015.

The Council is working closely with the Department for Education (DfE) alongside other authorities with adverse positions on their DSG to recover this position and a recovery plan was agreed by the DfE in January 2020. The Council are now updating this in line with latest Deficit Management Plan template issued by the DfE in September 2020 which requires all Councils with an adverse movement on their DSG position to produce a plan for "managing their future DSG spend".

6. OTHER OPERATING EXPENDITURE

	2019/20 £'000	2018/19 £'000
Payments to Government Housing Capital Receipts Pool	4,226	2,508
Precepts and Levies	584	586
Total	**4,810**	**3,094**

7. NET FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2019/20 £'000	2018/19 £'000
Interest payable and similar charges	9,233	9,301
Interest receivable and similar income	(801)	(912)
Strategic pooled fund fair value adjustment	1,192	156
Net interest on the net defined benefit liability	15,029	13,872
Changes in the fair value of investment properties	185	(184)
Total	**24,838**	**22,233**

8. TAXATION AND NON-SPECIFIC GRANT INCOME

	2019/20 £'000	2018/19 £'000
Council Tax Income	(114,339)	(110,355)
Non-Domestic Rates Income	(177,297)	(234,323)
Non-Domestic Rates Tariff payable to Central Government	105,712	148,484
Contribution to the London Business Rates Pool	16,121	24,301
Non-Domestic Rates Levy (receivable)/Payable to Central	0	(6)
Net Benefit from the London Business Rates Pool	(3,966)	(7,805)
Non-Ringfenced Government Grants	(18,461)	(12,238)
Capital Grants & Contributions	(32,552)	(24,698)
Total	**(224,782)**	**(216,640)**

As a result of the move into the 100% Business Rates retention pilot for 2018/19 into a 75% retention pilot for 2019/20, there have been a number of changes in local taxation income. The Council benefits from the removal of the levy and retains additional income due to the increase in the local share and increase in national tariff.

9. MOVEMENT OF NON-CURRENT ASSETS 2019/20

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Sub Total Plant, Property & Equipment £'000	Heritage Assets £'000	Intangibles £'000	Investment Properties £'000	Assets Held for Sale £'000	Total Non Current Assets £'000
Cost or Valuation as at 1 April 2019	**729,898**	**857,208**	**78,589**	**296,719**	**13,567**	**28,876**	**7,976**	**2,012,833**	**5,341**	**1,017**	**5,711**	**0**	**2,024,902**
Additions	23,755	0	10,508	9,508	56	3,582	0	**47,409**	0	1,931	0	0	**49,340**
Enhancements	16,173	10,726	52	0	0	3,465	0	**30,416**	35	0	0	0	**30,451**
Revaluation increases/(decreases) recognised in Revaluation Reserve	(8,234)	17,874	5,832	0	0	0	75	**15,547**	0	0	0	0	**15,547**
Revaluation increases/(decreases) recognised in Surplus/Deficit on Services	(39,587)	(9,963)	(165)	0	0	0	0	**(49,715)**	0	0	(185)	0	**(49,900)**
Derecognition - Disposals	(3,833)	(1,457)	(1,383)	0	0	0	(1,985)	**(8,658)**	0	0	0	0	**(8,658)**
Derecognition - Other	0	(165)	(2,477)	0	0	0	0	**(2,642)**	0	(11)	0	0	**(2,653)**
Assets reclassified within Property Plant and Equipment	12,216	(1,243)	2,416	0	0	(13,441)	0	**(52)**	0	0	0	0	**(52)**
Assets reclassified (to) & from Held for Sale & Investment Properties	0	(683)		0	0	0	52	**(631)**	0	0	0	683	**52**
Cost or Valuation as at 31 March 2020	**730,388**	**872,297**	**93,372**	**306,227**	**13,623**	**22,482**	**6,118**	**2,044,507**	**5,376**	**2,937**	**5,526**	**683**	**2,059,029**
Accumulated Depreciation & Impairment as at 1 April 2019	**(1)**	**(7,867)**	**(19,036)**	**(119,116)**	**(460)**	**(20)**	**(54)**	**(146,554)**	**0**	**(380)**	**0**	**0**	**(146,934)**
Depreciation charge in 2019/20	(10,207)	(8,493)	(5,378)	(7,400)	0	0	(22)	**(31,500)**	0	(144)	0	0	**(31,644)**
Depreciation written out to Revaluation Reserve	7,833	5,342	960	0	0	0	19	**14,154**	0	0	0	0	**14,154**
Depreciation written out to Surplus/Deficit on Services	2,321	1,313	185	0	0	0	0	**3,819**	0	0	0	0	**3,819**
Derecognition - Disposals	54	39	1,285	0	0	0	0	**1,378**	0	0	0	0	**1,378**
Derecognition - Other	0	0	2,472	0	0	0	0	**2,472**	0	11	0	0	**2,483**
Assets reclassified within Property Plant and Equipment	0	153	(151)	0	0	0	(2)	**0**	0	0	0	0	**0**
Assets reclassified (to) & from Held for Sale & Investment Properties	0	54	0	0	0	0	0	**54**	0	0	0	(54)	**0**
Accumulated Depreciation & Impairment as at 31 March 2020	**0**	**(9,459)**	**(19,663)**	**(126,516)**	**(460)**	**(20)**	**(59)**	**(156,177)**	**0**	**(513)**	**0**	**(54)**	**(156,744)**
Balance Sheet amount 1 April 2019	**729,897**	**849,341**	**59,553**	**177,603**	**13,107**	**28,856**	**7,922**	**1,866,279**	**5,341**	**637**	**5,711**	**0**	**1,877,968**
Balance Sheet amount 31 March 2020	**730,388**	**862,838**	**73,709**	**179,711**	**13,163**	**22,462**	**6,059**	**1,888,330**	**5,376**	**2,424**	**5,526**	**629**	**1,902,285**
Nature of asset holding													
Owned	730,388	862,838	73,677	179,711	13,163	22,462	6,059	**1,888,298**	5,376	2,424	5,526	629	**1,902,253**
Finance Lease			32					**32**					**32**
Balance Sheet amount 31 March 2020	**730,388**	**862,838**	**73,709**	**179,711**	**13,163**	**22,462**	**6,059**	**1,888,330**	**5,376**	**2,424**	**5,526**	**629**	**1,902,285**

MOVEMENT OF NON-CURRENT ASSETS 2018/19

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Sub Total Plant, Property & Equipment £'000	Heritage Assets £'000	Intangibles £'000	Investment Properties £'000	Assets Held for Sale £'000	Total Non Current Assets £'000
Cost or Valuation as at 1 April 2018	**721,943**	**509,754**	**59,992**	**283,136**	**13,567**	**41,319**	**7,766**	**1,637,477**	**5,341**	**977**	**5,527**	**44**	**1,649,366**
Additions	17,186	254	4,427	13,566	0	222	0	**35,655**	0	40	0	0	**35,695**
Enhancements	9,084	11,908	1,357	17	0	14,786	98	**37,250**	0	0	0	0	**37,250**
Revaluation increases/(decreases) recognised in Revaluation Reserve	(1,503)	278,796	14,355	0	0	0	961	**292,609**	0	0	0	0	**292,609**
Revaluation increases/(decreases) recognised in Surplus/Deficit on Services	(40,180)	60,217	(859)	0	0	0	(321)	**18,857**	0	0	184	0	**19,041**
Derecognition - Disposals	(3,820)	(680)	(52)	0	0	0	(120)	**(4,672)**	0	0	0	(44)	**(4,716)**
Derecognition - Other	0	(3,581)	(631)	0	0	(131)	0	**(4,343)**	0	0	0	0	**(4,343)**
Assets reclassified within Property Plant and Equipment	27,188	540	0	0	0	(27,320)	(408)	**0**	0	0	0	0	**0**
Assets reclassified (to) & from Held for Sale & Investment Properties	0	0	0	0	0	0	0	**0**	0	0	0	0	**0**
Cost or Valuation as at 31 March 2019	**729,898**	**857,208**	**78,589**	**296,719**	**13,567**	**28,876**	**7,976**	**2,012,833**	**5,341**	**1,017**	**5,711**	**0**	**2,024,902**
Accumulated Depreciation & Impairment as at 1 April 2018	**(1)**	**(21,308)**	**(16,857)**	**(112,055)**	**(460)**	**(28)**	**(37)**	**(150,746)**	**0**	**(240)**	**0**	**0**	**(150,986)**
Depreciation charge in 2018/19	(9,899)	(12,165)	(5,529)	(7,061)	0	0	(16)	**(34,670)**	0	(140)	0	0	**(34,810)**
Depreciation written out to Revaluation Reserve	7,608	13,111	2,455	0	0	0	0	**23,174**	0	0	0	0	**23,174**
Depreciation written out to Surplus/Deficit on Services	2,242	8,827	247	0	0	0	73	**11,389**	0	0	0	0	**11,389**
Derecognition - Disposals	49	51	17	0	0	0	14	**131**	0	0	0	0	**131**
Derecognition - Other	0	3,529	631	0	0	8	0	**4,168**	0	0	0	0	**4,168**
Assets reclassified within Property Plant and Equipment	0	88	0	0	0	0	(88)	**0**	0	0	0	0	**0**
Assets reclassified (to) & from Held for Sale & Investment Properties	0	0	0	0	0	0	0	**0**	0	0	0	0	**0**
Accumulated Depreciation & Impairment as at 31 March 2019	**(1)**	**(7,867)**	**(19,036)**	**(119,116)**	**(460)**	**(20)**	**(54)**	**(146,554)**	**0**	**(380)**	**0**	**0**	**(146,934)**
Balance Sheet amount 1 April 2018	**721,942**	**488,446**	**43,135**	**171,081**	**13,107**	**41,291**	**7,729**	**1,486,731**	**5,341**	**737**	**5,527**	**44**	**1,498,380**
Balance Sheet amount 31 March 2019	**729,897**	**849,341**	**59,553**	**177,603**	**13,107**	**28,856**	**7,922**	**1,866,279**	**5,341**	**637**	**5,711**	**0**	**1,877,968**
Nature of asset holding													
Owned	729,897	849,341	59,410	177,603	13,107	28,856	7,922	**1,866,136**	5,341	637	5,711	0	**1,877,825**
Finance Lease	0	0	143	0	0	0	0	**143**	0	0	0	0	**143**
Balance Sheet amount 31 March 2019	**729,897**	**849,341**	**59,553**	**177,603**	**13,107**	**28,856**	**7,922**	**1,866,279**	**5,341**	**637**	**5,711**	**0**	**1,877,968**

10. REVALUATION LOSSES/GAINS RECOGNISED IN COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

The Council undertakes a rolling programme that ensures all of its Property, Plant and Equipment is carried at current value or fair value as prescribed in the Code of Practice and that every asset is valued at least every 5 years. During 2019/20 53% of the Council's General Fund assets were valued by external independent valuers Wilks Head & Eve LLP as a result of the rolling programme and high value assets being valued.
The Housing Stock was uplifted in value to reflect market conditions for all Council Dwellings by Jones Lang LaSalle Limited to reflect the value at 31 March 2020 through a desktop valuation. Valuations are carried out in accordance with professional standards of the Royal Institution of Chartered Surveyors.
During 2019/20, the Council has recognised total revaluation losses of £50,113k (£63,220k in 2018/19) from downwards revaluations, which were fully charged to the relevant service lines in the Comprehensive Income and Expenditure Statement. The Council recognised valuation gains of £4,218k (£93,466k in 2018/19) representing the reversal of previously recognised losses, largely within the other land and buildings asset class. These entries were then reversed through the Movement in Reserves Statement to mitigate any impact on General Fund and Housing Revenue Account Balances.

Fair Value Hierarchy

Investment property and surplus properties are measured at fair value in accordance with IFRS13 Fair Value Measurement. In estimating the fair value the valuation has taken into account the highest and best use of the assets estimating the price at which an orderly transaction to sell the asset would take place under current market conditions. IFRS13 also seeks to increase consistency and comparability within the valuation process and categorises valuations under a fair value hierarchy which considers methodology of the valuation using levels of observable and unobservable inputs. Property within the borough is actively purchased, sold or leased on the open market and there are a number of comparables. As such, the level of observable inputs are significant, leading to all properties being categorised as level 2 on the fair value hierarchy. There have been no changes in asset methodology which resulted in moving asset fair values between levels on the fair value hierarchy during the year.
Valuations are reported on the basis of 'material valuation uncertainty' as per the RICS.

11. COMMITMENTS UNDER CAPITAL CONTRACTS

As at March 2020, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment during 2020/21 and future years budgeted to cost £19,920k. Similar commitments at 31 March 2019 were £25,661k. The major commitments are:

Scheme	31 March 2020 £'000	31 March 2019 £'000
Schools Expansions Programme	4,167	6,348
New Vehicles	124	2,411
Housing	10,225	12,225
New Yiewsley Leisure Centre	270	0
Other Capital Projects	5,133	4,677
Total	**19,920**	**25,661**

12. HERITAGE ASSETS

At 31 March 2020, the Council held Civic Regalia and a statue 'Anticipation' that were insured for £501k. As neither a current market valuation, nor a replacement cost is available, this insurance value has been used as the basis for valuation.

At 31 March 2020, the Council owned the Battle of Britain Bunker that has been insured for £4,725k. As neither a current market valuation, nor a replacement cost is available due to the specialist nature of this historic asset, the insurance value has been used as the basis for valuation. In addition, a number of artefacts held at the battle of Britain bunker site are held as heritage assets, which belonged to Battle of Britain flying ace Wing Commander Ronald Gustave Kellett who was stationed at RAF Northolt in 1940. These items have been valued at £150k based on auctions of similar items.

The Council also holds an 18th Century stable block within the grounds of Cranford Park alongside a collection of antique farm equipment. There are a number of artefacts including historical archives stored within the Battle of Britain bunker. These are insured through the Council's general insurance scheme but do not hold specific valuations, are non-realisable and therefore are not included on the Council's balance sheet.

Heritage Assets of Particular Importance

The Battle of Britain Bunker is an underground operations room and is an historic landmark of national significance. The bunker played a crucial role in the air defence of the United Kingdom throughout World War Two by the No 11 Group Fighter Command. It was vital in directing RAF operations throughout the war with fighter aircraft operations being controlled from the bunker throughout the war but most notably during the Battle of Britain and on D-Day. The bunker was visited by both Winston Churchill and King George VI in 1940 and it was here that Winston Churchill on 16 August 1940 spoke the famous words "Never in the field of human conflict was so much owed, by so many, to so few". Evacuations started in 1938 and the operations bunker was constructed in 1939. The bunker is located 60 feet below ground level and is accessed via a staircase of over 70 steps. Within the collection which belonged to Wing Commander Ronald Gustave Kellett, are medals awarded for distinguished acts of valour and courage such as the Distinguished Flying Cross (DFC) as well as flying logbooks. A number of items are displayed for residents to view while other items will be preserved researchers and historians to view to represent the historical importance and protect for generations to come. The Battle of Britain Bunker is signed up to the Museums Association's code of ethics. The site is alarmed and monitored with security services to protect the site and artefacts. Restoration and conservation works have been carried out on a number of exhibited artefacts within the bunker such as the wartime map.

13. INVESTMENT PROPERTIES

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

	2019/20 £'000	2018/19 £'000
Rental income from investment property	(350)	(354)
Direct operating expenses arising from investment property	65	57
Net gain	**(285)**	**(297)**

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 repairs, maintenance or enhancement.
Valuations are reported on the basis of 'material valuation uncertainty' as per the RICS.

14. FINANCIAL INSTRUMENT BALANCES

FINANCIAL ASSETS

	Current		Long-Term		Total	
	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000
Investments at Amortised Cost	4,759	702	0	0	4,759	702
Fair Value through Profit & Loss						
- Principal	0	500	15,076	15,055	15,076	15,555
- Fair Value Adjustment	0	0	(1,349)	(156)	(1,349)	(156)
- Hillingdon First Limited - Equity			3,371		3,371	
Total Investments	**4,759**	**1,202**	**17,098**	**14,899**	**21,857**	**16,101**
Cash & Cash Equivalents at Amortised Cost						
- Cash held by the Council	27	25	0	0	27	25
- Bank Current Accounts	20,005	16,576	0	0	20,005	16,576
- Liquid Deposits	0	30,901	0	0	0	30,901
Fair Value through Profit & Loss	10,000	0	0	0	10,000	0
Total Cash & Cash Equivalents	**30,032**	**47,502**	**0**	**0**	**30,032**	**47,502**
Other Assets at Amortised Cost						
- Trade Receivables	26,352	21,204	0	0	26,352	21,204
- Lease Receivables	1,612	1,404	15,120	10,133	16,732	11,537
- Loss allowance	(7,253)	(6,145)	0	0	(7,253)	(6,145)
Total Other Assets	20,711	16,463	15,120	10,133	35,831	26,596
Total Financial Assets	**55,502**	**65,167**	**32,218**	**25,032**	**87,720**	**90,199**

FINANCIAL LIABILITIES

	Current		Long-Term		Total	
	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000
Loans at Amortised Cost						
- Principal sum borrowed	(81,222)	(48,277)	(227,671)	(224,560)	(308,893)	(272,837)
- Accrued Interest	(1,144)	(1,092)	0	0	(1,144)	(1,092)
- EIR Adjustment	0	0	9,624	9,670	9,624	9,670
Total Loans	**(82,366)**	**(49,369)**	**(218,047)**	**(214,890)**	**(300,413)**	**(264,259)**
Other Liabilities at Amortised Cost						
- Trade Payables	(34,113)	(36,873)	0	0	(34,113)	(36,873)
- PFI arrangements	(223)	(226)	(537)	(760)	(760)	(986)
- Finance Leases	(5)	(18)	(26)	(126)	(31)	(144)
Total Other Liabilities	**(34,341)**	**(37,117)**	**(563)**	**(886)**	**(34,904)**	**(38,003)**
Total Financial Liabilities	**(116,707)**	**(86,486)**	**(218,610)**	**(215,776)**	**(335,317)**	**(302,262)**

Notes to the Main Financial Statements

INCOME, EXPENSE, GAINS AND LOSSES

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

	2019/20		2018/19	
	Surplus or Deficit on the provision of Services £'000	Other Comprehensive Income £'000	Surplus or Deficit on the provision of Services £'000	Other Comprehensive Income £'000
Interest Revenue				
- Assets measured at amortised cost	(74)	0	(142)	0
- Other	(24)	0	(13)	0
Dividend Revenue				
- Assets measured at fair value through profit and loss	(683)	0	(646)	0
Net Gains				
- Revaluation gains on assets measured at fair value through profit and loss	(21)	0	(55)	0
- De-recognition gains on assets measured at fair value through profit & loss	0	0	(56)	0
- Revaluation gain on assets measured through other comprehensive income	0	0	0	0
Interest & Investment Income and Revaluation Gains	**(801)**	**0**	**(912)**	**0**
Interest Expenses				
- Liabilities measured at amortised cost	8,262	0	8,502	0
- PFI & Lease Contracts	421	0	509	0
- Lease Contracts	36	0	50	0
- Other	478	0	213	0
Other Expenses				
- Brokerage Fees	35	0	8	0
Net Losses				
- De-recognition loss on assets measured at fair value through profit & loss	0	0	19	0
- Revaluation loss on assets measured at fair value through profit & loss	1,192	0	156	0
- Revaluation loss on assets measured through other comprehensive income	0	0	0	74
Interest Payable and Revaluation Losses	**10,425**	**0**	**9,457**	**74**
Net (Gain)/Loss for the Year	**9,624**	**0**	**8,545**	**74**

STRATEGIC POOLED FUND INVESTMENTS AT FAIR VALUE THROUGH PROFIT & LOSS

The Council has elected to apply the statutory override to account for the following investments measured at fair value through profit & loss and transfer any fair value movements through the MIRS into the Pooled Investment Fund Adjustment Account.

Equity Instruments designated at Fair Value through Other Comprehensive Income

	Fair Value		Dividends		Transfer Gain/(Loss)	
Long Term	**31 March 2020 £'000**	**31 March 2019 £'000**	**31 March 2020 £'000**	**31 March 2019 £'000**	**31 March 2020 £'000**	**31 March 2019 £'000**
- Investec Diversified Income Fund	4,510	4,976	208	180	(465)	(24)
- Columbia Threadneedle Strategic Bond Fund	4,677	4,949	123	128	(272)	(51)
- M&G Optimal Income Fund	4,464	4,919	162	81	(455)	(81)
Total Equity Instruments	**13,651**	**14,844**	**493**	**389**	**(1,192)**	**(156)**

FAIR VALUES OF ASSETS AND LIABILITIES

Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

The financial assets held by the Council during the year are accounted for under the following classifications:

- Amortised cost
- Fair value through other comprehensive income
- Fair value through profit and loss

Financial liabilities

A financial liability is a contractual obligation to deliver cash or other financial asset to another entity, or exchange a financial asset or liability with another entity under conditions, which are potentially unfavourable to the Council. The Council's financial liabilities held during the year were all measured at amortised cost.

The fair value of an instrument is determined by calculating the Net Present Value of future cash flows that are scheduled to take place over the remaining life of the instrument. This provides an estimate of the value of payments in the future in today's terms.

Fair Value

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2020, using the following methods and assumptions:

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2020, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate, or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.

- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows, excluding service charge elements, at the appropriate AA-rated corporate bond yield.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

Pooled funds have been transferred from Level 1 to Level 2 to better reflect the underling pricing method.

FAIR VALUE OF LIABILITIES

		31 March 2020		31 March 2019	
Financial Liabilities	**Fair Value Level**	**Carrying Amount £'000**	**Fair Value £'000**	**Carrying Amount £'000**	**Fair Value £'000**
PWLB Loans	2	(186,686)	(225,616)	(185,613)	(224,005)
Market Loans	2	(48,617)	(87,583)	(48,615)	(79,641)
Local Authority Loans	2	(65,109)	(65,109)	(30,031)	(30,031)
Lease & PFI Liabilities	2	(791)	(1,517)	(1,130)	(2,302)
Trade Payables	N/A	(34,113)	(34,113)	(36,873)	(36,873)
		(335,317)	**(413,938)**	**(302,262)**	**(372,852)**

The fair value of liabilities is higher than the balance sheet carrying amount because the Council's debt portfolio includes a number of loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. Overall there is a notional future loss (based on economic conditions at 31 March 2020) arising from a commitment to pay interest to lenders above current market rates.

FAIR VALUE OF ASSETS

	Fair Value Level	31 March 2020 Carrying Amount £'000	31 March 2020 Fair Value £'000	31 March 2019 Carrying Amount £'000	31 March 2019 Fair Value £'000
Financial Assets Held at Fair Value					
Money Market Funds	1	10,000	10,000	500	500
Pooled Funds (Short-Term)	2	0	0	0	0
Pooled Funds (Long-Term)	2	10	10	10	10
Strategic Pooled Funds (Long-Term)	2	13,651	13,651	14,844	14,844
Shares in Listed Companies (Long-Term)	1	66	66	45	45
Hillingdon First Limited - Equity	3	3,371	3,371		
Financial Assets Held at Amortised Cost					
Short-Term Deposits & Deposit Accounts	N/A	1,259	1,259	31,603	31,603
Cash and Bank Current Accounts	N/A	20,032	20,032	16,601	16,601
Hillingdon First Limited - Loan	N/A	3,500	3,500	0	0
Lease Receivables	N/A	16,732	16,732	11,537	11,537
Trade Receivables	N/A	19,099	19,099	15,059	15,059
		87,720	**87,720**	**90,199**	**90,199**

The fair value of short-term financial assets held at amortised cost, including trade and lease receivables, is assumed to approximate to the carrying amount.

LOSS ALLOWANCE BY ASSET CLASS

	31 March 2020 Gross receivable £'000	31 March 2020 Simplified approach Loss £'000	31 March 2019 Gross receivable £'000	31 March 2019 Simplified approach Loss £'000
Lifetime Expected Credit Loss - Trade Receivables	26,352	(7,253)	21,204	(6,145)

Offsetting Financial Assets and Liabilities

Financial assets or liabilities are set off against each other where the Council has a legally enforceable right to do so. The Council's bank accounts held with Lloyds Bank have a right of offset; for 2019/20 there were no accounts in an overdraft position where an offset was applied.

RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	31 March 2020 £'000	Realised gains/losses £'000	Unrealised gains/losses £'000	Sales £'000	Purchases £'000	Transfers out of Level £'000	Transfers into Level 3 £'000	01 April 2019 £'000
Hillingdon First Limited - Equity	3,371	0	0	0	3,371	0	0	0
	3,371	**0**	**0**	**0**	**3,371**	**0**	**0**	**0**

There have been no transfers between levels during the financial year. Transfers will only occur when there is a fundamental change in the underlying pricing structure and inputs.

The Council's has invested £3.37m as equity shares in Hillingdon First Limited (HFL), a wholly owned subsidiary, This investment has been valued at Level 3 as this is a new company whose shares are not traded. The fair value relating to the HFL equity holding is based on the underlying book cost of the investment as there is no other unobservable inputs which are able to be applied.

Although there is no determinable proxy to apply a perceived sensitivity analysis; as a reference point a 10% rise or fall in the equity holding would result in either an increase or decrease of £337k.

15. SHORT TERM DEBTORS

	31 March 2020 £'000	31 March 2019 £'000
Trade Receivables	19,099	15,059
Prepayments	2,391	3,115
Other receivable amounts	35,485	34,483
	56,975	**52,657**

16. DEBTORS FOR TAXATION

Debtors for taxation are included within the ‘other receivable amounts’ in note 15 and are detailed below.

The past due but not impaired amount for local taxation (council tax and non-domestic rates) can be analysed by age as follows:

	31 March 2020 £'000	31 March 2019 £'000
Up to one year	6,078	4,792
One to three years	7,862	7,709
Over three years	8,116	8,987
	22,056	**21,488**

Notes to the Main Financial Statements

17. LONG TERM DEBTORS

	31 March 2020 £'000	To Short Term £'000	Repayments £'000	Additions £'000	31 March 2019 £'000
Housing advances & associations	4	0	0	0	4
Sale of council houses	4	0	0	0	4
Other loans & advances	223	(8)	(8)	16	223
Developer contributions	633	0	(1,426)	0	2,059
	864	**(8)**	**(1,434)**	**16**	**2,290**

18. SHORT TERM CREDITORS

	31 March 2020 £'000	31 March 2019 £'000
Trade Payables	34,113	36,873
Other Payables	33,170	32,618
	67,283	**69,491**

19. LONG TERM CREDITORS

Long Term Creditors consist of balances held under Section 106 and 278 Agreements and deposits. These amounted to £3,891k at 31 March 2020 (£3,780k at 31 March 2019).

20. CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is made up of the following elements:

	31 March 2020 £'000	31 March 2019 £'000
Cash and Bank Current Accounts	30,032	16,601
Liquid deposits	0	30,901
Total Cash and Cash Equivalents	**30,032**	**47,502**

21. PROVISIONS

	1 April 2019 £'000	Additional provisions made in 2019/20 £'000	Amounts used in 2019/20 £'000	Unused amounts reversed in 2019/20 £'000	31 March 2020 £'000	Short-Term Provisions £'000	Long-Term Provisions £'000
CRC Allowance Purchase	106	0	(97)	(9)	0	0	0
Dilapidation Provision	613	0	(463)	(136)	14	14	0
Non Domestic Rates Appeal Losses	1,841	1,035	(969)	(1,535)	372	372	0
Social Care Disputes	558	855	(687)	0	726	726	0
Insurance Provision	2,871	782	0	0	3,653	2,647	1,006
Other provisions	1,454	557	(401)	(373)	1,237	1,236	1
Total Provisions	**7,443**	**3,229**	**(2,617)**	**(2,053)**	**6,002**	**4,995**	**1,007**

CRC Allowance Purchase

The CRC scheme ceased in 19/20. The 18/19 provision was applied and released accordingly.

Non Domestic Rates Appeal Losses

See note 3 to the Collection Fund Accounts. The Collection Fund Share represents the Council's 30% obligation in relation to appeals over the rateable value of properties from NNDR purposes.

The movement in the provision is caused by the change in the London Pool retention rate that saw Hillingdon move from retaining a 64% share of Business Rates in 2018/19 to a 30% share effective from 1st April 2019. The overall Appeals Provision for the Collection Fund decreased from £2,877k at the end of 2018/19 to £2,482k at the end of 2019/20. However as a result of Hillingdon's percentage decrease in the share of Business Rates, the share of the appeals provision decreased proportionately more.

Social Care Disputes

There are a small number of cases within Adult Social Care where the Ordinary Residence is in dispute with another local authority and determination from the Secretary of State is being sought. If it is determined that the Ordinary Residence for these cases is within the London Borough of Hillingdon then payments will have to be made for the back dated costs of the placements. This provision is based on paying for the placements from the date the cases were originally referred to the Social Work teams. In addition there are potential legal disputes in relation to funding levels of care provision.

Dilapidation Provision

The Council is contractually obliged to fund dilapidation costs on a number of leased properties. During the year, provisions were released and drawn upon. The latest schedule of works has resulted in a decreased estimate for works which are expected to be carried out during 2019/20.

Insurance

The Council has external insurance and liability indemnity to protect against major risks associated with items such as buildings and motor vehicles. The excess levels are as follows:

1. Property - £100k for combined risks
2. Liability - £250k
3. Motor Vehicles - £109k

The Council self-funds claims which fall under the excess thresholds. The insurance fund provision is to provide for outstanding claims against the Council as at 31 March 2020.
An exercise to determine long and short-term provisions was carried out and currently the ratio is 70% short-term and 30% long-term.

Other provisions

The other provisions represent amounts set aside to meet potential future liabilities. This includes items such as: legal costs; potential shortfall in damages; fly tipping clearance, among others.

22. UNUSABLE RESERVES

	31 March 2020 £'000	31 March 2019 £'000
Revaluation reserve	510,085	487,084
Capital adjustment account	988,715	989,921
Financial instruments adjustment account	(286)	(318)
Pensions reserve	(500,747)	(616,690)
Collection fund adjustment account	(1,677)	293
Accumulated absences account	(5,265)	(4,549)
Pooled Investment Fund Adjustment Account	(1,348)	(156)
Total Unusable Reserves	**989,477**	**855,585**

22A. 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, being the date that the Revaluation Reserve was created to hold such gains.

	2019/20		2018/19	
	£'000	£'000	£'000	£'000
Balance at 1 April		**989,921**		**924,268**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
- Charges for depreciation and impairment of non-current assets	(31,505)		(34,670)	
- Revaluation gains/(losses) on Property, Plant and Equipment	(45,895)		30,246	
- Amortisation of intangible assets	(143)		(140)	
- Revenue expenditure funded from capital under statute	(19,710)		(9,650)	
- Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(7,450)	(104,703)	(4,724)	(18,938)
Adjusting amounts written out of the Revaluation Reserve		6,701		3,122
Net written out amount of the cost of non-current assets consumed in the year		(98,002)		(15,816)
Capital financing applied in the year:				
- Use of the Capital Receipts Reserve to finance new capital expenditure	14,508		19,054	
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	32,552		24,698	
- Application of grants to capital financing from the Capital Grants Unapplied Account	(194)		(632)	
- Statutory and voluntary provision for the financing of capital investment charged against the General Fund and HRA balances	14,569		14,025	
- Finance Lease Principal	338		247	
- Capital expenditure charged against the General Fund and HRA balances	35,208	96,981	23,893	81,285
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(185)		184
Balance at 31 March		**988,715**		**989,921**

Notes to the Main Financial Statements

22B. REVALUATION RESERVE

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment (and Intangible Assets). 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 and the gains are realised

The Reserve contains only revaluations 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.

	2019/20		2018/19	
	£'000	£'000	£'000	£'000
Balance at 1 April		**487,084**		**174,422**
Upward revaluation of assets				
- Land & Buildings	61,395		304,825	
- Council Dwellings	5,210		7,302	
- Surplus Assets	94		1,190	
- Plant and Equipment	7,355		16,810	
- Heritage Assets		74,054	0	330,127
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services				
- Land & Buildings	(38,179)		(12,918)	
- Council Dwellings	(5,611)		(1,197)	
- Surplus Assets			(228)	
- Plant and Equipment	(562)	(44,352)		(14,343)
Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or (Deficit) on the Provision of Services		**29,702**		**315,784**
Difference between fair value depreciation and historical cost depreciation				
- Land & Buildings	(2,722)		(1,740)	
- Surplus Assets	(18)		(16)	
- Plant and Equipment	(566)		(6)	
- Council Dwellings	(982)	(4,288)	(858)	(2,620)
Accumulated gains on assets sold or scrapped				
- Land & Buildings	(1,056)		(112)	
- Surplus Assets	(1,008)		(70)	
- Assets Held for sale			(1)	
- Council Dwellings	(349)		(252)	
- Assets Under Construction		(2,413)	(67)	(502)
Amount written off to the Capital Adjustment Account		**(6,701)**		**(3,122)**
Balance at 31 March		**510,085**		**487,084**

23. CASH FLOW STATEMENT - OPERATING ACTIVITIES

	2019/20 £'000	2018/19 £'000
(Surplus)/Deficit on the provision of services	**80,667**	**(18,602)**
Depreciation and impairment of non-current assets	(77,400)	(4,424)
Amortisation of intangible fixed assets	(143)	(140)
Revenue Expenditure Funded from Capital under Statute	(19,710)	(9,650)
Pension Fund adjustments	(32,495)	(33,583)
(Increase)/Decrease in impairment for provision for bad debts	(622)	(1,072)
(Increase)/Decrease in creditors	2,097	33,009
Increase/(Decrease) in debtors	3,514	(473)
Increase/(Decrease) in inventories	43	56
Carrying amount of non-current assets sold	(7,450)	(4,724)
Other non-cash items charged to the net Surplus or Deficit on the Provision of Services	1,045	(1,541)
Total adjusting items	**(131,121)**	**(22,542)**
Adjustments for items included in the net Surplus or Deficit on the Provision of Services that are investing or financing activities		
Proceeds from the disposal of plant, property and equipment, investment property and intangible assets	14,160	19,149
Capital Grants and other contributions credited to Surplus or Deficit on the Provision of Services	32,552	24,698
Billing Authorities - Council Tax and NNDR adjustments	(1,818)	(27,619)
Total included elsewhere on Cash Flow Statement	**44,894**	**16,228**
Net cash flows from operating activities	**(5,560)**	**(24,916)**

Interest received, interest paid and dividends received

	2019/20 £'000	2018/19 £'000
Interest paid	(9,233)	(9,301)
Interest received	801	912

24. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2019/20 £'000	2018/19 £'000
Cash Outflows		
Purchase of property, plant and equipment	77,825	72,905
Other payments for investing activities	19,710	9,650
	97,535	**82,555**
Cash Inflows		
Sale of property, plant and equipment	(14,160)	(19,149)
Capital grants received	(26,514)	(20,093)
Other receipts from investing activities	(6,880)	(7,098)
	(47,554)	**(46,340)**
Net Cash Outflow	**49,981**	**36,215**
Net Increase/(Decrease) in Short-Term Investments	3,557	(29,367)
Net Increase/(Decrease) in Long-Term Investments	3,392	15,000
Net cash flows from investing activities	**56,930**	**21,848**

25. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2019/20 £'000	2018/19 £'000
Cash Outflows		
Repayments of amounts borrowed	53,944	17,278
Capital element of finance lease rental and on-balance sheet PFI payments	338	247
Cash Inflows		
New borrowing taken	(90,000)	(40,000)
Billing Authorities - Council Tax and NNDR adjustments	1,818	27,619
Net cash flows from financing activities	**(33,900)**	**5,144**

Reconciliation of Liabilities arising from Financing Activities

	Balance 31 March 2019 £'000	Financing Cash Flows £'000	Non Cash Acquisition £'000	Other Non Cash Changes £'000	Balance 31 March 2020 £'000
Short Term Borrowing	(49,369)	(16,056)	(18,033)	1,092	**(82,366)**
Long Term Borrowing	(214,890)	(20,000)	0	16,843	**(218,047)**
Short Term Lease & PFI	(244)	244	(228)	0	**(228)**
Deferred Liabilities Lease & PFI	(886)	94	0	229	**(563)**
Council Tax and NNDR Adjustments	(904)	1,818	0	0	**914**
Total	**(266,293)**	**(33,900)**	**(18,261)**	**18,164**	**(300,290)**

	Balance 31 March 2018 £'000	Financing Cash Flows £'000	Non Cash Acquisition £'000	Other Non Cash Changes £'000	Balance 31 March 2019 £'000
Short Term Borrowing	(18,360)	(12,722)	(19,369)	1,082	**(49,369)**
Long Term Borrowing	(229,647)	(10,000)	0	24,757	**(214,890)**
Short Term Lease & PFI	(247)	247	(244)	0	**(244)**
Deferred Liabilities Lease & PFI	(1,165)	0	0	279	**(886)**
Council Tax and NNDR Adjustments	(28,523)	27,619	0	0	**(904)**
Total	**(277,942)**	**5,144**	**(19,613)**	**26,118**	**(266,293)**

26. EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to audit of the Statement of Accounts, certification of grant claims and statutory inspections provided by the Council's external auditors Ernst and Young:

	2019/20 £'000	2018/19 £'000
Fees payable in regard to external audit services carried out by the appointed auditor	199	121
Fees payable for the certification of grant claims and returns	51	41
Total External Audit costs	**250**	**162**

Non Audit Fees - The Council did not incur any non-audit costs in 2019/20 or 2018/19 with Ernst and Young.

27. PARKING REVENUE ACCOUNT

The Parking Revenue Account is maintained in accordance with section 55 of the Road Traffic Regulation Act 1984 which provides that a London Borough Council must keep an account of the income and expenditure in respect of parking places on the highway and sets out how any deficit must be treated and limitations on the use of any surplus.

	2019/20 £'000	2018/19 £'000
Income	(5,162)	(5,398)
Expenditure	3,577	3,663
(Surplus)/ Deficit	**(1,585)**	**(1,735)**
Contribution to transport services	2,335	1,900
Total (Surplus)/ Deficit	**750**	**165**

28. MEMBER ALLOWANCES

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

	2019/20 £'000	2018/19 £'000
Salaries & Allowances	1,375	1,340
Total	**1,375**	**1,340**

Further details on Members' allowances are available on the Council website.

29. POOLED BUDGETS

A section 75 agreement is in operation between London Borough of Hillingdon and Hillingdon Clinical Commissioning Group (HCCG) in respect of Learning Disability Services and was effective from 1st April 2008. This is not operating as a Pooled Budget in that it clearly identifies the financial liabilities of the two partners on an individual client basis. The object of the agreement is to enable the effective commissioning of services for this client group thereby providing a seamless service to the individual. For 2019-20, this service provided support to approximately 707 clients at a gross cost of £41,617k, which included approximately 44 HCCG clients and 30 Joint Funded clients for which the council received £5,5375k.

Better Care Fund Pooled Budget

The Better Care Fund Pooled Budget was set up in 2015-16. LB Hillingdon and Hillingdon CCG have Pooled Funds to work on joint services for Hillingdon residents. There is a compulsory contribution that each party must contribute but additional funds can be pooled. In 2019-20 £63,878k additional contributions were added to the Pooled Budget.

The Aims of the Pooled Budget is to reduce Emergency Hospital Admissions and Delayed Transfers of Care. To increase the effectiveness of the Reablement Service and other community services to improve the independence and wellbeing of Hillingdon residents in need of these services. Under the terms of the Pooled Budget each party is responsible for risks associated with their own share of the Pooled Budget with the exception of the Community Equipment Funding which is risk shared on a 50:50 basis.

The table below sets out the allocation received by each party for inclusion in the Better Care Fund.

	2019/20			2018/19		
	Hillingdon CCG £'000	LB Hillingdon £'000	Total £'000	Hillingdon CCG £'000	LB Hillingdon £'000	Total £'000
BCF Grant	18,362	0	18,362	17,175	0	17,175
DFG Base Allocation	0	4,505	4,505	0	4,174	4,174
iBCF	0	6,207	6,207	0	5,258	5,258
Voluntary Contributions	27,752	36,127	63,878	16,035	11,646	27,681
	46,114	**46,838**	**92,952**	**33,210**	**21,078**	**54,288**

This funding was then pooled and split out between the partners as set out below:

	2019/20			2018/19		
	Hillingdon CCG £'000	LB Hillingdon £'000	Total £'000	Hillingdon CCG £'000	LB Hillingdon £'000	Total £'000
BCF Grant	11,666	6,696	18,362	10,974	6,201	17,175
DFG Base Allocation	0	4,505	4,505	0	4,174	4,174
iBCF	0	6,207	6,207	0	5,258	5,258
Voluntary Contributions	25,937	35,086	61,022	15,796	11,646	27,442
CCG Voluntary Contribution Retained by LBH	0	2,856	2,856	0	239	239
	37,603	**55,349**	**92,952**	**26,770**	**27,518**	**54,288**

* The Voluntary Contributions have increased in line with the 3 year plan from 2017-2020 for the BCF with further inclusion of Residential placements budgets. This was included within the plan due to the greater joint working within the Brokerage function.

30. RELATED PARTY TRANSACTIONS

The Council is required to disclose any material transactions with related parties - bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

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, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax bills, housing benefits). Grants received from government departments are set out in note 34.

London Housing Consortium
The Council, in partnership with other councils and housing associations, participates in the London Housing Consortium (LHC). The LHC provides specialist architectural services and bulk procurement arrangements for the public sector.

West London Waste Authority
West London Waste Authority is a statutory waste disposal authority created in 1986 with membership of the London Borough of Hillingdon and five other London Boroughs. It is primarily funded by a levy paid by each of the six participating councils. The amount contributed for 2019/20 is included under the heading Precepts and Levies below.

The Pension Fund
The London Borough of Hillingdon Pension Fund is considered a related party. The employer's contribution to the Pension Fund in 2019/20 was £25,382k (£22,395k in 2018/19). The Council also recharged the Pension Fund £344k for staffing and overhead apportionment costs in 2019/20 (£407k in 2018/19). A precept of £345k was paid to the London Pension Fund Authority in 2019/20 (£347k in 2018/19).

Members and Chief Officers
Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2019/20 is shown in note 28.

This note concerns the disclosure of additional information on transactions between the Council and its related parties. The purpose of the note is to demonstrate fairness and openness in the accounts. All councillors and relevant officers are required to complete declarations to meet the requirements of IAS 24 - Transactions with Related Parties. Disclosures of Interest have been made in respect of the following organisations; the payment amount will not necessarily be just in respect of grants but will be a total of transactions between the Council and the organisation during the year. There were no material outstanding balances at year-end.

Organisation	Name	Payment
Hillingdon First Limited	Senior Officer Iain Watters	£3,371,000.00
Hillingdon First Limited	Senior Officer Perry Scott	£3,371,000.00
Hillingdon First Limited	Senior Officer Daniel Kennedy	£3,371,000.00
Hillingdon Carers	Councillor Becky Haggar	£757,457.00
Hillingdon Carers	Councillor Judith Cooper	£757,457.00
Age UK Hillingdon	Councillor Ian Edwards	£664,600.00
Hillingdon Citizens Advice Bureau	Councillor Raymond Graham	£323,444.85
Hillingdon Citizens Advice Bureau	Councillor John Riley	£323,444.85
Harlington Hospice Association	Councillor Kuldeep Lakhmana	£282,700.30
Ruislip and Northwood Old Folks Association	Councillor Becky Haggar	£91,176.00
Ruislip and Northwood Old Folks Association	Councillor Edward Lavery	£91,176.00
Hillingdon Outdoor Activities Centre	Councillor Jane Palmer	£59,112.00
Hillingdon Outdoor Activities Centre	Councillor Henry Higgins	£59,112.00
Friends of 11(F) Group Operations Rooms	Councillor Raymond Puddifoot	£44,748.60
H4ALL Community Interest Company	Councillor Ian Edwards	£30,000.00
Hillingdon Shopmobility	Councillor Teji Barnes	£24,000.00
Yiewsley Baptist Church	Councillor Stuart Mathers	£19,345.04
The Abbeyfield Society Ltd	Councillor Martin Goddard	£15,610.67
Relate London North West Family Mediation	Councillor Susan O'Brien	£15,315.00
Relate London North West Family Mediation	Councillor Stuart Mathers	£15,315.00
Hillingdon Aids Response Trust	Councillor Peter Curling	£15,000.00
Localis Research Limited	Councillor David Simmonds	£12,000.00
London Road Safety Council	Councillor Teji Barnes	£8,640.00
London Youth Games Ltd	Councillor Richard Mills	£8,400.00
Yiewsley and West Drayton Community Association	Councillor Shehryar Ahmad-Wallana	£6,680.00
Yiewsley and West Drayton Community Association	Councillor Janet Duncan	£6,680.00
Yiewsley and West Drayton Community Association	Councillor Jan Sweeting	£6,680.00
Yiewsley and West Drayton Community Association	Councillor Alan Deville	£6,680.00
The Law Society	Councillor Nick Denys	£6,468.00

Precepts/Levies
In 2019/20, the following precepts and levies are considered related party transactions:

	2019/20 £'000	Restated 2018/19 £'000
Business Rate Retention - MHCLG	106,266	0
Business Rate Retention - GLA	217,103	131,486
Greater London Authority Precept	32,202	29,149
Greater London Authority Crossrail	13,197	13,217
West London Waste Authority Levy	11,429	10,670
TFL Concessionary Fares	8,124	8,061
Lee Valley Regional Park Authority	239	240
Environment Agency	229	225

*2018/19 has been updated to reflect revised reporting within the pooling arrangement

31. OFFICER EMOLUMENTS

The number of employees in 2019/20 whose remuneration, excluding pension contributions, was £50k or more, are detailed below in bands of £5k. The bandings only include the remuneration of senior employees that have not been disclosed separately. The number of employees included in the totals that exceeded the £50k threshold due to lump sum termination payments are indicated in brackets. These employees left the employment of the Council during the financial year.

	LBH EMPLOYEES				SCHOOL EMPLOYEES			
	2019/20		2018/19		2019/20		2018/19	
Remuneration Band	**Total**	**Due to Lump Sum**	**Total**	**Due to Lump Sum**	**Total**	**Due to Lump Sum**	**Total**	**Due to Lump Sum**
£50,000 - £54,999	89	(2)	99	(1)	73	0	55	0
£55,000 - £59,999	49	(2)	42	0	27	0	24	0
£60,000 - £64,999	41	(2)	30	(4)	17	0	18	0
£65,000 - £69,999	17	0	14	(4)	22	0	18	0
£70,000 - £74,999	10	(1)	6	(1)	14	0	15	0
£75,000 - £79,999	4	0	5	0	8	0	5	0
£80,000 - £84,999	7	(1)	4	0	5	0	5	0
£85,000 - £89,999	5	0	10	(2)	6	0	5	0
£90,000 - £94,999	2	0	2	0	4	0	4	0
£95,000 - £99,999	2	0	2	0	1	0	2	0
£100,000 - £104,999	0	0	1	0	1	0	1	0
£105,000 - £109,999	1	0	0	0	1	0	0	0
£110,000 - £114,999	0	0	0	0	1	0	1	0
	227	**(8)**	215	(12)	**180**	**0**	153	0

Disclosure of Remuneration for Senior Employees (Schools):-

Details of school employees in the above table earning over £100,000 during 2019/20 is listed below.

Job Title	**Pensionable Pay 2019/20**	**Pensionable Pay 2018/19**	**Due to Lump Sum**
Headteacher - Harlington Community School	£114,042	£113,857	No
Headteacher - Yeading Infant School	£108,286	£103,065	No
Headteacher - Deanesfield Primary School	£101,401	Previously below £100,000	No

Notes to the Main Financial Statements

Disclosure of Remuneration for Senior Employees (LBH):-

The following disclosure sets out remuneration for staff included in tiers 1 and 2 of the Council's management structure for 2019/20.

		2019/20			
Job Title		**Contracted Salary**	**Compensation for loss of employment**	**EER's pension Contributions**	**Total**
Chief Executive and Corporate Director of Administration (F Beasley)		£260,513	£0	£0	£260,513
Head of Democratic Services		£100,822	£0	£24,298	£125,120
Head of Legal Services and Borough Solicitor		£149,536	£0	£36,038	£185,574
Head of Human Resources		£122,318	£0	£29,479	£151,797
Corporate Director of Finance (P Whaymand)		£191,775	£0	£0	£191,775
Deputy Director Exchequer Services & Business Assurance		£128,687	£0	£15,536	£144,223
Deputy Director Corporate Finance		£133,062	£0	£32,068	£165,130
Deputy Chief Executive and Corporate Director of Residents Services (J Palmer)		£237,316	£0	£0	£237,316
Director Infrastructure, Business Improvement, Communications, Procurement, Waste Services & ICT (P Scott)		£164,607	£0	£39,670	£204,277
Head of Planning, Transportation & Regeneration		£123,420	£0	£29,744	£153,164
Head of Administrative, Technical Support, Licensing and Business Services		£114,604	£0	£27,620	£142,224
Director Housing, Environment, Education and Health		£149,536	£0	£36,038	£185,574
Corporate Director of Social Care (T Zaman)		£198,368	£0	£0	£198,368
Assistant Director of Provider and Commisioned Care		£105,405	£0	£25,403	£130,808
Assistant Director of Adult Social Work		£96,781	£0	£23,324	£120,105
Assistant Director of Safeguarding		£103,121	£0	£0	
Head of Service - SEND	1	£37,739	£0	£9,095	
Head of Safe Guarding Partnership & QA	2	£48,770	£0	£11,754	£60,524
Head of Pensions,Treasury and Statutory Accounts	3	£65,669	£0	£15,826	£81,496
Assistant Director of Corporate Parenting	4	£79,159	£15,800	£19,077	£114,036
Director of Children's Services	5	£56,875	£0	£13,707	£70,582

1. Employment in post commenced 14/10/2019
2. Employment in post commenced 26/08/2019
3. Employment ended 26/12/2019
4. Employment ended 15/01/2020
5. Employment ended 01/09/2019

Disclosure of Remuneration for Senior Employees (LBH):-

The following disclosure sets out remuneration for staff included in tiers 1 and 2 of the Council's management structure for 2018/19.

Group	Job Title		2018/19 Contracted Salary	2018/19 Compensation for loss of employment	2018/19 EER's pension Contributions	2018/19 Total
Chief Executives Office	Chief Executive and Corporate Director of Administration (F Beasley)		£230,844	£0	£0	£230,844
	Head of Democratic Services		£98,830	£0	£22,830	£121,660
	Head of Legal Services and Borough Solicitor		£144,120	£0	£33,292	£177,412
	Head of Human Resources	1	£111,816	£0	£25,829	£137,645
Finance	Corporate Director of Finance (P Whaymand)		£173,811	£0	£0	£173,811
	Acting Deputy Director Exchequer Services & Business Assurance	2	£114,375	£0	£0	£114,375
	Deputy Director Corporate Finance		£127,969	£0	£29,561	£157,530
	Head of Revenues & Benefits		£95,823	£0	£22,135	£117,958
	Head of Pensions,Treasury and Statutory Accounts		£85,775	£0	£19,814	£105,589
Residents Services	Deputy Chief Executive and Corporate Director of Residents Services (J Palmer)		£216,345	£0	£0	£216,345
	Director Infrastructure, Business Improvement, Communications, Procurement, Waste Services & ICT (P Scott)	3	£158,007	£0	£36,500	£194,506
	Head of Planning, Transportation & Regeneration		£119,646	£0	£27,638	£147,284
	Head of Administrative, Technical Support, Licensing and Business Services		£110,197	£0	£25,455	£135,652
	Director Housing, Environment, Education and Health	4	£141,932	£0	£32,786	£174,719
Social Care	Corporate Director of Social Care (T Zaman)		£170,552	£0	£39,398	£209,950
	Director of Children's Services	5	£126,830	£0	£26,906	£153,737
	Assistant Director of Provider and Commisioned Care		£91,391	£0	£21,111	£112,503
	Assistant Director of Social Care, Mental Health & Learning Disabilities		£88,702	£0	£20,490	£109,192
	Head of Service - SEND	6	£57,213	£0	£13,198	£70,411
Leavers	Head of HR, Performance Improvement and Communications	7	£57,462	£104,469	£13,274	£175,205
	Assistant Director of Children's Early Intervention	8	£99,631	£46,930	£23,015	£169,576
	Assistant Director of Social Care, Older People, Physical Disabilities & OT	9	£97,223	£0	£22,459	£119,682

1. Employment in post commenced 01/09/2018
2. Change of post, acting up from 14/01/2019
3. Change of post from 08/08/2018
4. Change of post from 08/08/2018
5. Change of post from 01/11/2018
6. Employment in post commenced 10/09/2018
7. Employment ended 31/08/2018
8. Employment ended 31/03/2019
9. Employment ended 31/03/2019

32. EXIT PACKAGES

The number of exit packages that have been agreed by the Council during the year are listed below. These packages include redundancy costs, pension strain costs, ex gratia payments and other departure costs. The Council does not award added years pension contributions but pension strain is incurred where a pension is taken early without actuarial reduction and is a cost to the Council, not a direct payment to the employee.

Exit package costs by banding which include special payments and pension strain costs.

	LBH EMPLOYEES					
Cost Band	2019/20 No. of LBH Employees with Exit Packages Number	Number of Compulsory Redundancies Number	Number of Other Departures Agreed Number	Total Exit Payments to Employees £'000	Pension Strain Costs £'000	Total Exit Package Cost £'000
£0 - £20,000	41	38	3	435	377	**812**
£20,001 - £40,000	12	9	3	315	215	**530**
£40,001 - £60,000	2	0	2	99	146	**245**
£60,001 - £80,000	0	0	0	0	0	**0**
Over £80,001	0	0	0	0	0	**0**
	55	**47**	**8**	**849**	**738**	**1,587**

	LBH EMPLOYEES					
Cost Band	2018/19 No. of LBH Employees with Exit Packages Number	Number of Compulsory Redundancies Number	Number of Other Departures Agreed Number	Total Exit Payments to Employees £'000	Pension Strain Costs £'000	Total Exit Package Cost £'000
£0 - £20,000	36	33	3	297	357	**654**
£20,001 - £40,000	12	6	6	313	91	**404**
£40,001 - £60,000	5	0	5	242	204	**446**
£60,001 - £80,000	0	0	0	0	0	**0**
Over £80,001	1	1	0	104	0	**104**
	54	**40**	**14**	**956**	**652**	**1,608**

	SCHOOL EMPLOYEES					
Cost Band	2019/20 No. of Schools Employees with Exit Packages Number	Number of Compulsory Redundancies Number	Number of Other Departures Agreed Number	Total Exit Payments to Employees £'000	Pension Strain Costs £'000	Total Exit Package Cost £'000
£0 - £20,000	1	0	1	8	0	**8**
£20,001 - £40,000	0	0	0	0	0	**0**
	1	**0**	**1**	**8**	**0**	**8**

	SCHOOL EMPLOYEES					
Cost Band	2018/19 No. of Schools Employees with Exit Packages Number	Number of Compulsory Redundancies Number	Number of Other Departures Agreed Number	Total Exit Payments to Employees £'000	Pension Strain Costs £'000	Total Exit Package Cost £'000
£0 - £20,000	6	2	4	37	0	**37**
£20,001 - £40,000	3	0	3	74	0	**74**
	9	**2**	**7**	**111**	**0**	**111**

33. DEDICATED SCHOOLS GRANT

The Dedicated Schools Grant has been credited to Education and Children's Services in the Comprehensive Income and Expenditure Statement.

The Council's expenditure on schools is funded by grant monies provided by the Department for Education through the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budgets as defined in the School and Early Years Finance (England) Regulations 2014. The Schools Budget includes elements for a restricted range of services provided on a council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of the DSG receivable for 2019/20 are as follows:

	Schools Budget Funded by Dedicated Schools Grant		
	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2019/20 before academy recoupment			287,259
Academy figure recouped for 2019/20			(134,629)
Total DSG after academy recoupment for 2019/20			152,630
Plus Brought-forward from 2018/19			8,492
Less Carry-forward to 2020/21 agreed in advance			(8,492)
Agreed initial budgeted distribution in 2019/20	37,444	115,186	152,630
In year adjustments	0	0	0
Final budgeted distribution for 2019/20	**37,444**	**115,186**	**152,630**
Less actual central expenditure	(43,434)		(43,434)
Less actual ISB deployed to schools		(115,706)	(115,706)
Plus Local Authority contribution for 2019/20	0	0	0
Total	(5,990)	(520)	(6,510)
Carry-forward agreed in advance			(8,492)
Carry-forward to 2020/21	**(5,990)**	**(520)**	**(15,002)**

34. GRANT INCOME

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

REVENUE GRANT INCOME

	2019/20 £'000	2018/19 £'000
Revenue Grant Income Credited to Taxation and Non Specific Grant Income		
Housing Benefit Administration Subsidy	1,112	1,025
Local Council Tax Support Administration Subsidy	288	309
New Homes Bonus	3,665	4,040
Other Grants	6,174	6,864
Covid-19 Tranche 1	6,861	0
EU Exit Preparation	360	0
Total Non-Specific Revenue Grants	**18,461**	**12,238**
Revenue Grant Income Credited to Services		
Department for Education		
Dedicated Schools Grant (DSG)	152,630	148,930
Pupil Premium	5,915	6,120
Sixth Form & Adult Learning Grants	1,580	2,241
Universal Infant Free School Meals Grant	2,572	2,578
Private Finance Initiative	1,778	1,778
Adult & Community Learning	1,575	1,526
PE & Sports Grant	956	956
Teachers Pay Grant	3,655	640
Department for Communities and Local Government:		
Flexible Homelessness Support	1,783	1,932
Rough Sleeping Strategy	162	0
Troubled Families Grant	1,148	1,040
Business Rates Cost of Collection Allowances	572	574
Department of Health		
Public Health Grant	17,071	17,534
Better Care Fund	18,361	22,433
Improved Better Care Fund	6,207	0
Independent Living Fund	493	508
Adult Social Care Support Grant	1,777	651
Winter Pressures Funding	1,041	1,041
Arts Council		
Music Education Hub	481	457
Department for Work and Pensions:		
Housing Benefit Subsidy	115,905	138,773
Discretionary Housing Payments	837	856
Home Office:		
Funding for Unaccompanied Asylum Seeking Children	5,738	4,129
Department for Transport		
Local Highways Maintenance Funding	0	919
Other		
Other Grants	3,955	2,774
Contributions		
Other Contributions	45,565	31,792
Total Grants Credited to Services	**391,759**	**390,182**
Total Revenue Grant Income	**410,219**	**402,420**

CAPITAL GRANT INCOME

	2019/20 £'000	2018/19 £'000
Capital Grant Income credited to the Comprehensive Income and Expenditure Statement		
Disabled Facilities Grant	4,505	4,708
Education and Skills Funding Agency	16,535	9,007
Transport for London	1,920	4,669
Greater London Assembly	1,966	266
Department of Health	69	0
Total Capital Grant Income	**24,995**	**18,650**
Schools Capital Contributions	1,470	507
S106 Contributions	1,215	1,270
Community Infrastructure Levy	4,541	3,287
Other Capital Contributions	331	984
Total Capital Grants and Contributions Received	**32,552**	**24,698**

Of the capital grant income applied to the Comprehensive Income and Expenditure account within Taxation and Non Specific Grant income, £21,645k was used to fund the Capital Programme and £3,350k was transferred to the Capital Grants Unapplied Reserve for future use.

GRANTS RECEIVED IN ADVANCE

The Council has received a number of grants and contributions 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 awarding body should condition for use fail to be met. Revenue grants with these conditions are included within Creditors under the amounts owed to Government Departments. The balances for capital grants at the year-end are as follows:

	2019/20 £'000	2018/19 £'000
Capital Grant & Contribution Receipts in Advance		
ESFA Capital Grants	3,071	1,944
S106	11,522	11,025
Total Capital Grant & Contribution Receipts in Advance	**14,593**	**12,969**

35. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below, 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 this note.

	2019/20 £'000	2018/19 (Restated) £'000
Opening Capital Financing Requirement	**401,190**	**399,967**
Capital investment		
Property, Plant and Equipment	77,875	72,905
Intangible Assets	1,920	40
Revenue Expenditure Funded from Capital under Statute	19,710	9,650
Long Term Investment in HFL	3,371	0
Loan to HFL	3,500	0
Sources of finance		
Capital receipts	(14,508)	(19,054)
Government grants and other contributions	(32,358)	(24,066)
Sums set aside from revenue:		
Direct revenue contributions	(35,208)	(23,893)
Minimum Revenue Provision (MRP) / loans fund principal	(14,569)	(14,025)
Other Revenue Provision	(345)	(334)
Closing Capital Financing Requirement	**410,578**	**401,190**
Explanation of movements in year		
Increase/(Decrease) in underlying need to borrow :		
- unsupported by Government financial assistance	9,388	1,223
Increase/(Decrease) in Capital Financing Requirement	**9,388**	**1,223**

* 2018/19 CFR has been updated to include principal repaid relating to finance leases

The Capital Financing Requirement (CFR) is a measure of the Council's underlying need to borrow for capital purposes. It does not represent the Council's actual borrowing which is determined following consideration of other balances such as reserves, provisions, working capital and timing differences of cash inflows and outflows.

36. LEASES

In financial years prior to 2019/20 the Council acquired a private finance initiative (PFI) school and a contract for superloos under finance leases with the risks and rewards associated with ownership of such assets having transferred to the Council. Assets acquired under finance leases are carried as Property, Plant and Equipment in the Balance Sheet. Since the initial transfer, the PFI school moved to Academy status and the asset was removed from the balance sheet, however the Council still holds the liability. As at 31st March 2020 the Council has ended all but one of the superloo finance leases.

The Council is committed to making minimum payments under these leases comprising settlement of the long term liability for the interest in the asset and finance costs that will be payable by the Council in future years whilst the liability remains outstanding.

A number of vehicles and properties are also held under operating leases, for which regular rental payments are made but the risks and rewards of ownership of such asset do not lie with the Council.
The future payments relating to both finance and operating leases held by the Council are made up of the following amounts:

Finance Leases - Lessee (including PFI)

Plant, Property and Equipment Outstanding obligations on 31 March	**Finance Lease Liabilities**		**Minimum Lease Payments**	
	2019/20 £'000	**2018/19 £'000**	**2019/20 £'000**	**2018/19 £'000**
Within 1 year (held in current liabilities)	228	244	563	701
2 - 5 years	563	886	954	1,678
More than 5 years	0	0	0	0
Total costs payable in future years	563	886	954	1,678
Total future lease payments	**791**	**1,130**	**1,517**	**2,379**

Operating Leases - Lessee

Plant, Property and Equipment Outstanding obligations on 31 March	**Operating Lease**	
	2019/20 £'000	**2018/19 £'000**
Within 1 year	307	448
2 - 5 years	220	106
Total future lease payments	**527**	**554**

Operating lease obligations include commitments held by Hillingdon maintained schools as well as those held by the Council. Operating lease expenditure of £109k (£110k in 18/19) relating to maintained schools is included within Cost of Services in the Comprehensive Income and Expenditure Statement.

Operating Leases - Lessor

The Council leases out property under operating leases for the following purposes:
- for the provision of community services, such a sports facilities and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses

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

Future Minimum Lease Payments:	**Operating Lease**	
	2019/20 £'000	**2018/19 £'000**
Within 1 year	1,612	1,404
2 - 5 years	4,988	3,272
More than 5 years	10,132	6,861
Total future lease payments	**16,732**	**11,537**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the commencement of the lease, such as adjustments following rent reviews.

37. LONG TERM CONTRACTS AND PRIVATE FINANCE INITIATIVE

The Council has entered into a number of Long Term Contracts, committing itself to revenue expenditure over future years. However, there is one contract that has a fixed annual sum over £1,000k and is over 4 years in length.

- Liberata UK Ltd (Revenues & Benefits) - 01/06/2017 to 31/05/2022

Year	Annual Cost £'000
2020/21	1,093
2021/22	1,033
2022/23	170

Private Finance Initiative (PFI)

In December 1998 the Council entered into a 25 year contract with a private sector partner, Jarvis (Barnhill) Limited, to build and provide facilities management at Barnhill Community High School under a private finance initiative (PFI) arrangement. The school opened in September 1999. In 2010 the parent company Jarvis PLC went into administration and management of the facility was transferred to Johnson Workplace Management Ltd without impacting the day to day operation of the school. In August 2013 Johnson Workplace Management Ltd were acquired by Bellrock Facilities Management who are now responsible for the management of the contract. In 2019/20 the Council paid principal of £226k, interest of £421k and service charges of £2,716k. Current forecasts of future payments, assuming satisfactory performance over the remaining 4 years of the contract, are set out below. As payments to the contractor are index linked, these figures are based on current indexation rates and may vary if rates alter.

	Payment for Services £'000	Reimbursement of Capital Expenditure £'000	Interest £'000	Total £'000
Within 1 year	2,848	223	327	3,398
2 - 5 years	9,489	537	377	10,403
Total	**12,337**	**760**	**704**	**13,801**

In 2018/19 Barnhill Community High School transferred to academy status resulting in the removal of the property from the Council's asset register; however, the liability will remain in place until it is extinguished in 2023/24. The Council will have no responsibility after this date.

The charge for the current year was £226k matching the principal repayment. The outstanding liability of the capital value at 31 March 2020 is £760k, of this £223k is due within a year and therefore included in creditors and the remaining £537k is included as a deferred liability.

38. CONTINGENT LIABILITIES AND ASSETS

The Council has entered legal into proceedings to recover costs against an organisation from which it purchased a block of flats. The costs are estimated at £6.5m and relate to significant fire safety and structural defects works and associated costs.

The Council has entered into legal proceeding to recover historic unclaimed VAT, which could result in an asset for £200k. A further claim for £300k relating to overpaid VAT is pending subject to HMRC investigation and judgement.

The Council has a number of potential legal cases which are pending; the liabilities associated with these cases could total £750k collectively.

39. EVENTS AFTER THE BALANCE SHEET DATE

Events taking place after the 31st March 2020 are not reflected in the financial statements or notes, unless they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no events to report after the Balance Sheet date that deem adjustment or disclosure in the accounts.

40. AGENCY

Collection of Mayoral CIL

The Community Infrastructure Levy (CIL) is a planning charge, introduced by the Planning Act 2008, as a tool for local authorities in England and Wales to help deliver infrastructure to support the development of their area. Following this, the Mayoral CIL (MCIL) was introduced to assist in financing Crossrail. The MCIL Levy was ratified on 29 February 2012 and applies to developments agreed after 1 April 2012. The MCIL is charged on most developments in Central London and is charged at £35 per square metre in Zone 2. Local planning authorities are responsible for collecting Mayoral CIL payments on behalf of the Mayor. The local planning authority is able to retain 4% of the levy to cover the costs of administration and collection. Contributions of £1,941k have been received this year and £1,873k has been paid over to the charging authority (Transport for London) with £78k retained by the Council to cover administrative expenses.

41. SUMMARY OF TREASURY MANAGEMENT POLICY

The Council defines its treasury management activities as:

"The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."

The Council's underlying need to borrow for capital purposes is measured by reference to the Capital Financing Requirement which represents the cumulative capital expenditure of the Council that has not been financed from internal resources (see note 36).

The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

42. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Financial Instruments - Risks

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2017.

Notes to the Main Financial Statements

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council’s Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

The main risks covered are:

- 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.
- 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.

Credit Risk: Treasury

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The Council manages credit risk by ensuring treasury investments are only placed with organisations of high credit quality as outlined in the Treasury Management Strategy. These include financial institutions with a minimum long term credit rating of A- (Fitch); A3 (Moody’s); A- (S&P) for UK counterparties, A+ (Fitch); A1 (Moody's); A+ (S&P) for Overseas counterparties and AA+ (Fitch); Aa1 (Moody's); AA+ (S&P) for non-UK sovereigns, the UK government, other local authorities and organisations without credit ratings upon which the Council has received independent investment advice. The Treasury Management Strategy also sets maximum sums that can be invested with any financial institution.

The Council also considers other information such as corporate developments, market sentiment towards investment counterparties and other sources of intelligence before making deposits.

Credit Rating Definitions

Long Term	
AAA	Highest credit quality
AA	Very high credit quality
A	High credit quality
BBB	Good credit quality
BB	Speculative
B	Highly speculative
CCC	Default possibility
CC	Default imminent
D	Defaulted

Money Market Funds
Fitch: AAAmmf : Extremely strong capacity to achieve fund‘s investment objective of preserving principal and providing shareholder liquidity through limiting credit, market, and liquidity risk.
Moody's: Aaa Money Market Funds are judged to be of an investment quality similar to Aaa-rated fixed income obligations.
S&P: AAAm has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market and/or liquidity risks.

Notes to the Main Financial Statements

The table below summarises the credit risk exposures of the Council's treasury investment portfolio and other receivables by credit rating and remaining time to maturity, also identifying any expected loss:

	31 March 2020				31 March 2019			
	Rating at 31 March 2020*	Long Term £'000	Short Term £'000	Expected Loss £'000	Rating at 31 March 2019*	Long Term £'000	Short Term £'000	Expected Loss £'000
Credit Risk Exposures								
UK Banks:								
- Barclays Current Accounts	A	0	2,111	0	A	0	4,832	0
- HSBC Current Accounts	A+	0	347	0	AA-	0	883	0
- HSBC Short-Term Deposit	A+	0	401	0	N/A	0	0	0
- Lloyds Current Accounts	A+	0	11,043	0	A+	0	10,859	0
- Lloyds Short-Term Deposit	A+	0	858	0	A+	0	702	0
- RBS Current Accounts	A	0	1	0	N/A	0	0	0
- Santander Current Accounts	A	0	0	0	A	0	1	0
- Handelsbanken Current Account	AA-	0	6,504	0	AA-	0	1	0
Sub Total		**0**	**21,264**	**0**		**0**	**17,278**	**0**
Investments where credit loss is not applicable								
Government & Local Authority Investments:								
- DMADF		0	0	N/A	AA	0	30,901	N/A
- Lancashire County Council		0	0	N/A	N/A	0	0	N/A
- Northumberland County Council		0	0	N/A	N/A	0	0	N/A
- London Borough of Brent		0	0	N/A	N/A	0	0	N/A
Money Market Funds	AAA***	0	10,000	N/A	AAA**	0	500	N/A
Pooled Funds (Long-Term)	Unrated	10	0	N/A	Unrated	10	0	N/A
Strategic Pooled Funds	Unrated	13,651	0	N/A	Unrated	14,844	0	N/A
Shares in Listed Companies (Long-Term)	Unrated	66	0	N/A	Unrated	45	0	N/A
Hillingdon First Limited	Unrated	3,371	3,500	N/A	N/A	0	0	N/A
Cash Held By Council	N/A	0	27	N/A	N/A	0	25	N/A
Sub Total		**17,098**	**13,527**	**0**		**14,899**	**31,426**	**0**
Lease Receivables		15,120	1,612	0	N/A	10,133	1,404	0
Trade Receivables - Simplified Approach		0	26,352	(7,253)	N/A	0	21,204	(6,145)
Sub Total		**15,120**	**27,964**	**(7,253)**		**10,133**	**22,608**	**(6,145)**
Total		**32,218**	**62,755**	**(7,253)**		**25,032**	**71,312**	**(6,145)**

*Ratings provided are the Fitch rating or lowest equivalent, ** All funds held with AAAmmf or equivalent ratings with at least one of the rating agencies

Loss Allowances on treasury investments have been calculated by reference to historic default data published by credit rating agencies, Loss allowances as at 31 March 2020 and 31 March 2019 have been calculated on treasury investments held at amortised cost but are immaterial and therefore no impairments have been made.

Loss allowances on trade receivables are calculated using a simplified approached based on historic experience adjusted for current and forecast influences. Credit impairment assessments are carried out annually with the total balance sheet carrying amount being adjusted and the movement being allocated to the CIES accordingly.

The Council's credit risk on lease receivables is mitigated by its legal ownership of the assets leased, which can be repossessed if the debtor defaults on the lease contract.

Borrowing

The policy on borrowing is to spread exposure between Public Works Loans Board (PWLB), local authorities and market sources. This enables the Council to avail itself of rescheduling facilities offered by PWLB and also to obtain favourable rates, when offered by the market.

	31 March 2020				31 March 2019			
	PWLB	Market	Temporary Local Authorities	Total	PWLB	Market	Temporary Local Authorities	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Nominal Value	195,893	48,000	65,000	**308,893**	194,837	48,000	30,000	**272,837**
Premium	(9,624)	0	0	**(9,624)**	(9,670)	0	0	**(9,670)**
Accrued Interest	417	617	109	**1,144**	446	615	31	**1,092**
Amortised Value	**186,686**	**48,617**	**65,109**	**300,413**	**185,613**	**48,615**	**30,031**	**264,259**

Liquidity Risk

Liquidity risk is the risk that cash will not be available when it is required. This can jeopardise the ability of the Council to carry out its daily functions or disrupt these from being carried out in the most cost effective manner. To prevent or minimise this risk, the Council has a comprehensive cash flow management process that seeks to ensure that cash is available as needed. If unexpected movements occur, the Council has ready access to borrowings from money markets and the PWLB. There is no significant risk that the Council will be unable to raise finance to meet its commitments.

Instead the risk to which the Council is exposed is when loans or other forms of capital financing mature, they cannot be refinanced where necessary on terms that reflect the assumptions made in formulating revenue and capital budgets. The policy on debt redemption is to maintain a fairly stable fall out of debt required to be refinanced each year. To achieve this, targets are set within the Treasury Management Strategy which limit the maximum amount of debt maturities within specific time periods. This spreads the risk of interest rate exposure so all debt is not subject to renewal at the same time. The maturity analysis of financial liabilities is as follows:

	31 March 2020				31 March 2019			
	Limit for Debt Maturity	Actual % Debt Maturity	Principal Repayment	Principal and Interest Repayments	Limit for Debt Maturity	Actual % Debt Maturity	Principal Repayment	Principal and Interest Repayment
			£'000	£'000			£'000	£'000
Less than 1 year	50.00%	27.42%	82,366	89,521	25%	18.68%	49,369	57,467
Between 1 and less than 2 years	50.00%	1.94%	5,833	11,771	25%	5.63%	14,889	21,901
Between 2 and less than 5 years	50.00%	9.15%	27,500	43,657	50%	8.89%	23,500	42,589
Between 5 and less than 10 years	100.00%	14.37%	43,167	65,623	100%	14.19%	37,500	64,667
Between 10 and less than 20 years	100.00%	20.97%	63,000	93,226	100%	19.30%	51,000	89,363
Between 20 and less than 30 years	100.00%	3.85%	11,571	30,494	100%	7.98%	21,071	44,781
Between 30 and less than 40 years	100.00%	6.32%	18,976	34,966	100%	7.16%	18,930	39,144
Between 40 and less than 50 years	100.00%	12.98%	39,000	47,459	100%	14.76%	39,000	50,678
Over 50 years	100.00%	3.00%	9,000	10,477	100%	3.41%	9,000	11,113
Total		**100.00%**	**300,413**	**427,193**		**100.00%**	**264,259**	**421,701**

In addition to debt that falls out naturally in any year, the Council can choose to redeem debt early as part of its overall debt management policy. This assists in restructuring the Council's debt portfolio and although in the short term a premium charge may be incurred, longer term finance costs may be significantly reduced. LOBO loans have been included at their final maturity date.

Interest Rate Risk

The Council is exposed to risks arising from movements in interest rates. In previous financial years the Treasury Management Strategy mitigated these risks by setting an upper limit of 50% on external debt which could be subject to variable interest rates. From 2019/20 CIPFA no longer recommended setting upper limits on fixed and variable rate exposures. From 2019/20 in order to manage interest rate risk the Council will aim to balance variable rate debt with its exposure to variable rate investments. This approach will offset any increase or decrease in borrowing costs with comparable changes in investment income. The Council is required to set an indicator to control the Council's exposure to interest rate risk. The interest rate risk indicator Limit Upper limit on one-year revenue impact of a 1% rise in interest rates is £1.0m Upper limit on one-year revenue impact of a 1% fall in interest rates is (£1.0m) The impact of a change in interest rates is calculated both on the assumption that fixed-rate maturing loans and investments will be replaced at their existing fixed rates and with a forecast maximum variable rate net investment and debt position of £100m.

Movements in interest rates can impact the Council in several ways. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the liabilities will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates and pooled funds – the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would 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 will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance.

If interest rates had been 1% higher (based 2019/20 balances and with all other variables held constant) the financial effect would be:

	£'000
Increase in interest payable on variable rate borrowings	124
Increase in interest receivable on variable rate investments	(209)
Decrease in fair value of investments held at FVPL charged against provision of services	322
Impact on Surplus or Deficit on the Provision of Services	**237**
Share of overall impact credited to the HRA	**(612)**
Decrease in fair value of investments held at FVOCI	0
Impact on Other Comprehensive Income and Expenditure	**0**
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	38,681

The impact of a 1% fall in interest rates would be as above but with the movements being reversed. The fair value assumptions are based on the same methodology as used in the "Fair Value" disclosure note.

Price Risk

The Council has a small historic holding of £66k classified as shares in listed companies. Based on the holding value at 31 March 2020 a 5% fall in share prices would result in a £3k charge to the Income and Expenditure Account.

The Council's investment in pooled funds is subject to the risk of falling share prices. This risk is limited by the Council's maximum exposure to equity investment of £15m. Based on the holding value at 31 March 2020 a 5% fall in share prices would result in transfer of £87k to Financial Instruments Revaluation Reserve.

The market prices of the Council's units in pooled funds are governed by prevailing interest rates and the market risk associated with these instruments which is managed alongside interest rate risk.

Foreign Exchange Risk

All the financial assets and liabilities are denominated in GBP and thus have no exposure to loss arising from movements in exchange rates.

Financial Liabilities

The majority of borrowing made by the Council is sourced from the PWLB (£195,893k nominal value 31 March 2020; £194,383k fixed rates, £1,500k variable rate). Borrowing at fixed rates enables the Council to enjoy stability of costs in future years and helps improve budgetary processes. Fixed rates protect the Council from interest rate increases but in contrast exposes it to opportunity costs should rates fall. Borrowing at variable rates currently allows the Council to source debt at levels which are considerably lower than fixed rate debt. Sourcing debt from the PWLB allows the Council to reschedule or prematurely redeem debt and the portfolio is continually monitored to take advantage of opportunities that may present themselves periodically to reduce overall costs.

£36,000k of debt (nominal value) is held in "Lenders Option Borrowers Option" (LOBO) market loans. These have been set to provide varying periods of fixed rate ranges with subsequent options for the lender to change this rate on agreed dates. Over the next three years loans totalling £5,000k, £10,000k and £5,000k respectively are scheduled for rate change options. In addition the Council holds £12,000k of fixed-rate market loans and £65,000k of short-term Local Authority borrowing.

Although the Council continued to utilise internal balances to reduce the need to borrow, significant external borrowing was also required during 19/20 to ensure liquidity was maintained. £20,000k of PWLB EIP borrowing was arranged in the first quarter of 2019/20 and throughout the period temporary local authority loans were taken, peaking at £65,000k in March. The portfolio increased by £36,100k as a result of £20,000k of new PWLB EIP borrowing, an increase in temporary borrowing held over year end of £35,000k and £18,900k of naturally maturing longer term debt, leaving a balance at year-end of £308,893k.

Financial Assets

The Council had a weighted average balance of investments for 2019/20 of £51,478k. Throughout the year deposits were placed in instant access accounts, pooled funds, in fixed-term deposits with varying maturity periods and a number of UK T-Bills were purchased. This approach aimed to match investment maturities with expected expenditure and so spread interest rate risk. At year-end there were no deposits with maturities extending one year and therefore all instruments are classified as variable.

In 2019/20 the Council invested a total of £6,871k in its wholly owned subsidiary. A short term loan of £3,500k which is to be repaid by 31st March 2021 at the latest and a long term investment of £3,371k in shares in the subsidiary. The objective of Hillingdon First Limited is to deliver a financial return to the Council and provide housing and or a commercial unit for sale or rent. It will achieve this by the generating of long-term sustainable revenue streams through the delivery of high quality housing to meet the needs of Hillingdon's residents.

The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. While one of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit these risks, upper limits on the sums invested in each category have been set in Table 1 below. Furthermore, the Council is protected against any loss through a charge over the assets of Hillingdon First Ltd.

Table 1 - Loans & Shares for Service Purposes

Hillingdon First Ltd	2019/20 Approved Limit £m
Loans	0-35
Shares	0-50
TOTAL	**50**

43. PENSION SCHEMES

Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits that include retirement pensions, dependent pensions, death grants and lump sum payments. Although these benefits will not actually be payable until employees retire, the Council's commitment to make future payments needs to be disclosed as the future entitlement is earned.

The Council participates in four defined benefit pension schemes; two funds of the Local Government Pension Scheme (LGPS), the Teachers' Pension Scheme and the NHS Pension Scheme. Accounting for the Teachers' Pension Scheme and NHS scheme varies from that of the LGPS and is expanded upon further within this note.

LGPS

The two LGPS scheme funds are:

- London Borough of Hillingdon (LBH) Pension Fund of the LGPS for employees, administered locally by the Council.
- London Pension Fund Authority (LPFA) Pension Fund of the LGPS, which is a closed arrangement for former employees administered by the London Pension Fund Authority.

For the London Borough of Hillingdon LGPS, contributions are made at a level intended to balance the pensions liabilities with investment assets. The adequacy of the funds' contributions and investments to resource future liabilities is reviewed tri-annually by actuaries appointed by the Council. Contribution rates are then set to meet the overall liabilities of the fund under Pension Fund Regulations. During 2019/20 employer's contribution rate was 24.1%.

Employees contributed at variable rates between 5.5% and 12.5% of pensionable salary. The employer's contribution rate set for 2020/21 is 24.1% with any pension strain costs being directly attributable to the service area, as was the case in 2019/20.

The London Pension Fund Authority (LPFA) Pension Scheme has been combined with London Borough of Hillingdon Pension Fund in the figures within this note as it is a closed non-contributing fund for a number of former employees.

Teachers Pension Scheme

Teachers employed by the Council are members of the Teachers Pension Scheme. This fund is administered by the Department for Education and provides teachers with defined benefits upon their retirement. The Council contributes towards the pensions by making payments to the fund based on a percentage of members' pensionable salaries. The employer's contribution rate for 2019/20 was 16.48% for the period Apr-Aug, increasing to 23.68% from September 2019 (16.48% 2018/19). The total contribution to the fund by the Council in 2019/20 was £9,433k (£7,186k in 2018/19), of this amount £908k was outstanding at 31 March 2020 (£605k at 31 March 2019).

The Teachers Pension Scheme is a defined benefit scheme. Although the scheme is unfunded, a notional fund is used as a basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted on the same basis as a defined contribution scheme. The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers scheme. There was £486k paid in respect of on-going early retirement payments in 2019/20 (£514k in 2018/19).

NHS Pension Scheme

The Health and Social Care Act 2012, made provision for the transfer of public health services and staff from primary care trusts (PCTs) to local authorities. As a result of this transfer, the Council is responsible for deduction of pension contributions, both employees and employers from transferred staff. These contributions are forwarded on directly to the National Health Service Pension Scheme. The National Health Service Pension Scheme is unfunded and administered by National Health Service Business Services Authority (NHSBSA). It is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted on the same basis as a defined contribution scheme. The pension cost charged to the accounts is the contribution rate set by the NHSBSA. In 2019/20 the Council paid a total of £33.2k (£33.2k in 2018/19) to the NHS Pension Scheme, representing 14.38% of pensionable pay. The Department of Health and Social Care's consultation response announcing the rise of 20.8% plus 0.08% employer's levy, published in March 2019, confirmed the available funding to meet associated costs and that a transitional arrangement would operate in 2019/20 where employers in the Scheme would instead pay 14.3% plus the employers levy of 0.08%, This transitional approach will continue in 2020/21.

Transactions relating to retirement benefits

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required against Council Tax is based on the cash payable in the year, so the real cost of 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 via the Movement in Reserves Statement during the year:

Comprehensive Income and Expenditure Statement	**LBH Pension Fund**		**LPFA Pension Fund**		**Total**	
	31 March 2020 £'000	**31 March 2019 £'000**	**31 March 2020 £'000**	**31 March 2019 £'000**	**31 March 2020 £'000**	**31 March 2019 £'000**
Cost of Services						0
Current Service Cost	44,485	36,870	0	0	44,485	36,870
Past Service Costs (Including curtailments)	593	7,239	0	0	593	7,239
(Gain)/Loss Settlements	0	0	0	0	0	0
Administration Expenses	734	677	1	1	735	678
Financing and Investment Income and Expenditure:						
Net Interest Expense	14,974	13,812	55	60	15,029	13,872
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	**60,786**	**58,598**	**56**	**61**	**60,842**	**58,659**
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement						
Remeasurement of the net defined benefit liability comprising:						
Return on plan assets (excluding the amount included in the net interest expense)	73,960	(20,996)	28	(64)	73,988	(21,060)
Actuarial gains and losses arising on changes in financial assumptions	(118,807)	78,488	(151)	112	(118,958)	78,600
Other	(85,838)	1,141	(411)	(42)	(86,249)	1,099
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	**(130,685)**	**58,633**	**(534)**	**6**	**(131,219)**	**58,639**
Movement in Reserves Statement						
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(32,442)	(32,849)	(53)	(57)	(32,495)	(32,906)
Actual amount charged against the General Fund Balance for pensions in the year:						
Employer's contributions payable to scheme	(26,246)	(22,906)	0	0	(26,246)	(22,906)
Contributions in respect of unfunded benefits	(2,098)	(2,166)	(3)	(4)	(2,101)	(2,170)
Total Employers Contributions Payable to Scheme	**(28,344)**	**(25,072)**	**(3)**	**(4)**	**(28,347)**	**(25,076)**

The restated figure above is in relation to administration expenses previously included in current service costs which are now shown separately.

In addition, the Comprehensive Income and Expenditure Statement included an actuarial gain of £131,219k in 2019/20 (£58,639k actuarial loss in 2018/19). Any impact of foreign exchange rates will come through as a result of market value movements in asset holdings.

The Council expects to make payments of £25,295k (£25,357k in 2019/20) in respect of contributions to the LBH Pension Fund during the financial year 2020/21.

44. PENSION SCHEMES BALANCE SHEET DISCLOSURES

Reconciliation of present value of scheme liabilities

	LBH Pension Fund		LPFA Pension Fund		Total	
	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000
Opening Benefit Obligation	1,518,557	1,395,187	3,567	3,783	1,522,124	1,398,970
Current Service Cost	44,485	36,870	0	0	44,485	36,870
Administration Expenses	734	677	0	0	734	677
Interest on defined liability	36,552	36,345	68	81	36,620	36,426
Contributions by Members	7,114	6,444	0	0	7,114	6,444
Remeasurement (gains) and losses:						
- Actuarial (gains)/losses arising from changes in financial assumptions	(118,807)	78,488	(151)	112	(118,958)	78,600
- Other	(85,838)	1,141	(429)	(42)	(86,267)	1,099
Past Service Cost including Curtailments	593	7,239	0	0	593	7,239
Liabilities Extinguished on Settlements	0	0	0	0	0	0
Estimated Unfunded Benefits Paid	(2,098)	(2,166)	(3)	(4)	(2,101)	(2,170)
Estimated Benefits Paid	(48,229)	(41,668)	(341)	(363)	(48,570)	(42,031)
Closing Defined Benefit Obligation	**1,353,063**	**1,518,557**	**2,711**	**3,567**	**1,355,774**	**1,522,124**

Reconciliation of fair value of scheme assets

	LBH Pension Fund		LPFA Pension Fund		Total	
	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000
Opening Fair Value of Employer Assets	904,602	873,391	832	1,111	905,434	874,502
Interest Income on Plan Assets	21,578	22,533	13	21	21,591	22,554
Contributions by Members	7,114	6,444	0	0	7,114	6,444
Contributions by the Employer	26,246	22,906	0	0	26,246	22,906
Contributions in respect of Unfunded Benefits	2,098	2,166	3	4	2,101	2,170
Remeasurement (gains) and losses:						
- The return on plan assets, excluding the amount in the net interest expense	(73,960)	20,996	(28)	64	(73,988)	21,060
- Other	0	0	(18)	0	(18)	0
Assets Distributed on Settlements	0	0	0	0	0	0
Administration Expenses	0	0	(1)	(1)	(1)	(1)
Estimated Unfunded Benefits Paid	(2,098)	(2,166)	0	0	(2,098)	(2,166)
Estimated Benefits Paid	(48,229)	(41,668)	(344)	(367)	(48,573)	(42,035)
Closing Fair Value of Employer Assets	**837,351**	**904,602**	**457**	**832**	**837,808**	**905,434**

Administration costs are included within liabilities for the LBH Pension Fund and within assets for the LPFA Pension Fund as determined by the respective actuaries.

The LBH return on scheme assets is estimated based on the respective actual fund returns for 2019/20 and 2018/19.

The LPFA return is based on investment returns and market returns estimated where necessary.

Pension Scheme assets comprised

	LBH Pension Fund				LPFA Pension Fund				Total	
	Quoted Prices in Active Markets 19/20 £'000	Quoted Prices not in Active Markets 19/20 £'000	Quoted Prices in Active Markets 18/19 £'000	Quoted Prices not in Active Markets 18/19 £'000	Quoted Prices in Active Markets 19/20 £'000	Quoted Prices not in Active Markets 19/20 £'000	Quoted Prices in Active Markets 18/19 £'000	Quoted Prices not in Active Markets 18/19 £'000	31 March 2020 £'000	31 March 2019 £'000
Equity Instruments										
Consumer	17,721		17,169		56		89		17,777	17,258
Manufacturing					23		42		23	42
Energy & Utilities	16,411		23,314		7		13		16,418	23,327
Financial Institutions	28,443		28,318		26		45		28,469	28,363
Health & Care	7,004		6,986		12		27		7,016	7,013
Information Technology	442		524		43		72		485	596
Other	24,906		29,541		16		27		24,922	29,568
Debt Securities										
Other					22		39		22	39
Private Equity		10,424		16,202		38		84	10,462	16,286
Real Estate	1,657	97,071		120,817		42		79	98,770	120,896
Investment Funds & Unit Trusts										
Equities	349,668		384,332						349,668	384,332
Bonds	198,891		179,295						198,891	179,295
Infrastructure		19,059		24,388		32		50	19,091	24,438
Other		52,949		62,968					52,949	62,968
Target Returns					55	34	118	65	89	183
Cash & Cash Equivalents	12,705		10,748		47	4	80	2	12,756	10,830
	657,848	**179,503**	**680,227**	**224,375**	**307**	**150**	**552**	**280**	**837,808**	**905,434**

Notes to the Main Financial Statements

Pensions Assets and Liabilities recognised in the Balance Sheet

	2019/20 £'000	2018/19 £'000	2017/18 £'000	2016/17 £'000	2015/16 £'000	2014/15 £'000
Present value of liabilities:						
LBH	(1,353,063)	(1,518,557)	(1,395,187)	(1,381,086)	(1,123,590)	(1,218,712)
LPFA	(2,711)	(3,567)	(3,783)	(4,283)	(4,660)	(5,201)
Fair Value of Assets:						
LBH	837,351	904,602	873,391	862,749	740,154	736,612
LPFA	457	832	1,111	1,450	1,613	2,123
Deficit in the scheme:						
LBH	(515,712)	(613,955)	(521,796)	(518,337)	(383,436)	(482,100)
LPFA	(2,254)	(2,735)	(2,672)	(2,833)	(3,047)	(3,078)
Total	**(517,966)**	**(616,690)**	**(524,468)**	**(521,170)**	**(386,483)**	**(485,178)**

The liabilities show the underlying commitments that the Council has in the long term to pay retirement benefits. The total liability of £1,356m is offset by the scheme assets of £838m to give the net pension liability of £518m as disclosed on the balance sheet.

However, statutory arrangements for funding the deficit mean that the financial position of the Council remains viable: the deficit on the LBH scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary, in addition to ongoing investment returns.

45. PENSION SCHEMES BASIS OF ESTIMATION

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The scheme liabilities for both LBH and LPFA have been assessed by their appointed actuary, estimates for the LBH scheme being based on the latest full valuation of the scheme as at 31 March 2019. The appointed actuary for LBH is Hymans Robertson LLP and for LPFA is Barnett Waddingham.

	LBH Pension Fund		LPFA Pension Fund	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
Financial Assumptions: (% p.a.)				
Pension Increase Rate	1.90%	2.50%	1.95%	2.50%
Salary Increase Rate	2.20%	2.90%	2.95%	4.00%
Discount Rate	2.30%	2.40%	2.25%	2.00%
Mortality Assumptions:				
Longevity at 65 for current pensioners:				
- Men	22.1	22.6	22.2	21.2
- Women	24.3	24.6	24.6	23.4
Longevity at 65 for future pensioners:				
- Men	22.8	24.0	23.6	22.9
- Women	25.5	26.5	26.1	25.1
Take-up of option to convert annual pension to tax free lump sum pre-April 2008	65%	65%	50%	50%
Take-up of option to convert annual pension to tax free lump sum post-April 2008	85%	85%	0%	0%

Sensitivity Analysis

The estimation of the defined benefit obligation is sensitive to principal actuarial assumptions used to measure the scheme. The sensitivity analyses below have been based on possible changes to principal assumptions occurring at the end of the reporting period and assumes all other assumptions remain constant. For example the assumptions in longevity assume that life expectancy increases or decreases. The estimations on sensitivity analysis have followed the accounting policies of the scheme. The methods and types of estimations in sensitivity analysis have not changed from those in the previous period.

	LBH Pension Fund		LPFA Pension Fund	
Changes in Assumptions as at 31 March 2019	% Increase to Employer Liability	Increase to Employer Liability £'000	% Increase to Employer Liability	Increase to Employer Liability £'000
0.5% Decrease in Real Discount Rate	9%	116,559	4%	125
1 Year Increase in Member Life Expectancy	3-5%	n/a*	4%	129
0.5% Increase in the Salary Increase Rate	1%	6,962	0%	0
0.5% Increase in the Pension Increase Rate	8%	108,974	4%	125

*The principal demographic assumption is the longevity assumption (i.e. member life expectancy). For sensitivity purposes, the estimate that a one-year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3-5%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption.

Scheme and Impact on the Authorities cash flows

The LBH Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pensions Committee of the Council. Policy is determined in accordance with the Pension Fund Regulations. The principal risks to the Council in relation to the scheme are the sensitivity of contribution rates to changes in assumptions; investment risk and regulatory risk. These risks are mitigated to an extent by the statutory requirements to charge amounts required by statute as described in the accounting policies note.

The objectives of the LBH LGPS Pension fund are to keep employer's contributions at a rate, which is as constant as possible. The Council's Pension Fund undergoes a triennial valuation to set the contribution rates of the all the employers in the scheme to give a greater than 50% chance of achieving a funding level of 100% within the next 20 years. The current contribution rate was set over the last triennial valuation period ending March 2019 to cover contribution rates of the Council for three years from April 2020. Contributions are set for three years to minimise disruption in cash flow impacts of the Council.

The weighted average duration of the defined benefit obligation for Council scheme members is 19 years as established in the triennial valuation dated 31 March 2019.

Further information about the LBH pension Fund can be seen in the Pension Fund accounts and in the Pension Fund annual report.

COVID-19

The IAS19 balance sheet is based on financial market values and future market expectation indicators as at 31 March 2020 to comply with the accounting standard. The financial markets at the accounting date will have taken into account COVID19 risks and opportunities as one of many national and worldwide economic considerations. There has been no explicit additional allowance or adjustment made for COVID19 by Hymans Robertson.

Looking at the period since 31 March 2020:

- There has been an element of recovery in investment markets, however there is not enough information to ascertain whether this will be sustained or whether further setbacks may occur.
- The key non-financial assumption made within the accounts is for life expectancy. However, at this stage it is not possible to extrapolate the longer-term impact of the higher death rate due to COVID19 in 2020/21 on either future mortality or morbidity rates.

Other Financial Statements

The Housing Revenue Account (HRA) (page 104)

There is a statutory duty to account separately for local authority housing provision. The HRA Income and Expenditure Statement shows further detail of the Income and Expenditure on HRA services included in the whole Council Comprehensive Income and Expenditure Statement. It includes the major elements of Council housing revenue expenditure on maintenance, administration and capital financing costs and major income sources such as rents and other income.

The Collection Fund Account (page 108)

This account reflects the statutory requirement to maintain a separate Collection Fund which shows the transactions of the billing authority in relation to National Non-Domestic Rates and Council Tax, and illustrates the way in which these have been distributed to preceptors and the general fund. The Collection fund is consolidated with the other accounts of the Council.

Hillingdon First Limited (page 111)

Provides background to the Council's wholly owned subsidiary Hillingdon First Limited and gives an overview of the first year of operation.

The Pension Fund Account (page 112)

This fund is not included within the Council's Balance Sheet, but is maintained separately. The Council acts as the administrator for the London Borough of Hillingdon Fund of the Local Government Pension Scheme.

HRA Income and Expenditure Statement

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 other income. Council's 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 Housing Revenue Account Statement.

	Note	31 March 2020 £'000	31 March 2019 £'000
Expenditure			
Repairs and maintenance		9,230	8,909
Supervision and management		18,955	17,366
Rents, rates, taxes & other charges		170	206
Increase in provision for bad debts		548	351
Depreciation of non current assets	*3*	10,781	10,473
Impairment or Reversal of previous impairment / revaluation loss		37,250	37,938
		76,934	**75,243**
Income			
Gross dwelling rents		(55,586)	(55,119)
Gross non dwelling rents		(1,742)	(1,517)
Charges for services and facilities		(3,362)	(3,270)
Contributions towards expenditure		(955)	(901)
		(61,645)	**(60,807)**
Net Cost of HRA Services as included in the HRA Income and Expenditure Statement		**15,289**	**14,436**
HRA Services share of Corporate and Democratic Core		896	930
Net Cost of HRA services		**16,185**	**15,366**
(Gain) on sale of HRA non current assets		(6,535)	(9,456)
Interest payable and similar charges		7,411	7,183
Interest & Investment Income		(294)	(331)
Capital Grant Income		(2,667)	(1,819)
(Surplus)/Deficit for the year on HRA services		**14,100**	**10,943**

Movement on the Housing Revenue Account Statement

The Movement on Housing Revenue Account Statement shows how the HRA Income and Expenditure Statement (surplus) / deficit for the year reconciles to the movement on the Housing Revenue Account Balance for the year.

	Note	31 March 2020 £'000	31 March 2019 £'000
HRA Balance 31 March		**(18,260)**	**(37,108)**
(Surplus)/Deficit for the year on HRA services		14,100	10,943
Adjustments between accounting basis & funding basis under regulations			
Gain/(Loss) on sale of HRA non current assets		6,535	9,456
Premium on early redemption of HRA debt		4	15
HRA share of contributions to or from the Pension Reserve		(1,712)	(1,398)
Revaluation of Non Current Assets		(37,250)	(37,938)
Annual Leave Accrual Adjustment		(26)	(4)
Revenue Expenditure funded by Capital Under Statute		(39)	(9)
Provision for repayment of debt		9,129	9,129
Capital Expenditure charged to HRA Balance		0	27
Capital Grant Income		2,667	1,819
Net Increase before transfer to reserves		**(6,592)**	**(7,960)**
Transfer to Major Repairs Reserve		7,777	26,808
(Increase)/Decrease in year on HRA		**1,185**	**18,848**
HRA Balance at 31 March		**(17,075)**	**(18,260)**
Major Repairs Reserves	7	**(15,228)**	**(31,878)**
Total HRA Balances		**(32,303)**	**(50,138)**

Notes to the Housing Revenue Account

1. HOUSING STOCK

The Council was responsible at 31 March 2020 for managing dwellings (including shared ownership).
The stock was as follows:

	Total Properties 31 March 2020	Total Properties 31 March 2019
1 Bed Properties	3,724	3,650
2 Bed Properties	3,473	3,449
3 Bed Properties	2,742	2,733
4 Bed plus Properties	248	246
Total	**10,187**	**10,078**

2. VALUE OF HRA ASSETS

	Net Book Value 31 March 2020 £'000	Net Book Value 31 March 2019 £'000
Council Dwellings	730,388	729,897
Other Land & Buildings	1,962	1,169
Vehicle, Plant & Equipment	6,875	4,218
Surplus Assets	275	410
Intangible Asset	219	0
Assets Held For Sale	0	0
Assets Under Construction	10,428	25,461
Total	**750,147**	**761,155**

The vacant possession value of dwellings within the Council's HRA as at 31 March 2020 was £2.921m; this differs from the balance sheet value of £730m, which is based on the economic use value of social housing. The difference of £2.191m between these two figures shows the economic cost of providing housing at social rents over 30 year cycle compared to open market rents.

3. DEPRECIATION

Depreciation charged in year to the HRA

	Depreciation 31 March 2020 £'000	Depreciation 31 March 2019 £'000
Council Dwellings	10,208	9,898
Other Land & Buildings	21	20
Intangibles	0	2
Surplus Assets	8	8
Vehicle, Plant & Equipment	544	545
Total	**10,781**	**10,473**

Notes to the Housing Revenue Account

4. CAPITAL EXPENDITURE

HRA Capital Expenditure during 2019/20 totalled £46,750k. This was financed by:

	31 March 2020 £'000	31 March 2019 £'000
Capital Receipts	8,875	11,639
Capital Grants & Contributions	2,667	1,819
RCCO	0	27
Major Repairs Reserve	35,208	23,866
	46,750	**37,351**

Capital receipts from the sale of HRA RTB properties during 2019/20 totalled £9,578k of which £1,171k was paid to Central Government under the pooling arrangements, with £8,407k remaining with the Council.

5. RENT ARREARS

At 31 March 2020 the gross HRA rent arrears amounted to £2,647k (£2,393k in 2018/19).

6. BAD DEBT PROVISION

The provision for bad debts on all HRA debts as at 31 March 2020 was £1,876k (£1,617k in 2018/19). In year, there was an increase in the HRA bad debt provision of £547k and debts totalling £288k were written off.

7. MAJOR REPAIRS RESERVE

HRA resource accounting requires the maintenance of a Major Repairs Reserve (MRR) and holds depreciation charged to the HRA and revenue contribution to capital expenditure of HRA. The movements on this reserve are shown below.

	31 March 2020 £'000	31 March 2019 £'000
Balance as at 1 April	31,878	18,463
Depreciation transferred to Reserve	10,781	10,473
Transfer to MRR	7,777	26,808
Capital programme funding	(35,208)	(23,866)
	15,228	**31,878**

The £15,228k held in this reserve will be used to finance capital expenditure on dwellings.

8. CONTRIBUTIONS TO PENSION RESERVE

The cost of employer's pension contributions in the HRA Income and Expenditure is reported in-line with IAS 19, which requires the current service cost, rather than the actual employer's contribution, be recognised. The HRA increase for 2019/20 was £1,712k.

Collection Fund Account

The Collection Fund is an agent's statement that reflects the statutory obligation for the Council, as a billing authority, to maintain a separate Collection Fund. This 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.

Council Tax	**Note**	**31 March 2020 £'000**	**31 March 2019 £'000**
Council Tax Income		(147,152)	(139,844)
Contribution towards previous years' estimated Council Tax (Surplus)/Deficit	*1*	928	3,346
Write-offs Uncollectable Council Tax Debt		104	156
Write-back Uncollectable Council Tax Debt		(196)	(52)
Provision for Doubtful Council Tax Debts		749	214
London Borough of Hillingdon Council Tax Precept	*1*	114,500	110,258
Greater London Authority Council Tax Precept	*1*	32,202	29,149
Council Tax (Surplus)/Deficit for the Year		**1,135**	**3,227**
Opening Council Tax (Surplus)/Deficit Balance		(751)	(3,978)
Council Tax (Surplus)/Deficit for the Year		1,135	3,227
Brought Forward Council Tax (Surplus) / Deficit Balance		**384**	**(751)**

National Non-Domestic Rates (NNDR) & Business Rate Supplement (BRS)	**Note**	**31 March 2020 £'000**	**31 March 2019 £'000**
National Non-Domestic Rates Income		(382,438)	(384,242)
Business Rate Supplement Income		(13,048)	(13,228)
Contribution towards previous years' estimated NNDR (Surplus)/Deficit		582	(2,391)
Write-offs Uncollectable NNDR Debt		735	1,990
Write-back Uncollectable NNDR Debt		(16)	(16)
Provision for Doubtful NNDR Debts		298	(902)
Provision/(Release of Provision) for Backdated Appeal Losses	*3*	(395)	(2,215)
London Borough of Hillingdon Share NNDR Income	*2*	177,012	233,754
Greater London Authority Share NNDR Income	*2*	99,569	131,486
Central Government Share NNDR Income	*2*	92,194	0
Transitional Payment Protection Receivable		11,875	18,683
Payment to Greater London Authority in respect of BRS Income		13,038	13,217
NNDR Cost of Collection Allowance		572	574
BRS Cost of Collection Allowance		10	11
NNDR (Surplus)/Deficit for the Year		**(12)**	**(3,279)**
Opening NNDR (Surplus)/Deficit Balance		2,016	5,295
NNDR (Surplus)/Deficit for the Year		(12)	(3,279)
Brought Forward NNDR (Surplus)/Deficit Balance		**2,004**	**2,016**

Notes to the Collection Fund Account

1. Calculation of the Council Tax Base and 2019/20 Council Tax Revenues

The Council Tax Base is based upon the number of dwellings within the borough, analysed by valuation band and adjusted for reductions in expected tax yield arising from discounts, exemptions and the Council Tax Support Scheme. The Council Tax Base is set annually in advance of budget setting, with the 2019/20 base agreed by full Council on 17 January 2019.

Band	Estimated No. of Properties	Discounts & Exemptions	Council Tax Support Scheme	Net Estimated No. of Properties	Band D Equivalent Ratio	Band D Equivalent 2019/20	Band D Equivalent 2018/19
A	1,113	(173)	(175)	765	6/9	511	506
B	6,764	(1,128)	(1,213)	4,423	7/9	3,440	3,485
C	25,997	(3,182)	(3,591)	19,224	8/9	17,088	16,390
D	46,641	(3,665)	(4,197)	38,779	9/9	38,779	38,298
E	18,718	(1,572)	(857)	16,289	11/9	19,909	19,761
F	9,935	(889)	(193)	8,853	13/9	12,788	12,870
G	5,190	(677)	(49)	4,464	15/9	7,440	7,233
H	461	(38)	(3)	420	18/9	840	838
Total	**114,819**	**(11,324)**	**(10,278)**	**93,217**		**100,795**	**99,381**
Adjustment for Non-collection						(1,008)	(994)
Ministry of Defence Contribution						683	683
Council Tax Base						**100,470**	**99,070**
London Borough of Hillingdon Band D Council Tax (£)						1,139.64	1,112.93
Greater London Authority Band D Council Tax (£)						320.51	294.23
Total Band D Council Tax (£)						**1,460.15**	**1,407.16**
Demand on Collection Fund (£'000)						**146,701**	**139,408**

Annual precepts levied upon the Collection Fund Account in respect of Council Tax by the Council and Greater London Authority are derived from the Council Tax Base and the Band D Council Tax charge approved for the financial year. The following table analyses all Council Tax activity within the Collection Fund between the major preceptors, with the Council's own activity reflected in the main statement of accounts.

	Balance 31 March 2019	2019/20 Precept	Release of Prior Year Estimated Surplus	2019/20 Council Tax Revenues	2019/20 Deficit	Balance 31 March 2020
	£'000	£'000	£'000	£'000	£'000	£'000
London Borough of Hillingdon	(596)	114,500	734	(114,339)	895	299
Greater London Authority	(155)	32,202	194	(32,156)	240	85
Total	**(751)**	**146,702**	**928**	**(146,495)**	**1,135**	**384**

2. National Non-Domestic Rating Income & Business Rate Retention System

National Non-Domestic Rates are levied on the basis of the Valuation Office Agency's assessment of the Rateable Value of a non-domestic property. As at 31 March 2020 the aggregate Rateable Value across the 9,145 hereditaments within the borough totalled £811,330k, with rates payable determined by the National Non-Domestic multiplier which is set annual by Central Government. For 2019/20 the standard multiplier was 50.4p in the pound and for small businesses 49.1p in the pound.

The Business Rate Retention System requires that locally raised income is shared between the Council (48%), the Greater London Authority (27%) and Central Government (25%). The Council's own share of these revenues are reflected in the main statement of accounts.

	Balance 31 March 2019	2019/20 Budgeted Share of Income	Release of Prior Year Estimated Surplus	2019/20 Non-Domestic Rates Revenues	2019/20 Surplus	Balance 31 March 2020
	£'000	£'000	£'000	£'000	£'000	£'000
London Borough of Hillingdon	303	177,012	1,360	(177,297)	1,075	1,378
Greater London Authority	756	99,569	181	(99,730)	20	776
Central Government	957	92,194	(958)	(92,343)	(1,107)	(150)
Total	**2,016**	**368,775**	**583**	**(369,370)**	**(12)**	**2,004**

3. Provision for losses on Non-Domestic Rating Income due to back-dated appeals

Non-Domestic Ratepayers are able to challenge the Valuation Office Agency's assessment of the Rateable Value for their property, which if successful will result in a reduction in future payments and in some cases a refund of previously levied rates. 295 such appeals relating to 174 separate hereditaments were outstanding with the Valuation Office Agency as at the 31 March 2020. Given the inherent uncertainty around the financial impact of such appeals, a provision of £2,482k has been established on the basis of past experience. This represents an decrease of £396k on the previously held provision, within this movement £371k was released to fund refunds paid during 2019/20, £588k was released where provision was no longer required and an additional £563k was added to the provision in respect of outstanding appeals.

Notes to Hillingdon First Limited

In 2018, the London Borough of Hillingdon set up the 100% wholly owned subsidiary of Hillingdon First Limited (HFL).The aim of the company is to provide affordable housing to the residents of Hillingdon and contribute towards local regeneration. Whilst work went on in the background setting out the scope and business structure no activity was undertaken during 2018/19. In 2019/20 the company became operational and the Council started to fund the operation. So far it has invested £3.37m as equity and provided a short term loan for £3.50m. The loan was utilised to purchase land from the Council in South Ruislip and construction work has begun. The project on a housing development is expected to be completed during 2020/21 where it will recover establishment costs of £150k. No trading took place within the financial year and due to the minimal transactions between the Council and HFL, and in agreement with the external auditor EY, no group accounts have been prepared for 2019/20.

Pension Fund Account

PENSION FUND ACCOUNT

	Note	31 March 2020 £'000	31 March 2019 £'000
Contributions	*4*	47,305	43,176
Transfers In from other pension funds	*5*	1,746	1,487
		49,051	**44,663**
Less: Benefits	*6*	(47,188)	(44,016)
Less: Payments to and on account of leavers	*7*	(6,870)	(2,626)
		(54,058)	**(46,642)**
Net additions/(withdrawals) from dealings with members		**(5,007)**	**(1,979)**
Less: Management expenses	*8*	(9,882)	(8,833)
Net additions/(withdrawals) including fund management expenses		**(14,889)**	**(10,812)**
Return on investments			
Investment income	*9*	23,101	22,732
Profit and losses on disposal of investments and changes in market value of investments	*10A*	(86,092)	42,843
Taxes On Income		(48)	(83)
Net return on investments		**(63,039)**	**65,492**
Net Increase/(Decrease) in the fund		**(77,928)**	**54,680**
Net Assets at start of year		**1,066,983**	**1,012,303**
Net Assets at end of year		**989,055**	**1,066,983**

NET ASSETS STATEMENT

		31 March 2020 £'000	31 March 2019 £'000
Investment Assets	*10*	986,131	1,066,215
Investment Liabilities	*10*	(17)	(89)
Total net investments		**986,114**	**1,066,126**
Current Assets	*11*	3,574	1,424
Current Liabilities	*12*	(633)	(567)
Net assets of the fund available to fund benefits at the end of the reporting		**989,055**	**1,066,983**

The Pension Fund Accounts summarise the transactions of the scheme and show the net assets at the disposal of members. They 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 at note 18.

Paul Whaymand
Corporate Director of Finance
24 November 2020

Notes to the Pension Fund Account

1. DESCRIPTION OF THE FUND

a. General

The London Borough of Hillingdon Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Hillingdon ("the administering body"). The Council is the reporting entity for this pension fund. The Fund is a contributory defined benefits scheme established in accordance with statute to provide benefits to members and retired members of the London Borough of Hillingdon and Admitted and Scheduled bodies in the Fund. Benefits in respect of service from 1 April 2014 are based on career average revalued earnings (CARE) scheme. Benefits in respect of past service up to 31 March 2014 are based on final salary. Pensions move in line with the Consumer Price Index (CPI) annually. Benefits paid out include a pension payable to former members and their dependants, lump sum retirement benefits, payment of death benefits where death occurs in service or retirement, and early payment of benefits on medical grounds.

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

- Local Government Pension Scheme Regulations 2013 (as amended)
- Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

b. Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside of the scheme. Due to government legislation, since 1 February 2013 all new employees who are not in the scheme are automatically enrolled. Members have the option to opt out of the scheme. Employees who have opted out are then re-enrolled every 3 years, when they can again opt out.

Organisations participating in the London Borough of Hillingdon Pension Fund include the following:
- Scheduled bodies, which are automatically entitled to be members of the Fund.
- Admitted bodies, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

Employers who contribute to the Fund in addition to London Borough of Hillingdon are:

Admitted Bodies:

Braybourne Facilities - Bishop Ramsey Cleaners

Busy Bee - Skills Hub Cleaners

Caterlink - Frays Academy

Caterplus

Cucina - Ruislip High School

CSE – Barnhill Academy

First Choice

Greenwich Leisure

Cleantec - Harlington School Cleaners

Get Active Sports

Taylor Shaw - Haydon Academy Catering

Hayward Services

- Hillingdon School
- Highfield School
- Ruislip School

Heathrow Travel Care

Hillingdon & Ealing Citizens Advice

Kingdom Services

NHS - Michael Sobel House

The Pantry

- Frithwood & Hillside Schools
- Whiteheath Infant & Warrender School

Pabulum - West Drayton Academy

Scheduled Bodies:

Barnhill Academy

Belmore Academy

Bishop Ramsey Academy

Bishopshalt Academy

Charville Academy

Douay Martyrs Academy

Eden Academy Trust

- Moorcroft School
- Pentland Field School
- Grangewood School

Elliot Foundation Trust

- Hillingdon Primary School
- John Locke Academy
- Pinkwell School

Guru Nanak Academy Trust

- Nanak Sar Primary School
- Guru Nanak Sikh Academy

Global Academy

Harefield Academy

Harrow & Uxbridge College

Haydon Academy

Heathrow Aviation Engineering

LBDS Frays Academy Trust

- Cowley St. Lawrence Academy
- Laurel Lane Academy
- St. Matthews Primary School
- St. Martins Primary School

London Housing Consortium

Orchard Hill College Academy Trust

- Young Peoples Academy (formerly Chantry School)
- Skills HUB (formerly Hillingdon Tuition Centre)

Park Federation Trust

- Cranford Park Academy
- Lake Farm Park Federation

QED Academy Trust

- Wood End Academy
- West Drayton Academy
- Coteford Junior Academy
- Queensmead Academy
- Northwood Academy

Rosedale Hewens Academy Trust

- Rosedale College
- Mellowlane School
- Brookside Primary School

Ruislip High School

Ryefield Primary School

Vyners Academy

Stockley Academy

Swakeleys Academy

Uxbridge Academy

William Byrd School

Willows Academy

Notes to the Pension Fund Account

London Borough of Hillingdon Pension Fund	31 March 2020	31 March 2019
Number of employers with active members	66	65
Number of employees in scheme		
London Borough of Hillingdon	4,839	4,551
Other employers	2,596	2,417
Total	**7,435**	**6,968**
Number of Pensioners		
London Borough of Hillingdon	6,082	6,001
Other employers	600	404
Total	**6,682**	**6,405**
Deferred Pensioners		
London Borough of Hillingdon	7,941	7,906
Other employers	2,630	2,352
Total	**10,571**	**10,258**

Note: To better reflect the underlying membership of the Fund the 2018/19 figures have been updated to reflect the number of specific individual members rather than the number of member records.

c. Funding

The Fund is financed by contributions from the employers, Pension Fund members and by income from the Fund's investments. The Pension Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. The contributions from the London Borough of Hillingdon and other participating employers are set through the triennial actuarial valuation at a rate sufficient to meet the long-term liabilities of the Fund.
Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5 % to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employers also pay contributions into the Fund based on triennial funding valuations. The last such valuation was as at 31 March 2019, this covers the three financial years following 2019/20. Currently employer contribution rates range from
17.3% to 34.5% of pensionable pay, as per the 2019 valuation.

d. Investments

The Pension Fund investments are managed externally by fund managers: Adams Street Partners, AEW UK, JP Morgan Asset Management, Legal & General Investment Management, LGT Capital Partners, London CIV, Macquarie Investments, Permira LLP, and UBS Global Asset Management. In addition, there are two direct investments into pooled funds with M&G Investments.

e. Governance

The Fund is overseen by the Pensions Committee (comprised of Councillors) and the Pensions Board (comprised of an even number of employer and member representatives). The performance of the fund managers is monitored by the Pensions Committee (Four meetings in 2019-20) and governance is overseen by the Pensions Board (Four meetings in 2019-20). Pensions Committee and Pensions Board consisted of the following members in 2019/20:

Pensions Committee

Cllr Martin Goddard (Chairman)
Cllr Phillip Corthorne (Vice-Chairman)
Cllr Teji Barnes
Cllr Tony Eginton
Cllr John Morse

Pensions Board

Roger Hackett (Employee Representative)
Tony Noakes (Employee Representative)
Zak Muneer (Employer Representative)
Hayley Seabrook (Employer Representative)

Notes to the Pension Fund Account

2. BASIS OF PREPARATION

The accounts have been compiled in accordance to the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, which is based on International Financial Reporting Standards (IFRS) as amended for the public sector and underpinned by the Local Government Pension Scheme Regulations. The accounts have been prepared on an accruals basis, except for transfer values, which are accounted for on a cash basis, and summarise the Fund transactions and report on the net assets available to pay pension benefits as at 31 March 2020.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2020). The Pension Fund Accounts have been prepared on a going concern basis.

3. ACCOUNTING POLICIES

a. Valuation of assets

- Market quoted investments: Equities are valued at bid market prices available on the final day of the accounting period.

- Fixed income securities including short-term instruments are priced based on evaluated prices provided by independent pricing services.

- For pooled funds, if bid prices are provided by the Fund administrators then these are used, otherwise the Net Asset Value (NAV) is used. The NAV for pooled funds is derived by subtracting the fund's liabilities from assets and divide the result by total units/shares within the pooled fund.

- Private Equity is valued using the latest audited valuation from the Limited Partner/General Partner. This is adjusted for any capital calls/distributions that have taken place since the date of the statement. Unquoted investments for Private Placements and Infrastructure are priced using discounted cash flow methodology.

b. Foreign currency translation of assets and liabilities and forward foreign exchange contracts are converted into sterling at the closing middle rates of exchange in the Net Assets Statement. Overseas income is converted at rates of exchange ruling when remitted.

c. Acquisition costs of investments occur as brokerage commission when investments are purchased. They are recorded in the cost figure on an accruals basis.

d. Investment management expenses are recorded at cost when the fund managers/custodian invoice the fund on a quarterly basis or provide a fee schedule deducted at source. Expenses are recorded on an accruals basis. Where an investment manager's complete fee schedule has not been received by year end, an estimate based on the previous quarter's amount is included in the accounts. In 2019/20, £76k of such fees is based on estimates (2018/19: £84k). The fund also agreed with the following fund managers that their fees include elements of performance, Adams Street Partners, AEW UK, Macquarie Infrastructure Partners and Permira LLP.

e. Administration expenses are paid when invoiced by third party providers through the administrating authority's payment system and recharged to the Pension Fund.

f. Interest on property developments - property is held in unit trusts for the Pension Fund, the return received is calculated in accordance with the unit price at the Net Assets Statement date.

g. Contributions are accounted for in the period in which they fall due. Normal contributions received during the year are in accordance with the rates and adjustments certificate.

h. Benefits are accounted for in the period in which they fall due. All benefits are calculated in accordance with the statutory regulations in force at the relevant benefit date.

i. Transfers are accounted for on a cash basis, as the amount payable or receivable by the scheme is not determined until payment is actually made and accepted by the recipient. Group transfers are accounted for under the agreement upon which they are made.

j. Cash and cash equivalents are held in the custody accounts by fund managers as agreed in the individual Investment Management Agreements (IMA). Cash held is at the discretion of the manager but must not exceed the stipulated permitted range in the IMA.

k. Investment Income - dividends from quoted securities are accrued when the securities are quoted ex-dividend. Interest on cash deposits are accrued on daily basis.

Critical Judgements and Uncertainties

l. Unquoted Alternative Investments - Fair values of alternative investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted alternative investments are valued by investment managers using methods such as IFRS fair value principles, discounted cash flow method and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), of which the British Venture Capital Association is a founding member. The value of alternative investments as at 31 March 2020 was £275,145k (£115,893k at 31 March 2019).

m. Assumptions made about the future and other major sources of estimation uncertainty - The Pension Fund accounts contains estimated figures that are based on assumptions made by the Fund about the future or events 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.

Notes to the Pension Fund Account

Items where 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
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. LGT Capital Partners Limited is currently in active dialogue with all investment managers regarding the potential impact on private equity portfolios. The fair value principles employed to value the underlying investments and the valuation policy remains unchanged. As recommended by the recent International Private Equity and Venture Capital Valuation ("IPEV") guidelines in response to the Covid-19 crisis, we continue to use the latest valuation available from our investment managers, primarily at 31 December 2019, adjusting for any known cash flows and take into account any known and measurable impact. It is important to note that given the evolving situation and the quarterly cycle of private equity valuations, additional data needs to be accessible before a more accurate estimate can be made with regard to potential effects of market events on net asset values.	The total private equity investments in the financial statements are £13,614k. There is a risk that this investment may be under or overstated in the accounts.

Item	Uncertainties	Effect if actual results differ from assumptions
Infrastructure - Macquarie Infrastructure Real Assets and LCIV Stepstone	Infrastructure Valuation represents the fair value of investments held at 31 March 2020. The valuations have been completed by MIRA (Macquarie Infrastructure Real Assets) in accordance with ASC 820-10 (Fair Value Measurements), under which the fair value is determined to be the price that would be received upon sale of the investments in an orderly transaction between market participants. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. 31 March 2020 valuations will be broadly based on a general outlook of a severe COVID-19 related economic impact.	The total infrastructure alternative investments in the financial statements are £27,265k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.

Item	Uncertainties	Effect if actual results differ from assumptions
Private Finance - M&G	Private Finance investments are valued at par as they are mostly floating rate notes tied to LIBOR. Final valuation is undertaken by the analysts employed by the fund manager as they are not traded on the open market. The manager has confirmed its investments and valuation will not be impacted by Covid-19.	The total private finance investments in the financial statements are £4,674k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.

Notes to the Pension Fund Account

Item	Uncertainties	Effect if actual results differ from assumptions
Direct Lending - Permira Credit Solutions	Private Debt Investments are valued on a quarterly basis and in accordance with International Private Equity and Venture Capital valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. As a result of the COVID-19 pandemic, spreads widened and prices fell significantly, and as a result the fair value of the majority of loans in the fund's portfolio have also reduced to below par at 31 March 2020.	The total Private Debt investments in the financial statements are £64,103k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Pooled Property - LGIM LPI, AEW UK & UBS Property	Pooled property assets are valued independently for the respective managers with a lot of subjective and unobservable inputs that may be affected by prevalent socio-economic issues. The underlying assets do not have the luxury of an open market transactional data like Equities and does result in valuation varying by wide degrees. The Assets Value as at 31 March 2020 are subject to material uncertainty, due to the unprecedented set of circumstances surrounding the COVID-19 Global Pandemic. Consequently, less certainty and a higher degree of caution should be attached to the reported value.	The total Pooled property investments in the financial statement is £165,448k. There is a risk the investments may be over or under stated in the accounts. These asset class of investments are not openly traded and a lot of unobervable inputs are utilised in the valuation of the assets. These unobservable valuation assumptuons may have a profound effect on the actual pricing at year end thus skew shown valuation the fund accounts.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rates used, the rates at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of actuaries, Hymans Robertson, are engaged to provide the fund with expert advice about the assumptions to be applied. The IAS19 balance sheet is based on financial market values and future market expectation indicators as at 31 March 2020 to comply with the accounting standard. The financial markets at the accounting date will have taken into account COVID19 risks (and opportunities) as one of many national and worldwide economic considerations. There has been no explicit additional allowance or adjustment made for COVID19 by Hymans Robertson.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in pension liability. An increase in assumed earnings would increase the value of liabilities and an increase in assumed life expectancy would increase the liability. This would not effect the Fund Account or Net Asset Statement, but would impact the Council Accounts. Below are the details of the sensitivity analysis to the method of assumptions used for year ended 31 March 2020 by the fund's actuaries.

Sensitivity to Unquoted Alternative Assets valuation and Pricing: Information on sensitivities of the valuation and pricing methodologies of these asset classes are disclosed in notes 14 and 16.

Sensitivity Analysis

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	134
0.5% p.a. increase in the Salary Increase Rate	1%	9
0.5% p.a. decrease in the Real Discount Rate	9%	144

The principal demographic assumption is the longevity assumption. For sensitivity purposes, it is estimated that a 1-year increase in life expectancy would approximately increase the liabilities of the Pension Fund by around 3-5%.

4. CONTRIBUTIONS

By category	**31 March 2020 £'000**	**31 March 2019 £'000**
Employees	10,109	9,846
Employers Contributions:		
Normal	30,333	27,465
Deficit Funding	6,863	5,865
	47,305	**43,176**

Deficit Funding: At the actuarial valuation on 31 March 2019 the Fund was 87% funded, with the remaining 13% deficit to be recovered over a period of 20 years.

By authority	**31 March 2020 £'000**	**31 March 2019 £'000**
LB Hillingdon	33,793	30,267
Scheduled Bodies	13,174	12,509
Admitted Bodies	338	400
	47,305	**43,176**

5. TRANSFERS IN

	31 March 2020 £'000	**31 March 2019 £'000**
Individual transfers in from other schemes	1,746	1,487
	1,746	**1,487**

6. BENEFITS

By category	31 March 2020 £'000	31 March 2019 £'000
Pensions	(38,846)	(36,423)
Commutations and Lump Sum Retirement Benefits	(7,330)	(6,750)
Lump Sum Death Benefits	(1,012)	(843)
	(47,188)	**(44,016)**

By authority	31 March 2020 £'000	31 March 2019 £'000
LB Hillingdon	(42,567)	(40,973)
Scheduled Bodies	(4,246)	(2,579)
Admitted Bodies	(375)	(464)
	(47,188)	**(44,016)**

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2020 £'000	31 March 2019 £'000
Refunds to members leaving service	(103)	(79)
Individual transfers out to other schemes	(6,767)	(2,547)
	(6,870)	**(2,626)**

8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the Fund for the period ending 31 March 2020 as follows:

	31 March 2020 £'000	31 March 2019 £'000
Administrative Costs	(825)	(840)
Investment Management Expenses	(8,767)	(7,897)
Oversight and Governance	(290)	(96)
	(9,882)	**(8,833)**

* Oversight and Governance expenses for 19-20 have increased due to triennial valuation and other fund reviews associated with the exercise.

8A. INVESTMENT MANAGEMENT EXPENSES BREAKDOWN

	31 March 2020 £'000	31 March 2019 £'000
Management Fees	(5,932)	(5,934)
Performance Related Fees	(780)	(1,405)
Custody Fees	(59)	(66)
Transaction Costs	(1,996)	(492)
	(8,767)	**(7,897)**

8B. TRANSACTION COSTS ANALYSIS BY ASSET CLASS

	31 March 2020 £'000	31 March 2019 £'000
Equities	(112)	(28)
Pooled Investments	(1,884)	(464)
	(1,996)	**(492)**

8C. EXTERNAL AUDIT COSTS

	31 March 2020 £'000	31 March 2019 £'000
Payable in Respect of External Audit	(22)	(22)
	(22)	**(22)**

External Audit costs are included in Oversight and Governance within Management Expenses

9. INVESTMENT INCOME

	31 March 2020 £'000	31 March 2019 £'000
Income from Equities	5,810	6,254
Pooled Property Investments	6,452	4,713
Pooled Investments- Unit trusts and other managed funds	10,362	11,266
Interest on cash deposits	119	110
Other (for example from stock lending or underwriting)	358	389
	23,101	**22,732**

10. INVESTMENTS

	31 March 2020 £'000	31 March 2019 £'000
Investment Assets		
Equities	84,471	128,054
Pooled investments	706,512	774,129
Pooled property investments	165,448	135,049
Private equity	13,614	17,329
Other Investment balances		
Cash deposits	15,520	10,472
Investment income due	502	1,183
Sales Settlements Outstanding	64	0
Total investment assets	**986,131**	**1,066,215**
Investment liabilities		
Derivative contracts:		
Purchase Settlements Outstanding	(17)	(89)
Total investment liabilities	**(17)**	**(89)**
Net investment assets	**986,114**	**1,066,126**

Notes to the Pension Fund Account

10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2019/20	Value 1 April 2019 £'000	Purchases at cost £'000	Sales proceeds £'000	Profits and losses on disposal of investments and Changes in market value of investments £'000	Value 31 March 2020 £'000
Equities	128,054	14,695	(14,825)	(43,453)	84,471
Pooled Investments	774,128	117,948	(152,591)	(32,973)	706,512
Pooled Property Investments	135,049	103,606	(55,878)	(17,329)	165,448
Private Equity	17,329	105	(4,265)	445	13,614
	1,054,560	**236,354**	**(227,559)**	**(93,310)**	**970,045**
	1,054,560	**236,354**	**(227,559)**	**(93,310)**	**970,045**
Other investment balances					
Cash Deposits	10,472			207	15,520
Investment Income Due	1,183				502
Outstanding Sales					64
Adjustments to Market Value Changes				7,011	
Total Investment Assets	**1,066,215**			**(86,092)**	**986,131**

2018/19	Value 1 April 2018 £'000	Purchases at cost £'000	Sales proceeds £'000	Profits and losses on disposal of investments and Changes in market value of investments £'000	Value 31 March 2019 £'000
Equities	128,306	14,362	(11,745)	(2,869)	128,054
Pooled Investments	679,908	490,071	(428,161)	32,310	774,129
Pooled Property Investments	127,808	5,109	(1,288)	3,421	135,049
Private Equity	20,091	201	(6,512)	3,549	17,329
	956,113	**509,743**	**(447,707)**	**36,411**	**1,054,560**
Other investment balances					
Cash Deposits	53,558			323	10,472
Investment Income Due	757				1,183
Adjustments to Market Value Changes				6,109	
Total Investment Assets	**1,010,428**			**42,843**	**1,066,215**

Outstanding trade of settlements (liabilities) are not included in the above reconciliation.

10B. ANALYSIS OF INVESTMENTS

	31 March 2020 £'000	31 March 2019 £'000
Equities		
UK		
Quoted	84,471	128,054
	84,471	**128,054**
Pooled funds - additional analysis		
UK		
Fixed income unit trust - Quoted	89,137	82,707
Other Unit trusts - Quoted	184,318	249,858
Unitised insurance policies - Quoted	336,973	343,000
Limited liability partnerships - Unquoted	96,084	98,564
	706,512	**774,129**
Pooled property Investments - Unquoted	165,448	135,049
Private equity - Unquoted	13,614	17,329
Cash deposits	15,520	10,472
Investment income due	502	1,183
Sales Settlements Outstanding	64	0
	195,148	**164,032**
Total investment assets	**986,131**	**1,066,215**
Investment liabilities		
Purchase Settlements Outstanding	(17)	(89)
Total investment liabilities	(17)	(89)
Net investment assets	**986,114**	**1,066,126**

10C. INVESTMENTS ANALYSED BY FUND MANAGER

Fund Manager	Market Value 31 March 2020 £'000	%	Market Value 31 March 2019 £'000	%
Investments Managed by London CIV Pool				
Legal & General Investment Management	384,373	39	343,000	32
London CIV Asset Pool	184,884	19	249,858	24
	569,257	58	592,858	56
Investments Managed Outside of London CIV				
Adams Street Partners	9,909	1	12,654	1
AEW UK	50,774	5	58,927	6
JP Morgan Asset Management	89,137	9	82,707	8
LGT Capital Partners	3,705	0	4,675	0
M&G Investments	4,674	0	7,956	1
Macquarie Infrastructure	26,699	3	29,133	3
Permira Credit Solutions	64,103	7	61,434	6
UBS Global Asset Management (Equities)	86,948	9	131,174	12
UBS Global Asset Management (Property)	67,517	7	76,521	7
Other*	13,391	1	8,086	1
	416,857	42	473,268	44
Total	**986,114**	**100**	**1,066,126**	**100**

* Other includes pending trades, accrued income and cash held in custody accounts, independent of fund managers not mandated to hold cash.

***** No single holding within an investment represents more than 5% of total assets

10D. STOCK LENDING

The Fund's investment strategy sets the parameters for the Fund's stock-lending programme. At the year-end, the value of quoted equities on loan was £3,572k (31 March 2019: £17,125k). These equities continue to be recognised in the Fund's financial statements.

Counterparty risk is managed through holding collateral at the Fund's custodian bank. At the year-end the Fund held collateral (via the custodian) at fair value of £3,804k (31 March 2019: £18,428k) representing 106% of stock lent. Collateral consists of acceptable securities and government debt.

Stock-lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower. There are no liabilities associated with the loaned assets.

11. CURRENT ASSETS

	31 March 2020 £'000	31 March 2019 £'000
Debtors		
Employers' contributions due	51	68
Employees' contributions due	13	17
Cash balances	3,510	1,339
	3,574	**1,424**

12. CURRENT LIABILITIES

	31 March 2020 £'000	31 March 2019 £'000
Creditors		
Other local authorities (LB Hillingdon)	(172)	(223)
Other entities	(461)	(344)
	(633)	**(567)**

Note: Other entities liabilities are due from the Pension Fund to bodies external to the government e.g. fund managers.

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS

	Market Value 31 March 2020 £'000	Market Value 31 March 2019 £'000
Prudential Assurance Company	5,249	5,086
	5,249	**5,086**

Additional Voluntary Contributions paid by scheme members are not included in the accounts. The additional voluntary contributions are paid by scheme members directly to Prudential Assurance Company, who manage these monies independently of the fund and, as determined by the fund actuary, do not form part of the Fund valuation.

According to information provided by Prudential, £168k was received in additional voluntary contributions by members, £220k in 2018/19. Any transfer of additional contributions into the Fund during the year are included in the employee contributions value as detailed in note 4.

14. FAIR VALUE - BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of accounting period.	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at market value based on current yields.	Not required	Not required
Pooled investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV-based pricing set on a forward pricing basis	Not required
Pooled Property investments	Level 3	Fair value in accordance with the RICS valuation - professional standards	Nav/Fair value-based pricing derived using recent market transactions on arm's length terms, where available	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date,
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with fund managers, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.
It is worth noting the sensitivity analysis below is just one of the possible changes to assets value due to the impact of factors affecting valuation methodology employed by the fund managers. Sensitivity being measured in this note differs from those in note 16 (other price risks).

	Valuation range (+/-)	Market Value 31 March 2020 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled investments - Limited Liability Partnerships (Infrastructure) a	10%	27,265	29,992	24,539
Pooled investments - Limited Liability Partnerships (Private Credit) b	10%	68,777	75,655	61,899
Pooled Property - UBS, AEW & LGIM ©	10%	165,448	181,993	148,903
Private Equity - d	5%	13,614	14,295	12,933
Venture Capital	5%	41	43	39
Total		**275,145**	**301,977**	**248,313**

a) The potential movement of 10% represents a combination of the following factors, which could all move independently in different directions: i) material changes in economic and financial assumptions. ii) discounted equity cash flow rate.

b) The assumed movement is based on pricing of loans in the secondary leveraged loan market, with widening/narrowing spreads resulting in price changes either way.

c) The assumed movement is based fluctuations in market prices for comparable assets, real estate market Illiquidity and counterparty default.

d) Movement in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 5% is caused by unexpected changes to cash flow forecast and discounts for lack of potential bids.

14A. FAIR VALUE HIERARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1
Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2
Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3
Assets and liabilities 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.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Values as at 31 March 2020	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at Fair Value through Profit and Loss	84,471	610,429	275,145	970,045
Loans and Receivables	16,086	0	0	16,086
Financial Liabilities at Fair Value through Profit and Loss	(17)	0	0	(17)
Net investment Assets	**100,540**	**610,429**	**275,145**	**986,114**

Values as at 31 March 2019	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at Fair Value through Profit and Loss	128,054	810,613	115,893	1,054,560
Loans and Receivables	11,655	0	0	11,655
Financial Liabilities at Fair Value through Profit and Loss	(89)	0	0	(89)
Net investment Assets	**139,620**	**810,613**	**115,893**	**1,066,126**

14B. RESTATEMENT OF VALUATION HIERARCHIES

There were no restatements of valuations between hierarchies in 2019/20.

14C. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Level 3 Assets Reconciliation

	Value 1 April 2019	Transfers Into Level 3	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity - Adams Street Partners, LGT Capital Partners & UBS	17,329		105	(4,265)	(2,147)	2,592	13,614
Private Finance - M&G	7,956		0	(4,352)	(537)	1,606	4,674
Infrastructure - Maquarie & LCIV	29,133		643	(3,613)	(935)	2,037	27,265
Venture Capital - UBS	41		0	0	0	0	41
Property - UBS Property, AEW UK & LGIM LPI	0	130,308	103,607	(55,878)	(15,305)	2,716	165,448
Direct Lending - Permira	61,434		844	(1,306)	3,131	0	64,103
Total Level 3 Assets	**115,893**	**130,308**	**105,199**	**(69,414)**	**(15,793)**	**8,951**	**275,145**

There were two transfers into level 3 assets in 2019/20. AEW UK Ltd and UBS Property assets were transferred to Level 3, effective 31 March 2020 after discussions with the fund managers and the effects of COVID-19, valuation of assets by both managers were subject to material uncertainty following their independent valuer's determination of material valuation uncertainty as directed by the Royal Institute of Chartered Surveyors (RICS). Consequently, less certainty and a higher degree of caution was attached to the assets valuation, thus introducing unobservable inputs to the valuation of these assets. This resulted in a review of the hierarchical classification and subsequent moving of AEW & UBS Property assets from Level 2 to Level 3. LGIM LPI is classified as level 3 due to the same reason alluded to in moving both UBS Property & AEW UK to Level 3 from Level 2.

14D. LEVEL 3 PRICING HIERARCHY DISCLOSURES

Quantitative Information on Significant unobservable inputs

Private Equity: Adams Street & LGT capital
The significant unobservable inputs used in the fair value measurement of privately held securities are Revenue multiples, EBITDA multiple, net income multiple and discount for lack of marketability and potential bids.

Private Finance: M&G
The assets are mostly floating rate notes and held at par value.

Infrastructure: Macquarie
The following quantitative information are considered for significant unobservable inputs, in valuation of infrastructure assets:

- The acquisition financial model is used as a base case.
- Update for any material changes in economic, operational and financial assumptions.
- Discount equity cash flows at the sum of the risk free rate and the appropriate risk premium (as determined by the implied risk premium at acquisition unless there is an inherent change in the riskiness of the underlying investments which may necessitate a change in the risk premium).

Direct Lending: Permira
The following key terms are confirmed as inputs for each yield analysis calculation:

- Cash / PIK (Payment In Kind) margin
- Frequency of interest payments
- Commitment and settlement date
- Contracted and expected maturity date

Pooled Property: AEW, UBS Property & LGIM LPI
Fair value is primarily derived using recent market transactions on arm's length terms, where available.

Description of Valuation Process

Private Equity
The fair value of financial instruments that are not traded in an active market are determined by using valuation techniques. Private equity investments for which market quotations are not readily available are valued at their fair values by the Board of Directors. Private equity valuations are usually generated by the managers of the underlying portfolio of investments on a quarterly basis and are actually received with a delay of at least one-to-two months after the quarter end date. As a result, the year-end net asset value predominantly consists of portfolio valuations provided by the investment managers of the underlying funds at a specific date, adjusted for subsequent capital calls and distributions. If the Board of Directors comes to the conclusion upon recommendation of the Investment Manager (after applying the above mentioned valuation methods), that the most recent valuation reported by the manager/administrator of a Fund investment is materially misstated, it will make the necessary adjustments using the results of its own review and analysis. The valuation adjustments relate to events subsequent to the last capital account valuation statement received but based upon information provided by the investment manager and all other available unobservable inputs. In estimating the fair value of fund investments, the Investment Manager in its valuation recommendation to the Board of Directors considers all appropriate and applicable factors.

Private Finance: M&G
These assets are floating rate and are held to maturity, they are valued at par unless suffering from impairment. Impairments may be applied if an asset's credit rating deteriorates.

Direct Lending: Permira
- In each case, valuations are prepared in accordance with International Private Equity & Venture Capital Valuation (“IPEV”) Guidelines
- All direct lending investments are valued on a mark-to-market basis at the date of valuation
- Where an investment is considered illiquid (level 3), a yield analysis is performed to infer a fair market value for that investment.
- Each valuation is reviewed to ensure:

  - Third party evidence to support pricing (such as Market data, broker quotes or Bloomberg pricing, as well as latest financials and capital structure; and any other adjustments to value) was evidenced;
  - That the valuations are prepared in a consistent manner with previous valuations and that any changes in methodology or valuation are clearly explained; and valuations are derived using methodology consistent with the IPEV guidelines.

Infrastructure: Macquarie
Valuations are calculated by the individual asset teams on a quarterly basis. The valuation process follows the British Venture Capital Association (BVCA) guidelines, and is compliant with International Financial Reporting Standards (IFRS). The most generally accepted methodology of valuing infrastructure assets is by way of a discounted cash flow (DCF) analysis.

DCF-Based Market Valuation Process
Financial Model
The acquisition financial models of all of the Fund’s underlying investments will be externally audited prior to financial close. They will be used as the initial base financial models for the DCF analysis.

Update for Economic, Operational and Financial Assumptions
The economic assumptions in the financial models are adjusted every three months in order to reflect current market conditions. The main economic variables relate to interest rates, exchange rates and inflation.

The initial operational assumptions in each of the financial models are the acquisition forecasts. Any historical information (e.g. distributions received in an intervening period and year-to-date performance) will be updated within the model. In relation to forward-looking assumptions, the acquisition assumptions will continue to be used unless there is a material inconsistency between these assumptions and:
- The actual operational results to date
- The revised forecasts provided by management or approved by the board.

The financial assumptions in the model (e.g. cost of debt and capital structure) are also updated to reflect the actual debt put into place, current base rates and any material change in outlook with regards to future leverage.

Discount Rate
Equity cash flows are discounted at the acquisition internal rate of return, which is adjusted for changes in the relevant risk free rate. The acquisition internal rate of return is the return which is forecast under the acquisition case and price, reflecting the risks inherent in each of the investments. The difference between the acquisition internal rate of return and the risk free rate at the date of acquisition equates to the risk premium, which is the risk compensation to equity holders.

Most of the Fund's assets are likely to see some decrease in the risk premium as assets are de-risked following acquisition. Such projects may have a changing risk "life-cycle", whereby the risk changes as the asset matures. In addition, if there is a change in the inherent risk of an investment, then the risk premium may need to be reconsidered.

Pooled Property: AEW, UBS Property & LGIM LPI
Pooled properties have been valued in accordance with RICS valuation – Professional Standards VPS4 (7.1) fair value and VPGA 1 valuations for inclusion in financial statements, which adopts the definition of fair value used by the International Accounting Standards Board:

"The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date."

The properties are valued individually and the details of tenure, tenancies and floor area are taken into account for valuation purposes.

Narrative and Quantitative description of sensitivity to changes in valuation methods and market conditions:

Private Equity
Market valuation method applied to investments is sensitive to four main components:
i) changes in actual market prices;
ii) interest rate risk;
iii) foreign currency movements; and
iv) other price risks

Private Finance (M&G)
The only possible sensitivity associated with private finance valuations and methodology is credit rating. This may result in an analyst impairing an asset if there is a change in the asset's credit rating.

Infrastructure: Macquarie
The economic assumptions in the financial models are adjusted every three months in order to reflect current market conditions. The main economic variables relate to interest rates, exchange rates and inflation.

Direct Lending: Permira
The yield analysis methodology used to value the level 3 assets are sensitive to the following inputs:
- EURIBOR swap rates (up to 7 years)
- LIBOR swap rates (up to 7 years)
- ELLI (3 year discounted spread data)

These inputs are sourced directly from Bloomberg feeds or independently from Duff & Phelps (ELLI data) relevant to each period end date.

These inputs impact on: (1) the implied IRR calculations at the period end valuation date; (2) the forecast cash and/or PIK yields that track LIBOR or EURIBOR; and (3) ultimately the implied asset price calculated from these inputs as the period end to determine the valuation price.

Pooled Property – AEW, UBS Property & LGIM LPI
Prevalent economic conditions may affect occupancy rate or possible default in rent payments and conversely affecting transaction values. Local authority intentions, planning proposals and onerous restrictions are some of the other factors to which Pooled Property assets transactions may be sensitive towards. These are:
i) Market price risk: Future values of investments in direct property and related property investments will fluctuate due to changes in market prices.
ii) Real Estate valuation changes: Property investments are illiquid assets and valuing is difficult.
iii) Credit risk: counterparty (to a financial instrument) or tenant (of a property) will cause a financial loss to the Fund by failing to meet a commitment it has entered into with the Fund.

15. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

	Designated as fair value through P&L	Assets at amortised cost	Financial Liabilities at Amortised Cost	Total	Designated as fair value through P&L	Assets at amortised cost	Financial Liabilities at Amortised Cost	Total
	31 March 2020 £'000	31 March 2020 £'000	31 March 2020 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2019 £'000	31 March 2019 £'000	31 March 2019 £'000
Financial Assets								
Equities	84,471		0	84,471	128,054	0	0	128,054
Pooled Investments	706,512		0	706,512	774,129	0	0	774,129
Pooled property investments	165,448		0	165,448	135,049	0	0	135,049
Private Equity	13,614		0	13,614	17,329	0	0	17,329
Cash	0	15,520	0	15,520	0	10,472	0	10,472
Other Investment balances	0	566	0	566	0	1,183	0	1,183
	970,045	**16,086**	**0**	**986,131**	**1,054,560**	**11,655**	**0**	**1,066,215**
Financial Liabilities								
Purchase Settlements Outstanding	0	0	(17)	(17)	0	0	(89)	(89)
	0	**0**	**(17)**	**(17)**	**0**	**0**	**(89)**	**(89)**
Total	**970,045**	**16,086**	**(17)**	**986,114**	**1,054,560**	**11,655**	**(89)**	**1,066,126**

15A. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	31 March 2020 £000's	31 March 2019 £000's
Financial Assets		
Designated at Fair Value through profit and loss	(86,093)	42,843
	(86,093)	**42,843**

16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities. Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency and interest rate risks) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Responsibility for the Fund's risk management strategy rests with the Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

The risk that the fair value of cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks. To mitigate against market risk the Pension Fund invests in a diversified pool of assets to ensure a reasonable balance between different categories. The management of the assets are placed with a number of fund managers with different performance targets and investment strategies. Each fund manager is expected to maintain a diversified portfolio in each asset class. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to Pensions Committee where they are monitored and reviewed.

Other price risk
Other 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 instruments or its issuer, or factors affecting all such instruments in the market. The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The potential losses from shares sold short are unlimited. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund Investment Strategy Statement.

Other price risk - Sensitivity Analysis
Following analysis of historical data and expected investment return movement during the financial year, the Fund has determined that the following potential change in market price risk are reasonably possible for the relevant reporting periods.

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on Fund asset allocations. The potential volatilities are consistent with one standard deviation movement of the change in value of assets over the last three years. This can then be applied to period end asset mix.

Had the market price of the Fund investments increased or decreased in line with the percentage change below, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

Asset Type	**Value as at 31 March 2020 £'000**	**Percentage Change %**	**Value on Increase £'000**	**Value on Decrease £'000**
Global Equity	379,584	12.00%	425,134	334,034
UK Equity	84,471	18.00%	99,676	69,266
Bonds	230,845	6.00%	244,696	216,994
Alternatives	109,697	2.80%	112,769	106,625
Property	165,448	4.70%	173,224	157,672
Total	**970,045**		**1,055,498**	**884,592**

Note: Bonds valuation in the table above includes pooled fund held bonds.

Asset Type	**Value as at 31 March 2019 £'000**	**Percentage Change %**	**Value on Increase £'000**	**Value on Decrease £'000**
Global Equity	464,052	9.60%	508,601	419,503
UK Equity	128,054	9.60%	140,347	115,760
Bonds	211,512	6.70%	225,683	197,341
Alternatives	115,893	3.70%	120,181	111,605
Property	135,049	5.20%	142,072	128,026
Total	**1,054,560**		**1,136,884**	**972,236**

Note: Bonds valuation in the table above includes pooled fund held bonds.

Interest Rate Risk - The risk to which the Pension Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. Based on interest received on fixed interest securities, cash and cash equivalents.

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest Rate Risk Sensitivity Analysis
The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of net assets available to pay benefits. A 100 basis points (1%) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

	Value as at 31 March 2020	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
Assets exposed to interest rate risks	**£'000**	**£'000**	**£'000**	**£'000**
Cash balances	15,520	155	15,675	15,365
Bonds - pooled funds	230,845	2,308	233,153	228,537
Total change in assets available	**246,365**	**2,464**	**248,829**	**243,901**

	Value as at 31 March 2019	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
Assets exposed to interest rate risks	**£'000**	**£'000**	**£'000**	**£'000**
Cash balances	10,472	105	10,577	10,367
Bonds - pooled funds	211,512	2,115	213,627	209,397
Total change in assets available	**221,984**	**2,220**	**224,204**	**219,764**

Currency Risk - The risk to which the pension fund is exposed to fluctuations in foreign currency exchange rates. The Pension Fund has the ability to set up a passive currency hedge where these risks are perceived to be adverse. As at 31 March 2020, the Fund had no currency hedge in place for those managers who do not hedge their own portfolios. The following table summarises the fund's currency exposure as at 31 March 2020 and as at the previous period ending 31 March 2019.

Currency exposure by asset type

	Asset Value 31 March 2020	Asset Value 31 March 2019
	£'000	**£'000**
Pooled Funds	195,267	214,196
Private Equity/Infrastructure	40,879	46,462
	236,146	**260,658**

Currency risk sensitivity analysis
Following analysis of historical data in consultation with PIRC Ltd, the Funds data provider, the Fund considers the likely volatility associated with foreign exchange rate movements to be 7.40%, based on the data provided by PIRC. A 7.40% fluctuation in the currency is considered reasonable based on PIRC's analysis of historical movements in month end exchange rates over a rolling twelve-month period. This analysis assumes that all variables, in particular interest rates, remain constant. Managers that hedge against currency risk are not included in this sensitivity analysis. A 7.40% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	Asset Value 31 March 2020	Potential market movement	Value on increase	Value on decrease
		7.40%		
	£'000	£'000	£'000	£'000
Pooled Funds	195,267	14,450	209,717	180,817
Private Equity/Infrastructure	40,879	3,025	43,904	37,854
	236,146	**17,475**	**253,621**	**218,672**

Assets exposed to currency risk	Asset Value 31 March 2019	Potential market movement	Value on increase	Value on decrease
		7.30%		
	£'000	£'000	£'000	£'000
Pooled Funds	214,196	15,636	229,832	198,560
Private Equity/Infrastructure	46,462	3,392	49,854	43,070
	260,658	**19,028**	**279,686**	**241,630**

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.

The Pension Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative position, where the risk equates to the net market value of a positive derivative position. Credit risk can be minimised through careful selection of high quality counterparties, brokers and financial institutions. The Pension Fund is also exposed to credit risk through Securities Lending, Forward Currency Contracts and its daily treasury activities. The Securities Lending programme is run by the Fund's custodian Northern Trust which assigns four different risk management oversight committees to control counterparty risk, collateral risk and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the pension fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time.

The prime objective of the Pension Fund treasury management activity is the security of principal sums invested. As such it will take a prudent approach to organisations employed as the banker and deposit taker. The Pension Fund will ensure it has adequate but not excessive cash resources in order to meet its objectives. The bank accounts are held with Lloyds Plc, which holds an S&P long-term credit rating of A. Deposits are placed in the AAAf rated Northern Trust Money Market Fund which is ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The Fund's cash holding under its treasury management arrangements at 31 March 2020 was £19,076k (31 March 2019: £11,811k) and this was held with the following institutions:

Summary	Rating S&P	Balances as at 31 March 2020 £'000	Rating S&P	Balances as at 31 March 2019 £'000
Money market funds				
Northern Trust	AAAf S1+	15,720	AAAf S1+	10,672
Bank current accounts				
Lloyds	A+	3,310	A+	1,139
Total		**19,030**		**11,811**

Liquidity Risk - The risk the Pension Fund will have difficulties in paying its financial obligations when they fall due.

The Pension Fund holds a working cash balance in its own bank accounts with Lloyds as well as Money Market Funds to which it has instant access to cover the payment of benefits and other lump sum payments (£3,310k). At an investment level the fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2020 these assets totalled £694,900k, with a further £15,766k held in cash in the Custody accounts at Northern Trust.

Refinancing risk

The key risk is that the fund will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

17. FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a revaluation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last valuation took place as at 31 March 2019 setting rates for the period April 2020 to March 2023. The next triennial valuation will take place as at 31 March 2022.

In line with the triennial valuation the Fund updates its Funding Strategy Statement every three years. The key elements of the funding strategy are:

1. to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
2. to ensure that employer contribution rates are as stable as possible
3. to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
4. to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so
5. to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations

The funding level is the ratio of assets to liabilities at the valuation date. A funding level of less/more than 100% implies that there is a deficit/surplus in the Fund at the valuation date against the funding target. Funding plans are set to eliminate any deficit (or surplus) over the set time horizon and therefore get back to a funding level of 100%. To do so, additional contributions may be required to be paid into the Fund; these contributions are known as the "secondary rate".

At the 2019 actuarial valuation, the Fund was assessed as 87% funded (75% at the March 2016 valuation). This corresponded to a deficit of £161m (2016 valuation: £269m) at that time. The slight improvement in funding position between 2016 and 2019 is mainly due to investment performance over the inter-valuation period. The liabilities have also increased due to a reduction in the future expected investment return, although this has been partially been offset by lower than expected pay and benefit growth (both over the inter-valuation period and forecast to continue into the long term).

Significant events
The figures in this report are based on our understanding of the benefit structure of the LGPS in England and Wales as at 31 March 2019. Details can be found at http://www.lgpsregs.org/.

McCloud ruling
The LGPS benefit structure is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. At the time of writing, the format and scope of any benefit changes in light of the McCloud ruling is still unknown. In line with the advice issued by the Scheme Advisory Board in May 2019, the following allowance has been made at the valuation for the McCloud ruling:

• Employer contribution rates: additional prudence in funding plans via an increase in the likelihood of success (step 3) when setting contribution rates;
• Measurement of funding position at 31 March 2019: no allowance.

Notes to the Pension Fund Account

Contribution rates

The table below summarises the whole Fund Primary and Secondary Contribution rates at this triennial valuation. These rates are the payroll weighted average of the underlying individual employer primary and the total of employer secondary rates expressed as a monetary amount, calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate (%)	Secondary Rate (£)		
1 April 2020 - 31 March 2023	2020/21	2021/22	2022/23
20.20%	£5,313,000	£5,451,000	£5,592,000

The Primary rate above includes an allowance for administration expenses of 0.8% of pay. The employee average contribution rate is 6.5% of pay.
At the previous formal valuation at 31 March 2016, a different regulatory regime was in force. Therefore, a contribution rate that is directly comparable to the rates above is not provided.

The valuation of the Fund has been undertaken using a risk-based approach, this approach recognises the uncertainties, and risks posed to funding and follows the process outlined below:

Step 1: The Fund sets a funding target (or funding basis) which defines the target amount of assets to be held to meet the future cash flows. The assumptions underlying the funding target are discussed further in the next section. A measurement is made at the valuation date to compare the assets held with the funding target.

Step 2: The Fund sets the time horizon over which the funding target is to be reached.

Step 3: The Fund sets contributions that give a sufficiently high likelihood of meeting the funding target over the set time horizon.

Assumptions

Due to the long term nature of the Fund, assumptions about the future are required to place a value of the benefits earned to date (past service) and the cost of benefits that will be earned in the future (future service). Assumptions fall into three categories when projecting and placing a value on the future benefit payments and accrual – financial, demographic and Commutation.

Financial Assumptions

A summary of the financial assumptions underpinning the target funding basis and adopted during the assessment of the liabilities of the Fund as at 31 March 2019 (alongside those adopted at the previous valuation for comparison) are shown below.

Description	31 March 2019	31 March 2016
Funding Basis Discount Rate	4.0%	4.0%
Benefit Increases (CPI)	2.3%	2.1%
Salaries Increases	2.6%	2.6%

Demographic Assumptions

The main demographic assumption to which the valuation results are most sensitive is that relating to the longevity of the Fund's members. The longevity assumptions result in the following typical future life expectancies from age 65. For this valuation, the Fund has adopted assumptions which give the following sample average future life expectancies for members:

Description		31 March 2019	31 March 2016
Male			
	Pensioners	22.1 years	22.6 years
	Non- Pensioners	22.8 years	24.0 years
Female			
	Pensioners	24.3 years	24.6 years
	Non- Pensioners	25.5 years	26.5 years

Commutation assumptions

An allowance is included for future retirements to elect to take 65% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 85% of the maximum tax-free cash for post-April 2008 service.

18. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The IAS19 balance sheet is based on financial market values and future market expectation indicators as at 31 March 2020 to comply with the accounting standard. The financial markets at the accounting date will have taken into account COVID19 risks (and opportunities) as one of many national and worldwide economic considerations. There has been no explicit additional allowance or adjustment made for COVID19 by Hymans Robertson.

Description	**31 March 2020 % per annum**	**31 March 2019 % per annum**
Inflation /Pensions Increase Rate	1.9%	2.5%
Salary Increase Rate	2.2%	2.9%
Discount Rate	2.3%	2.4%

An IAS 19 valuation was carried out for the Fund as at 31 March 2020 by Hymans Robertson with the following results:

Description	**31 March 2020 £m**	**31 March 2019 £m**
Present Value of Promised Retirement Benefits	1,569	1703*
Active Members	503	753
Deferred Members	422	380
Pensioners	644	570

*****_Incorporates an allowance for the potential increase in liabilities arising from the McCloud judgement and GMP indexation_

These figures are presented as required by IAS 26. They are not relevant for the calculations undertaken for funding purposes or other statutory purposes under UK pension legislation. This item is not recognised in the Net Asset Statement, hence is considered not to be in opposition to the assertion included in the Net Asset Statement surrounding future liabilities of the Fund.

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

Note that the above figures at 31 March 2020 (and 31 March 2019) include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

Net Liability

The table below shows the total net liability of the Fund as at 31 March 2020. 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 pension's legislation. In calculating the required numbers, the actuary adopted methods and assumptions that are consistent with IAS19.

Description	**31 March 2020 £m**	**31 March 2019 £m**
Present Value of Promised Retirement Benefits	(1569)	(1703)
Fair Value of Scheme Assets (bid value)	989	1067
Net Liability	**(580)**	**(636)**

Going Concern

The Pension Fund accounts and Notes have been prepared on a going concern basis. The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code (Code of Practice on Local Authority Accounting in the United Kingdom 2019/20) in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

The Fund's triennial valuation at 31 March 2019 reported a funding level of 87%. Currently, contributions and investment income are sufficient to fund benefits as they fall due without the need to liquidate investments. A recent review undertaken in response to the COVID-19 effects as at 31st March 2020 determined that there was no material risk to the Fund of employers defaulting on their contributions. If a need to obtain liquidity arises, approximately 72% of the Fund's assets are held in liquid investments. LGPS regulations remain in force with no expectation that the scheme will be wound up or substantive changes made to it.

19. RELATED PARTY TRANSACTIONS

It is required under IAS 24 "Related Party Disclosures" that material transactions with related parties which are not disclosed elsewhere should be included in a note to the financial statements. The London Borough of Hillingdon is a related party to the Pension Fund. The revenue contributions the Council has made into the Pension Fund are set out in note 4 to the Pension Fund accounts. No senior officer or Pension Committee member had any interest with any related parties to the Pension Fund.

Governance
There are three members of the Pension Fund Committee who are deferred or retired members of the Pension Fund. Cllr Philip Corthorne (Vice-Chairman), a deferred member; Cllr Tony Eginton, a retired member and Cllr Teji Barnes, a deferred member. Each member is required to declare their interest at each meeting.

Key Management Personnel
Two employees of the London Borough of Hillingdon held key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees are the Section 151 officer and the Head of Pensions, Treasury and Statutory Accounts (Up to 26 December 19). Total remuneration payable to key management personnel is set out below:

	31 March 2020 £'000	**31 March 2019 £'000**
Short term benefits	64	74
Post employment benefits	78	75
	142	**149**

***** Post-employment benefits for 2018/19 updated for consistency

The Pensions Committee of the London Borough of Hillingdon Pension Fund ("the Fund") has prepared an Investment Strategy Statement (ISS) in accordance with the DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement.

As set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Pensions Committee will review this Statement from time to time, but at least every three years, and revise it as necessary. Also, in the event of a significant change, changes will be reflected within three months of the change occurring. The current version of the ISS is available on the pension fund pages of the Council's website: www.hillingdon.gov.uk and included in the Annual Report.

20. BULK TRANSFER

There were no bulk transfers in 2019-20.

21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2020 totalled £65,687k (£10,305k at 31 March 2019).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, Infrastructure and Credit Solutions (Permira) parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of up to six years from the date of each original commitment. The big increase is due to new commitments of £55m to LCIV Infrastructure Fund of which £567k has been drawn-down.

There were no contingent liabilities outstanding for the Fund at the end of the financial year 2019/20.

22. CONTINGENT ASSETS

Two admitted body employers in the London Borough of Hillingdon Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

23. POST BALANCE SHEET EVENTS

Events taking place after the 31st March 2020 are not reflected in the financial statements or notes, unless they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no events to report after the Balance Sheet date that deem adjustment or disclosure in the accounts.

London Borough of Hillingdon
Annual Governance Statement 2019/20

1. Introduction

1.1 The London Borough of Hillingdon (LBH) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. In discharging this overall responsibility, LBH is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions that include arrangements for the management of risk.

1.2 LBH follows an approach to corporate governance which is in accordance with the principles of the CIPFA/SOLACE 2016 Framework and guidance 'Delivering Good Governance in Local Government'. This statement meets the requirements of Regulation 6 (1)(a) of the Accounts and Audit Regulations 2015 and Coronavirus Amendment 2020 which require an authority to conduct a review at least once a year of the effectiveness of its system of internal control and to include a statement reporting on the review with the published Statement of Accounts. Regulation 6(1)(b) requires that the statement is an Annual Governance Statement (AGS) which must be prepared in accordance with proper practices in relation to the accounts.

2. Executive Summary

2.1 The review of effectiveness has concluded that internal control and governance systems were in place for the financial year ended 31st March 2020 and, except where identified in Section 3 below, the Council's management and control systems are operating effectively in accordance with good practice. The Council will continue the operation of its governance framework and take steps to carry out the actions for improvement identified in the review of effectiveness to further strengthen its governance arrangements.

3. Significant Governance Issues

3.1. LBH has implemented a range of improvement actions, as part of its overall continuous improvement programme, to strengthen governance arrangements and control systems. All governance issues reported in the **2018/19 AGS** and in previous years have been addressed and the following points are noted:

3.1.1 **Adoption Services** - LBH has implemented the Government's requirements to join a Regional Adoption Agency. Policies and procedures have been revisited to ensure compliance with the Government's expectations and legislative requirements. Further, a revision of processes to embed new practice models regarding achieving permanency, through adoption for children has also been carried out.

3.1.2 **Early Years Centres -** Significant changes have been made to the staffing structure and delivery model of the 3 early years centres, moving away from reliance on manual procedures with redesigned practices regarding the application of enrolment fees. The service will become financially self-sustaining, with new branding, an online portal and business model that is attractive in the commercial market of childcare. The re-branding of the service includes clear and transparent fees and charges where payment to the Council is easily accessible via the website.

3.1.3 **Emergency Duty Team (EDT)** - An Internal Audit (IA) assurance review of the EDT identified opportunities to strengthen the service's governance, remit and effective use of performance information. A follow-up review found recommendations to be a mixture of implemented, no longer applicable, or partly implemented. Those recommendations that are partly implemented form the basis for a BID review. The follow-up confirmed that the SLA was updated and the process for capturing, reporting and monitoring performance data was updated. Findings from the IA review and work undertaken have been utilised to consider demand, management of risk and out of hours' service to develop a model of efficient working with Heathrow Airport and integration of Adult Services.

3.1.4 **National Transfer Scheme (NTS) -** As a port authority LBH has a statutory obligation to intervene and safeguard children and their families at their point of entry into the UK. The NTS continues to be unlegislated and therefore dispersing Unaccompanied Asylum Seeking Children (UASC) through this scheme remains a significant challenge for the Council. LBH remains over the nationally agreed limit of UASCs (0.07%) and continues to face an increased challenge with regard to capacity to meet the needs of this growing cohort. Work and lobbying (via a Home Office working group) is ongoing with UK Border Agency, Immigration Ministers and the NTS to facilitate dispersal of UASC.

3.1.5 **Parking Services** - Following a restructure the Parking Operations and Parking Processes Teams have combined to strengthen governance arrangements regarding the management of cases and review of system hierarchy user settings. Further, a specialised Penalty Charge Notice ICT system has been embedded and a temporary cash collection service implemented, whilst a new long-term contract is in the process of being awarded.

3.1.6 **School Improvement** - LBH continues to undertake regular performance reviews of Community Schools where there are concerns and where appropriate, Warning Notices are served. The Council works closely with all Head Teachers and Governing Bodies in the Borough to embed a school-led improvement approach in Hillingdon and to ensure all children receive a 'good' or better education. The School Improvement Strategy has been drafted and following a review, permanent recruitment to new school improvement roles has commenced.

3.1.7 **Supported Housing Service -** A contracted social care provider was closely monitored by the Council via its Care Governance process due to safeguarding concerns about the management of tenants' finances. A Police investigation was conducted and both the Council and the provider have taken appropriate remedial action and continue to monitor and support the service.

3.2 Following a review of the effectiveness of the system of internal control including the Council's risk management framework and its corporate governance arrangements, the following significant governance issues have been identified in **2019/20**:

3.2.1 **Brexit** - A wide range of activities were undertaken in the lead up to and preparation for Brexit. Strategic co-ordination was in place where CMT had oversight of Brexit related risks and controls by Group (Directorate). Preparedness and consideration of resilience related impacts on critical services and meeting statutory duties was regularly discussed and considered. Business Continuity Plans were reviewed and risks were mapped in relation to the likelihood and impact of Brexit. LBH worked collaboratively with partner agencies and stakeholders, which included weekly reporting and conference calls with The Ministry for Housing, Communities and Local Government (MHCLG) and London Resilience. The Council's weekly submissions enabled key concerns and the identification of priority issues, which could be escalated through wider reporting structures via the Resilience and Emergencies Division of MHCLG to support pan-London assessments of both immediate and longer-term impacts of the UKs exit from the EU on London local authorities.

3.2.2 **Coronavirus** - The constantly developing progress of the Coronavirus pandemic presented LBH with a unique array of risks and major issues to address and respond to within tight timeframes. CMT consulted on a daily basis and the Covid-19 Gold Group remains in place to closely monitor developments to ensure we are following the latest advice and protocols from Public Health England and central government. Emergency Management and Response, Business Continuity and Covid-19 Gold work collaboratively to co-ordinate responsive measures and to ensure business continuity arrangements are in place. Non-critical staff have been redeployed and those with underlying heath issues were sent home. This enables the Council to face the challenge of protecting the most vulnerable people in the borough, whilst simultaneously balancing obligations to their residents, employees and stakeholders.

The Council continues to assess key risk areas and impacts of the coronavirus pandemic and has updated its corporate and service risk registers, as well as completing service and individual risk assessments. In response to the risks identified, the Council has implemented a comprehensive range of actions including:

- Implementation of the Covid Recovery Board and Recovery Plan;
- Food distribution and medicine deliveries to residents;
- Accommodation for all rough sleepers in the borough;
- Processed and issued Government financial grants;
- Increased Benefits applications as well as Council Tax and Business Rates adjustments; and
- Providing support for service users, vulnerable people, businesses and suppliers.

During the pandemic a governance structure was in place to report, monitor and escalate key and emerging risks to the MHCLG through weekly reporting and communication via the Covid-19 Gold Group. Alternative ways of working were introduced and governance arrangements were revised so that key Committee and Council meetings were held virtually and CMT was extended so that Covid-19 related issues became a standing agenda item. The combined impact of central and local government response and activities undertaken has resulted in LBH incurring significant additional costs combined with major losses of income, with delays to savings programmes and creating additional financial pressures.

3.3. The Council continues to operate in an environment of declining financial support from government against a backdrop of rising inflation costs and significant demographic changes (i.e. there are an increasing number of children in the borough and people are living longer). As a result, this presents the Council with the challenge of managing the greater demand for its broad range of services, which in the absence of any response would result in a rising annual deficit. However, LBH continues to review and transform services to drive improvement and efficiency through initiatives such as the successful BID programme, which has bridged the budget gap with 2019/20 savings of £6.6 million delivered or on track for delivery. This proven successful approach is set to be continued beyond 2019/20, enabling the Council to continue 'putting our residents first' despite the challenging financial conditions and demographic pressures.

Fran Beasley
Chief Executive
14 August 2020

Cllr Sir Ray Puddifoot MBE
Leader of the Council
14 September 2020

4. The Purpose of the Governance Framework

4.1 The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

4.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives. The embedded process evaluates the likelihood of those risks and the impact should they be realised in order to manage them efficiently, effectively and economically.

4.3 The governance framework has been in place at LBH for the year ended 31st March 2020 and up to the date of approval of the 2019/20 Statement of Accounts.

5. The Governance Framework

5.1 LBH has brought together the underlying set of statutory obligations, management systems and principles of good governance to establish a formal governance framework. The key elements outlined in the table overleaf demonstrate how LBH maintains effective internal controls and an effective governance system and aligned to the seven principles of the CIPFA/SOLACE 2016 Framework and guidance 'Delivering Good Governance in Local Government'. The table overleaf includes examples and hyperlinks to sources of further information which include detail about how the LBH has implemented its commitments.

1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.		
The Council's Commitment	**How the Council meets these principles**	**Governance in action**
1a **Behaving with integrity**	✔ The **Council's vision, 'Putting Our Residents First'** and priority themes; "Our People", "Our Natural Environment", "Our Built Environment" and "Financial Management". Our vision and priority themes underpin everything the Council does, including how it works with partners, makes decisions and serves communities. ✔ Rather than adopting a formal **Code of Corporate Governance**, the Council ensures that LBH's governance structure, decision-making process and areas of responsibility are covered in the Council's Constitution and Schemes of Delegation. ✔ The **Committee Standing Orders** (Part 4B), Procurement & Contract Standing Orders (Part 4H) & Scheme of Delegation to Officers (Part 3) are incorporated in the Constitution and reviewed annually. ✔ Part 5 of the Constitution sets out formal **'Codes of Conduct'** governing the behaviour and actions of all Council Members, co-opted members and Council officers. A formal 'Code of Conduct for Members and Co-opted Members' was adopted in July 2012. This Code requires that Councillors conduct themselves appropriately to fulfil their duties and that any allegations of misconduct are investigated. There is a separate 'Code of Conduct for Employees', which applies to all Council officers and is part of their contract of employment. The authority periodically reviews the code and guidance to ensure these requirements reflect changes to the Council structure. A revised Code of Conduct for Officers and Protocol for Member/Officer Relations were approved by full Council in February 2015. The Member/Officer Protocol governs and regulates the relationship between the elected Members and appointed officers. ✔ The Council has a zero tolerance approach towards fraud and corruption and this commitment is set out in the Council's **Counter Fraud Strategic Plan**. This is underpinned by the ongoing development of the Fraud Universe and a full range of investigative policies and procedures. Counter Fraud launched Fraud Awareness Week which included a series of activities and workshops to raise awareness of fraud across the Council. ✔ A formal **Whistleblowing Policy**, which sets out how the Council complies with the Public Interest Disclosure Act 1998, allows Council staff, contractors working for the authority and residents to raise complaints regarding any behaviour or activity connected to the authority, ranging from unlawful conduct to fraud or corruption. ✔ The **Member Register of Interests** records the pecuniary and non-pecuniary interests of Members and co-opted members of LBH. 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 nature of any related party transactions, which the	Constitution Counter Fraud Register of Interests

	authority has entered into.	
1b **Demonstrating strong commitment to ethical values**	✔ LBH has set out its vision of 'Putting Our Residents First' as detailed in **principle 1a**. The delivery of these priorities will be achieved through a combination of strategic management programmes. ✔ Please refer to **principle 1a** for further information on the **Codes of Conduct** which promotes and maintains high standards of conduct by its Members and co-opted members. ✔ 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 Constitution. Gifts and hospitality of a nominal value over £15 is accepted following manager approval and recorded on a central register. Gifts and or hospitality where either the value attached or opportunity afforded makes acceptance inappropriate is refused and the refusal recorded on the Gifts and Hospitality Register. ✔ Hillingdon's **Standards Committee** sits outside of the Cabinet and reports directly to Full Council and promotes and maintains high standards of conduct across the Council and to monitor and oversee the respective Codes of Conduct which apply to both Councillors and Officers (including gifts and hospitality). ✔ The **Public Services (Social Value) Act 2012** is considered by Procurement during every tender.	Constitution Standards Committee
1c **Respecting the rule of law**	✔ The Council uses its legal powers, including the 'general power of competence' to promote its values and priorities to the full benefit of the residents and communities in LBH. ✔ The Council has **measures to address breaches of its legal and regulatory powers**. The Council's Monitoring Officer (the Borough Solicitor) has statutory reporting duties in respect of unlawful decision making and maladministration. ✔ The Council appoints Statutory Officers who have the skills, resources and support necessary to ensure the Council's statutory and regulatory requirements are complied with. ✔ The Chief Finance Officer (the Corporate Director of Finance) has statutory reporting duties in respect of unlawful and financially imprudent decision making. ✔ The Council ensures that it complies with CIPFA's Statement on the Role of the Chief Finance Officer in Local Government (2016) and the Role of Head of Internal Audit in Public Service Organisations (2019).	Constitution Role of the Chief Finance Officer

2. Ensuring openness and comprehensive stakeholder engagement		
The Council's Commitment	**How the Council meets these principles**	**Governance in action**
2a **Ensuring openness**	✔ The **Council's website** has been redeveloped to improve functionality and content for visitors and is set out in a clear and easily accessible way using plain language. The information which residents use most, such as Council Tax, and Waste and Recycling can be accessed easily from the main page. Further work is being undertaken to improve the website through a transformation project scheduled for completion June 2020. ✔ LBH's commitment to the seven **Nolan Principles of Public Life** (including openness) detailed in the Constitution. ✔ All **Council and Committee meetings are held in public** (other than in limited circumstances where consideration of confidential or exempt information means that the public are excluded), with agenda and reports being produced in paper form and on the Council's website. Key Council meetings are broadcast live on YouTube including full Council, Cabinet, Planning Committees and Licensing Sub Committees.	LBH Website Constitution Council Meetings Council's YouTube channel
2b **Engaging with institutional stakeholders**	✔ LBH has a set of general **consultation/engagement standards** that demonstrate a commitment for building strong relationships with residents, visitors and businesses throughout the borough. The standards set out LBH's commitment to engage, consult and respond to the views of local communities. The standards also support LBH's commitment to transparency and the need for sharing information with LBH residents. All resident and stakeholder feedback supports and informs the Council's corporate intelligence, which drives business planning, policy and decision making including commissioning and procurement of services. A customer engagement approach is in place covering all Council services to align customer engagement to support the delivery of Council priorities. ✔ **Hillingdon Partners** is a voluntary body which brings together the key local, public, private, voluntary and community sector organisations to work as a local strategic partnership to improve the quality of life for all those who live in, work in and visit Hillingdon. The Partnership seeks to promote the interests of LBH with external organisations, regional bodies and central government. They have 9 priority areas for the focus of its work, with actions to address local priorities delivered through theme groups. Other statutory providers (**Health & Wellbeing Board** and **Safer Hillingdon Partnership**) are referenced in section 3b. ✔ The **Council's Policy Overview, Scrutiny and Select Committees** secure strong local stakeholder and expert witness participation in their reviews delivering added value findings to Cabinet. Exercising its statutory Health and Crime & Disorder responsibilities, the External Services Select Committee regularly scrutinises the work of the local NHS, Police and other public agencies with their most senior representatives attending. Corporate parenting responsibilities have been integrated within the Council's overview and scrutiny arrangements to provide stronger oversight and directly engage children in care and care leavers in the democratic process.	Hillingdon Partners Policy Overview, Scrutiny and Select Committees

	✔ LBH's **Employee Forum** is a consultative body and created to ensure that the views of the whole employee population can be heard in an open and transparent way. ✔ Regular meetings are taking place with the **Hillingdon Foster Carers Association** to discuss and consult on issues pertinent to our Hillingdon foster carers who are corporate parents for our most vulnerable children. ✔ There are well established **Tenant and Resident Associations** in the Borough as well as Council tenant forum groups (e.g. sheltered housing forum) which provide valuable opportunities to discuss important service developments and to receive and listen to resident feedback. These groups directly inform service developments and provide the platform for effective communication and engagement with council tenants and leaseholders.	
2c **Engaging with individual citizens and service users effectively**	✔ The Council supports different ways for residents to present their individual and community's **concerns directly to elected members**, for example via Ward Surgeries, Ward Budgets and the Members' Enquiries process. ✔ The Council has in place a well-established **Petition Scheme**, including e-Petitions. This is widely used by residents in the people in the borough to submit their views on local matters directly to decision-makers. ✔ A **Joint Strategic Needs Assessment (JSNA)** outlines the current and future health and wellbeing needs of the population over 3 to 5 years and informs the Council's service planning, commissioning strategies and links to strategic plans such as LBH's Joint Health and Wellbeing Strategy. The JSNA is 'live' and can be accessed via the LBH website and is updated throughout the year rather than being refreshed annually. ✔ **Hillingdon Youth Council** represents the young people of Hillingdon and provides a voice for young people who live, study or work in the borough and is made up of a variety of people from different ethnic and cultural backgrounds between the ages of 11 to 19 (up to 25 years with Special Educational Needs and Disability). It is a forum in which they can discuss and exchange their views and opinions about issues affecting young people. ✔ **Children in Care Council** engages and enables children in care to express how they are being cared for by Hillingdon. They regularly meet with managers in children's services and councillors to discuss changes we would like to make to practices and procedures which are affecting them. ✔ LBH monitors **legislative changes,** considers implications and opportunities and ensures that the authority is substantially compliant with laws and regulations. CMT is briefed on upcoming changes and agreeing actions, reporting to Cabinet on specific issues as required. Legal Services review all Committee and Executive reports prior to decision, for Legal compliance.	Petition Scheme JSNA Youth Council Children in Care Council

3. Defining outcomes in terms of sustainable economic, social and environmental benefits		
The Council's Commitment	**How the Council meets these principles**	**Governance in action**
3a **Defining outcomes**	✔ **The Hillingdon Improvement Programme (HIP)** is LBH's strategic improvement programme which aims to deliver excellence as set out in the Council vision – 'Putting Our Residents First'. The HIP vision is to build a more customer focused organisation, to modernise business processes and to free up resources to provide improved services for our residents. The HIP has helped to change the culture of the organisation and continues to improve the services delivered to residents. This can be evidenced through the high satisfaction rates received from residents about customer care, waste and recycling services, libraries, LBH primary and secondary schools and how well they feel informed, through regular feedback. The HIP is consistently trying to improve Council services by continuing to deliver a range of innovative projects, drive forward major cultural change and enhance LBH's reputation. The programme is led by the Leader of the Council, and the Chief Executive is the Programme Director. Cabinet Members and Corporate Directors are also responsible for specific HIP projects. ✔ The **Performance Management Framework** is a Council-wide framework requiring all service areas and teams to set annual service delivery plans, targets, identify risk and report performance against Council priorities. 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 (CMT). ✔ The **Medium Term Financial Forecast (MTFF)** is the Council's key process for service and corporate financial planning, providing a forward view of the Council's financial position over the forthcoming five years and a framework to develop savings proposals to manage emerging budget gaps. This follows an annual cycle from initial scoping in February/ March through a robust challenge process involving both Senior Managers and Members to deliver a consultation budget in December before Council Tax setting for the subsequent financial year in February. A budget consultation report is also produced for each Policy Overview, Scrutiny & Select Committee for discussion at the January round of meetings with any comments added to the final budget report in February. The Council also undertakes the statutory budget consultation process with business ratepayers and residents in the Borough across December and January with the responses included as an appendix to the final budget report. Throughout this process updates are communicated through key officer forums, such as CMT and Business Transformation Board, with regular monthly updates to HIP Steering Group through the Corporate Finance work stream.	HIP Budget Reports

	✔ LBH recognises there is a continued need for effective strategic and operational **risk management processes** and procedures. The Council has processes in place to identify and manage risks to the achievement of its objectives, as set out in the Risk Management Policy and Guidance 2017-20. The Corporate Risk Register is a part of this framework and is used to inform decision making, provide assurance over actions being taken to manage key risks, and to inform risk management planning and mitigation activities. Effective risk management helps to mitigate against the financial and reputation risks arising from the broad range of **insurable risks** to which LBH is exposed. It is anticipated that the LBH insurance contracts will support the transfer of financial risk through a mixed portfolio of suppliers specialising in particular insurance sectors, alongside actions by the Risk and Insurance Team to raise awareness of such risks.	Risk Management Policy
3b **Sustainable economic, social and environmental benefits**	✔ Part 2, article 8 of the Constitution also sets out how the Authority works with its partners in LBH through the Health and Wellbeing Board, which is chaired by the Cabinet Member for Social Services, Housing, Health and Wellbeing and Chairman of Pensions Committee, which complies with the requirements of the Health and Social Care Act 2012. The **Health and Wellbeing Board** seeks to improve the quality of life of the local population and provide high-level collaboration between LBH, the NHS and other agencies to develop and oversee the strategy and commissioning of local health and social care services. ✔ The **Safer Hillingdon Partnership (SHP)** is the statutory Community Safety Partnership for the borough established under the Crime and Disorder Act 1998, the Police and Justice Act 2006 and Police and Crime Act 2009. The SHP has a duty to conduct an annual strategic assessment of community safety trends and agree key community safety priorities for implementation across the partnership. Performance and progress made against the annual plan is monitored and scrutinised by the SHP Board at every meeting. The relevant Cabinet Member is a member of the SHP Board. Scrutiny of the SHP Board's performance is undertaken by elected councillors sitting on the Council's External Services Policy Overview Committee. ✔ LBH has introduced a significant number of measures to improve air quality in the borough as set out in the **Air Quality Action Plan.** ✔ The **Homelessness Prevention Strategy 2017-2022** demonstrates the Council's commitment to preventing homelessness and supporting those who become homeless. It sets out how the Council will work with partner agencies to intervene early to prevent homelessness wherever possible and to access suitable housing and support solutions for those faced with homelessness. ✔ LBH is on track to achieve its equality-related objectives (set in April 2018) as part of the **Council's Public Sector Equality Duty** set out in the Equality Act 2010.	Constitution Safer Hillingdon Partnership Air Quality Action Plan Homelessness Prevention Strategy Promoting Equality Targets

4. Determining the interventions necessary to optimise the achievement of the intended outcomes		
The Council's Commitment	**How the Council meets these principles**	**Governance in action**
4a **Determining interventions**	✔ Decision makers receive accurate, relevant and timely performance and intelligence to support objective and analysis of options, intended outcomes, financial impact and associated risks informing service delivery. ✔ LBH's **Constitution** sets out how the authority operates, how decisions are made, and the procedures that are followed to ensure that they 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 Constitution outlines the **roles and responsibilities** of the Executive, Non-executive, Mayoralty, Overview, Scrutiny and Select Committees, Standards Committee and officer functions. Part 5 of the Constitution sets out the framework governing the conduct of Members and co-opted members and comprise of: ● A structure of the Leader of the Council, a Cabinet, Regulatory Committees and Policy Overview, Scrutiny and Select Committees; ● A Corporate Management Team; ● Senior Management Teams; ● The Audit Committee, led by an Independent Chairman; and ● The Standards Committee and a Code of Conduct for Members and Co-opted Members. ✔ Part 2, article 7.08 of the 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. Executive decision-making is transparent and undertaken in accordance with regulations and the law, with flexibility for urgent decisions. ✔ 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. Details of what decisions are taken in this way are included in the Scheme of Delegation in the Council's Constitution. Further specific delegations may be granted through recommendation in public reports to Committees. ✔ The schemes are updated when required to reflect changes to Corporate Directors' responsibilities in line with business priorities. Each Directorate has individual Schemes of Delegations, setting out how Corporate Directors'	Constitution

	responsibilities are sub-delegated.	

4b **Planning interventions**	✔ The Council plans its activity at a strategic level through its HIP which aims to deliver excellence. ✔ The effectiveness of the Council's interventions and the quality of its services is monitored through the provision of regular performance reports showing progress towards goals and targets set in the budget and business plans. Key areas are highlighted so that decision-makers can take corrective action where necessary.	
4c **Optimising achievement of intended outcomes**	✔ The **Business Improvement Delivery (BID)** programme is a key part of HIP and has been designed to fundamentally transform the way the Council operates without reducing service delivery to residents. Through the programme, savings of £6.6 million are being delivered for 2019/20, taking total savings since 2010 to approximately £140.1 million. The BID programme delivery and expenditure is overseen by the Leader of the Council and the Deputy Chief Executive and Corporate Director of Residents Services. ✔ The Council integrates and balances service priorities, affordability and other resource constraints, to take into account the cost of operations over the medium and longer term including revenue and capital spend budgets. ✔ The **Public Services (Social Value) Act 2012** is considered by Procurement during every tender.	HIP & BID programme Public Services Act
5. Developing the entity's capacity, including the capability of its leadership and the individuals within it		
The Council's Commitment	**How the Council meets these principles**	**Governance in action**
5a **Developing the organisation's capacity**	✔ Please refer to **principle 3a** for further information on **HIP.** ✔ Please refer to **principle 4c** for further information on **BID.**	HIP
5b **Developing the capability of the organisation's leadership and other individuals**	✔ The Leader of the Council and the Chief Executive have defined roles and maintain a shared understanding of roles and objectives. The Chief Executive leads on implementing strategy and managing service delivery. ✔ LBH maintains a **Scheme of Delegation** setting out which decisions and powers have been delegated. ✔ A **training programme for Members** is conducted in each municipal year. All new Members are trained on the Code of Conduct by the Borough Solicitor and Head of Democratic Services and refresher training is delivered where appropriate. Complaints about alleged breaches of the Code are handled in accordance with the requirements of the Localism Act 2011. The Standards framework includes a 'Whips Protocol' which complainants are expected to make	Constitution

	use of first, with complaints only escalated to the Monitoring Officer and Standards Committee if they cannot be resolved through this process. LBH has put in place an induction and training programme for Members along with specific training on scrutiny, planning, audit and licensing rules. ✔ LBH's **training and development programme** enables staff and senior officers to access and complete a wide range of learning and development opportunities through the internal Learning & Development pages on LBH's intranet. This helps ensure they have the skills, knowledge and behaviours to deliver the Council's priorities. This training includes induction programmes, e-learning packages and a range of vocational development courses under the Qualifications and Credit Framework. ✔ The **Hillingdon Academy** is now well established as a leadership programme aimed at providing the Council's future leaders, offering staff the opportunity to achieve professional qualifications and meet their Continuing Professional Development (CPD) requirements. In addition, the Council runs an all-age **apprenticeship programme**, where apprentices help deliver our vision of 'putting our residents first' while gaining essential vocational skills and qualifications. ✔ The **Performance and Development Appraisal (PADA)** process at LBH requires all staff to record employees' key objectives and tasks, set targets for when these must be delivered and identify staff learning and development needs. There are competency frameworks for all levels of staff, with descriptors outlining the performance that is expected at each level. Performance reviews are required to be completed on a bi-annual basis against the relevant competency framework. New software is being introduced and will be rolled out in 2020/21, it requires employees to complete their personal objectives and development plans online. ✔ LBH is committed to promoting the **physical and mental health and wellbeing of the workforce** through both specific interventions and as a central part of the role of all managers. There is a dedicated programme with a wide range of support and guidance for employees and their managers covering mental health in the workplace, health and wellbeing initiatives and a 24/7 Employee Assistance Programme. ✔ The Council has an open approach to external, peer review and inspection and actively considers feedback.	Apprenticeship Programme
6. Managing risks and performance through robust internal control and strong public financial management		
The Council's Commitment	**How the Council meets these principles**	**Governance in action**
6a **Managing risk**	✔ LBH has established an effective **Risk Management Framework** that aids decision-making in pursuit of the organisation's strategic objectives, protects the Council's reputation and other assets and is compliant with statutory and regulatory obligations. ✔ The **Risk Management Policy and Guidance** outlines the roles, responsibilities and processes for capturing, reporting and taking action to mitigate key corporate and directorate risks. The Corporate Risk Register (CRR) enables the identification, quantification and management of key strategic risks. Directorate Risk Registers are	Risk Management Policy

	updated quarterly, reviewed by each Senior Management Team and the most significant risks are escalated to the CRR where appropriate. The Head of Business Assurance has overall responsibility for the facilitation of the Council's Risk Management Framework and work in this area is ongoing. LBH's Risk Management framework is reviewed annually by the Business Assurance team, Corporate Management Team and the Audit Committee. ✔ A **Corporate Risk Management Group (CRMG)**, chaired by the Corporate Director of Finance, reviews the CRR on a quarterly basis and advises the Cabinet and Corporate Management Team on the significant risks. The CRR is presented to the Audit Committee in the following quarter. Where appropriate, the MTFF embraces the potential financial impact of significant risks. ✔ **Risk Management training** for staff and Audit Committee Members is available via an e-learning training module and compulsory for managers as part of the induction process. Completion rates have been steady and Business Assurance continues to raise awareness and promote the module via staff publications. ✔ An updated refresher **GDPR training programme** was rolled out to LBH staff in June 2019 to ensure that all employees are aware of their responsibilities around data protection. 100% of LBH staff received GDPR training, and ensuring that staff all understand LBH's data handling and processing responsibilities remains a key workforce objective. This training forms part of the mandatory induction process for new staff and was included as a Performance and Development Appraisal objective as a mandatory target for all staff. ✔ The Council's **health and safety management system** assists in managing health and safety for the council's undertakings, integrating health and safety and the assessment of risk into the Council's daily business.	
6b **Managing performance**	✔ The Council puts in place **Key Performance Indicators** (KPIs) to monitor service delivery whether services are produced internally or through external providers. Reports compiling KPIs are submitted to SMTs, CMTs and Members to support transparency and resource allocation to address challenges. ✔ The Council ensures that external companies who deliver services have an understanding of expected contract performance, and monitoring takes place throughout the contract period.	
6c **Effective overview and scrutiny**	✔ Part 2, articles 6 and 8 and Part 4E of the Constitution set out how the Council's non-executive decisions by Members are taken. **Policy Overview, Scrutiny and Select Committees** undertake regular monitoring of services, performance, the budget and an annual programme of major, Member-led service reviews involving witness testimony aimed at influencing Executive policy. Statutory scrutiny of health and police bodies is undertaken annually. Regulatory decisions on planning, licensing and related matters are undertaken judiciously by experienced and trained elected Councillors, in accordance with the Council's ethical standards.	Policy Overview, Scrutiny and Select Committees
6d	✔ LBH has robust internal control processes which support the achievement of its objectives while managing risks. LBH's approach is set out in the **Annual Corporate Risk Management report**, and Annual **Internal Audit Plan**.	

Robust internal control	✔ An **Independently Chaired Audit Committee** operates to oversee financial reporting, provide scrutiny of the financial and non-financial systems, and provide assurance on the effectiveness of risk management procedures and the control environment. The Audit Committee has been set up with terms of reference which are generally consistent with CIPFA's 'Audit Committees – Practical Guidance for Local Authorities and Police 2018'. ✔ LBH maintains policies and arrangements to effectively manage both the internal and external risks of **fraud and corruption** against the Council which include; the Counter Fraud Strategic Plan, Whistleblowing, Anti Money Laundering and Anti Bribery Policies. ✔ An **assessment of the overall effectiveness of the framework of governance**, risk management and control is provided by the Council's Internal Audit in the Business Assurance (& Head of Internal Audit) Annual Opinion. ✔ LBH has **robust expenditure controls** in place to facilitate compliance with Standing Orders and financial regulations. This includes a comprehensive capital release process for the approved MTFF Capital Programme and wider expenditure control processes which are referenced in **principle 4a**.	
6e **Managing data**	✔ The Council is committed to safeguarding the personal data it holds and sharing this data only in circumstances required or permitted by law. Personal data is processed in accordance with the **General Data Protection Regulations (GDPR)** and the Data Protection Act 2018. ✔ All personal information LBH keeps is stored safely, only accessed by people who need to access it, used safely and responsibly, and disposed of safely and securely when it is no longer required. This also includes transporting data, either physically or electronically. ✔ A corporate officer group, the **Hillingdon Information Assurance Group (HIAG)**, chaired by the Senior Information Risk Owner (the Head of Internal Audit & Risk Assurance) on behalf of the Corporate Management Team, meets quarterly to review progress on the agreed Information Governance Improvement Action Plan (IGIAP). Relevant policies, procedures and guidelines for staff are updated in line with the IGIAP. Where identified, learning from any data protection incidents that have occurred is integrated into the IGIAP. As a result of the introduction of the GDPR in May 2018, LBH reviewed all of its data protection policies and procedures. ✔ Following the introduction of **GDPR** LBH updated its data protection procedures and training programme, which was rolled out to all staff and Members in March 2018 and refresher training in June 2019. The training programme which included legislative changes and revised working practices was mandatory and completion rates were monitored at Corporate Director level. The revised training programme forms part of the mandatory induction process for all new staff and included as a Performance and Development Appraisal objective. ✔ The Corporate Director, Social Care, is the appointed **Caldicott Guardian** and plays a key role in ensuring that LBH	GDPR Date Protection Policy Information Governance Policy HIAG Terms of Reference The United

	satisfies the highest practical standards for handling person identifiable information and embedding the 7 Caldicott Principles within practice. ✔ The Council **regularly reviews policies** relating to records management, data quality, and data protection and information security. These policies are accessible by all staff via the intranet. ✔ LBH passed the Code of Connection Audit in January 2020 ensuring our ICT Infrastructure is secure in order to gain access to the **Public Services Network (PSN)**. The PSN enables specific teams across the Council to directly access Government data which includes high risk data about individuals, such as social care issues. ✔ LBH is committed to sharing appropriate data safely with agencies; where this improves effective and efficient service delivery, and is compatible with the rights of individuals. Further to this, LBH is compliant with the **Data Security and Protection Toolkit** requirements in order to access systems and data provided by the NHS. ✔ LBH conducts **Data Protection (DP) compliance checks** throughout the Civic Centre and uses communication campaigns; email reminders signposting to information protection principles and guidance. The DP compliance checks and raising awareness provides assurance over the Council's adherence to the GDPR and to remind staff of their responsibility to take due care to protect information. Where data protection breaches occur, managers take appropriate remedial action which is then documented under the staff supervision procedures. ✔ The Council makes information available to the public via the information access regimes provided for by the **Freedom of Information Act 2000** and the **Environmental Information Regulations 2004**. Individuals may access their own personal data by exercising the right of subject access under the Data Protection Act 2018.	Kingdom Caldicott Guardian DSP Toolkit Guidance FOI
6f **Strong public financial management**	✔ The Chief Finance Officer (CFO) (the Corporate Director of Finance) ensures that appropriate advice is given on all financial matters, proper financial records and accounts are kept and oversees an effective system of internal financial control. The CFO ensures well developed financial management is integrated at all levels of planning and control including management of financial risks, systems and processes. The Constitution (Part 4) details the financial regulations which underpin the financial arrangements. ✔ Please refer to **principle 4c** for further information on **BID**. ✔ In order to monitor the MTFF position and manage financial risk **comprehensive budget monitoring** is undertaken across the Council on a **monthly** basis and formally reported to Cabinet. Please refer to **principle 3a** for further information on the **MTFF**.	Constitution
7. Implementing good practices in transparency, reporting and audit to deliver effective accountability		
The Council's	**How the Council meets these principles**	**Governance**

Commitment		in action
7a **Implementing good practice in transparency**	✔ The Council follows the **Local Government Transparency Code 2015**, which includes requirements and recommendations for local authorities to publish certain types of data. ✔ In accordance with this code, financial information about projected and actual income and expenditure, procurement, contracts and financial audit is published on the Council's website. ✔ Please refer to **principle 2a** for further information the **Council's website**. ✔ The Council has published **Privacy Notices**, which are key transparency requirements under the GDPR as individuals have the right to be informed about the collection, type and use of their personal data.	Council Spending Statement of Accounts Privacy Notices
7b **Implementing good practices in reporting**	✔ The Council explains how it **reviews its governance arrangements**, and how it has complied with CIPFA's "Delivering Good Governance in Local Government (2016)" principles by producing this Annual Governance Statement (AGS). A concise summary of the findings of the AGS is included within the Annual Report.	CIPFA/Solace Framework
7c **Assurance and effective accountability**	✔ LBH welcomes **peer challenge, internal and external review, audit, and inspections** from regulatory bodies and gives thorough consideration to recommendations. An example of positive feedback and improvement is the outcome of the Ofsted inspection in January 2020 of Adult and Community Learning, retaining its 'Good' rating. The service was commended for the quality of the education, guidance and support it provides in helping residents achieve their goals on a range of courses. Further to this, Children's Services provide a highly effective service to vulnerable adolescents in the borough, according to Ofsted inspectors following a focused visit in January 2020. ✔ **Public Sector Internal Audit Standards** set out the standards for internal audit adopted by the Council.	Ofsted - Adult & Com Learning Ofsted – Children's Services PSIAS

6. Review of Effectiveness

6.1 The Council has a statutory responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior managers within the authority who have responsibility for the development and maintenance of the governance environment. It is also informed by the Annual Internal Audit Report and Head of Internal Audit Opinion Statement, as well as comments and observations made by the Council's independently appointed external auditors (Ernst & Young), other review agencies and inspectorates.

6.2 The CIPFA/SOLACE 2016 Framework 'Delivering Good Governance in Local Government' (Chapter 5), sets out seven principles of good practice. The review of effectiveness has considered each of the principles, including the sub-principles and behaviours and actions that demonstrate good governance in practice.

6.3 The review has also been informed by a range of management information and improvement action, including:

6.3.1 A comprehensive annual programme of scrutiny and review by the Policy Overview and Scrutiny Committees as well as the Audit Committee.

6.3.2 The role of the Corporate Director of Finance, detailed in the Finance Schemes of Delegation. As a key member of the Corporate Management Team leadership, his role is to act as, and exercise the functions of, the "Chief Finance Officer" meaning the officer designated under section 151 of the Local Government Act 1972. As such he is actively involved in all material business decisions to safeguard public money and sound financial management on behalf of the authority.

6.3.3 The work of the external auditors as reported in their Annual Audit Letter. They carry out auditing of the Council's activities in accordance with the National Audit Office Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014. Their key responsibilities are to give an opinion on LBH's financial statements and assess arrangements for securing economy, efficiency and effectiveness in its use of resources.

6.3.4 The work of Business Assurance, which develops its quarterly Internal Audit plans after assessment of risk and priorities including discussions with senior managers and reported quarterly to the CMT and the Audit Committee.

6.3.5 LBH continued to maintain effective financial management throughout the financial year with unallocated general reserves of £34.2 million as at 31st March 2020.

6.3.6 LBH has a clear commitment to fit for purpose procurement function. Procurement ensures a value for money approach to quality and expenditure commitment. By engaging with groups, Procurement supports the delivery of financial and service requirements to meet corporate objectives with a 'Residents First' approach.

6.3.7 LBH Covid Recovery Board conducted a review of lessons to be learned from its response to the coronavirus pandemic. This included the following key risks affecting the authority:

- Impact on business as usual delivery of services;
- New areas of activity as part of the national response to coronavirus;
- Funding and logistical consequences of delivering a local government response; and
- Assessment of the long-term disruption and consequences arising from the coronavirus pandemic.

There is subsequently now a range of Business Improvement Delivery Reviews underway across the organisation.

6.3.8 Guidance from CIPFA confirmed that the conclusion on whether or not governance is fit for purpose should reflect normal operations.

6.4 The Head of Internal Audit (& Risk Assurance) has provided a '**Reasonable**' level of assurance on the Council's internal control environment for 2019/20.

Glossary

ACCRUAL - A sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received/made by the end of the period.

ACCUMULATED ABSENCES ACCOUNT - Absorbs the differences arising from the statutory requirement to neutralise the impact on the General Fund Balance of accruing for compensated absences earned but not taken in year.

ACTUARIAL VALUATION - A valuation of assets held, an estimate of the present value of benefits to be paid, and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

ACTUARY - An independent professional who advises on the financial position of the pension fund.

AGENCY SERVICES - The provision of services by one body (the agent) on behalf of another that is legally responsible for providing the service.

AMORTISED COST - The initial measurement will be at fair value, normally the amount of the originating transaction such as the receipt or loan advance less transaction costs. The effective interest rate is then calculated to the amount in the balance sheet at initial measurement. The result in the balance sheet carrying amount (the amortised cost) and a profile of interest charges that might be different from the amounts specified in the contract as being for interest and principal.

ASSET - Something that will be used by the Council over a long period of time and has a lasting value (e.g. land, buildings, and roads). See also **COMMUNITY ASSETS, NON CURRENT ASSET, INFRASTRUCTURE ASSETS, ASSETS HELD FOR SALE, NON-OPERATIONAL** and **OPERATIONAL ASSETS**.

ASSETS HELD FOR SALE - Assets that are being actively marketed for sale and are expected to be sold within the next financial year.

BAD DEBT PROVISION - Amounts set-aside in the accounts towards potentially irrecoverable debts. This amount is netted against Debtors in the Consolidated Balance Sheet.

BALANCES - Unallocated reserves held to resource unpredictable expenditure demands.

BUDGET - A statement of the Council's plans for services expressed in money shown over one or a number of years.

CAPITAL ADJUSTMENT ACCOUNT - The Capital Adjustment Account represents the balance of capital resources set aside to finance capital expenditure awaiting the consumption of those resources (i.e. depreciation or impairment).

CAPITAL CHARGE - A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

CAPITAL EXPENDITURE - Spending on assets (e.g. land, buildings, roads etc.) that adds to and not merely maintains the value of an existing fixed asset.

CAPITAL RECEIPTS - The proceeds from the sale of land, buildings or other assets. Capital receipts can be used to pay for new capital expenditure, within rules set down by the Government, or to repay outstanding loans.

CASH EQUIVALENT - Amounts held as short term deposits which are readily convertible into cash.

CIPFA - The Chartered Institute of Public Finance and Accountancy is the professional accounting body that specialises in the public services.

COMMUNITY ASSETS - Assets that the Council 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.

CONTINGENCY - Money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

Glossary

CONTINGENT ASSET - A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

CONTINGENT LIABILITY - A contingent liability is either:

a) A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control; or

b) Past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

CORPORATE AND DEMOCRATIC CORE - The corporate and democratic core comprises all activities that local authorities engage in specifically because they are elected, multi-purpose authorities with a responsibility for making choices in the use of taxpayers' money. The cost of the activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

COUNCIL TAX - The local tax based on relative market values of residential property, which helps to fund local services.

CREDITORS / PAYABLES - Amounts owed by the Council for goods and services received where payment has not been made at the date of the balance sheet.

CREDIT RISK - Risk that other parties might fail to pay amounts due to the Council

CURRENT ASSET - An asset held, which will be consumed or cease to have value within the next financial year; examples are stocks and debtors.

CURRENT LIABILITY - An amount which will become payable or could be called in within the next accounting period; examples are creditors and cash overdrawn.

CURRENT SERVICE COST - The increase in the present value of Pension Fund Liabilities expected to arise from current year service.

DEBTORS / RECEIVABLES - Amounts owed to the Council for goods and services provided but not received at the date of the balance sheet.

DEDICATED SCHOOLS GRANT - A specific grant for the funding of schools and which is ring fenced to the Schools Budget.

DEPRECIATION - The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence through technological or other changes.

DIRECT REVENUE FINANCING (revenue contributions to capital) - Resources provided from the Council's revenue budget to finance the cost of capital projects.

DISTRICT AUDITOR - An auditor employed directly by the Audit Commission to audit the accounts of local authorities.

EARMARKED RESERVES - Amounts set aside for a specific purpose or a particular service or type of expenditure.

EFFECTIVE INTEREST RATE - The rate of interest that will discount the estimated cash flows that take place over the life of the instrument.

EMOLUMENTS - All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

Glossary

EXCEPTIONAL ITEMS - Material items that fall within the ordinary activities of the Council that need to be disclosed in order to present the accounts fairly.

EXTRAORDINARY ITEMS - Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur.

FAIR VALUE - the price at which an asset could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

FEES AND CHARGES - Income raised by charging users of services.

FINANCE LEASE - A method of paying for capital expenditure where a rent is paid for an asset during its useful life. Finance Leases are treated as capital. See **OPERATING LEASE**.

FINANCIAL YEAR - The period covered by a set of financial accounts - the Council's financial year commences 1 April and finishes 31 March the following year.

GENERAL RESERVE - amounts remaining unspent on revenue account after taking account of all expenditure and income for the year. The General Reserve is required to enable the Council to meet potential business risks in the future so that services will not be affected financially should unexpected events occur.

GOING CONCERN - The concept that an entity will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assumes no intention to curtail significantly the scale of operations.

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 Council.

GROSS EXPENDITURE - The total cost of providing the Council's services before taking into account income from government grants and fees and charges for services.

IMPAIRMENT - A reduction in the value of a fixed asset below its previously assessed value in the balance sheet.

INCOME - Amounts due that has been or is expected to be received.

INFRASTRUCTURE ASSETS - Fixed assets that have no alternative use and are intended to be held in perpetuity. Examples of infrastructure assets are highways and footpaths.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) - Statutory guidelines by which the accounts have to be prepared, implemented for the first time in the 2010/11 accounts.

INVENTORIES - The amount of unused or unconsumed stocks held in expectation for future use.

INVESTMENT PROPERTIES - Assets held solely for capital appreciation or to earn rental and not to meet service objectives.

INVESTMENTS - Short-term investments are those maturing within one year if the balance sheet date, any investments maturing more than one year after the balance sheet date are treated as long-term investments.

LOANS AND RECEIVABLES - Financial assets (excluding derivatives) that have fixed or determinate payments and that are not quoted in any in any active market. Loans and receivables are carried at amortised cost. The income and expenditure account is charged with interest receivable, impairment losses and any gain or loss on “de-recognition”. Movements in fair value during the life of the asset are not recognised.

LIABILITIES - Money owed to individuals or organisations that will be paid at some time in the future.

Glossary

LIQUIDITY RISK - The risk that the Council might not have funds available to meet its commitments to make payments.

MARKET RISK - The risk that the Council will loss out financially as a result in market factors such as interest rates or stock market movements.

MINIMUM REVENUE PROVISION - (MRP) - The minimum amount, which must be charged each year to the Council's revenue account to set aside funds to repay the principal sum of borrowing for capital purposes.

NATIONAL NON-DOMESTIC RATE (NNDR) - A levy on businesses based on a national rate in the pound multiplied by the ratable value of the premises occupied. NNDR is redistributed among all local authorities and police authorities on the basis of population.

NET BOOK VALUE - The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

NET EXPENDITURE - Gross expenditure less specific service income but before deduction of revenue support grant.

NET CURRENT REPLACEMENT COST - The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

NET REALISABLE VALUE - The open market value of the asset in its existing use (open market value in the case of non-operational assets), or sale proceeds for stocks and stores less the expenses to be incurred in realising the asset.

NON-CURRENT ASSET - An asset that has value beyond one financial year.

NON-DISTRIBUTABLE COST - These include overheads for which no user now benefits and should not be apportioned to services. Examples are spare computer capacity and empty offices. These also include pension costs in relation to scheme members' past service.

NON-OPERATIONAL ASSETS - Non Current assets held by the Council not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties, assets under construction and assets that are surplus to requirements, pending sale or redevelopment.

OPERATIONAL ASSETS - Non Current Assets held, occupied, used or contracted to be used on behalf of the Council or consumed by the Council in the direct delivery of the services for which it has a responsibility, whether statutory or discretionary or for the service or strategic objectives of the Council.

OPERATING LEASE - A lease under which the asset can never become the property of the lessee.

OUTTURN - Actual income and expenditure for a financial year.

PAST SERVICE COST - The increase in present value of Pension Fund liabilities arising in the current year from previous years' service.

PENSION FUND - The Fund for staff in the Local Government Pension Scheme, maintained on an actuarial basis, which makes pension payments on retirement of participants; it is financed by contributions from the employer and employees and from investment income.

PENSION INTEREST COSTS - Expected increases in present value of Pension Fund liabilities because benefits are due one year sooner.

POST BALANCE SHEET EVENTS - Those events, both favorable and unfavorable, which occur between the balance sheet date and the date on which the Director of Finance signs the Statement of Accounts.

PRECEPT - The charge made by one authority on another to finance its net expenditure.

Glossary

PRIOR YEAR ADJUSTMENTS - Material adjustments applicable to prior years arising from changes in accounting policies or to correct errors.

PRIVATE FINANCE INITIATIVE (PFI) - A central government initiative that aims to increase the level of funding available for public services by attracting private involvement. The Council has one such scheme relating to the provision of Barnhill School. The school has been developed and its ancillary services are provided by a private-company with which the Council has a long-term contract.

PROVISION FOR DISCOUNT AND PREMIUMS ON LOAN REDEMPTION - A provision to spread over an appropriate period discounts received and premiums paid when loans from the Public Works Loan Board are prematurely repaid.

PROVISION - An amount, set-aside in the accounts, for liabilities that have to be met but where timing is uncertain.

PRUDENCE - The concept that revenue is not anticipated but is recognised only when realised in the form of cash or other assets and full and proper allowance is made for all known and foreseeable losses and liabilities.

PUBLIC WORKS LOAN BOARD (PWLB) - A government agency that provides long term and medium term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

RELATED PARTY - Relationships between a senior officer or elected member or their families with another body that has, or might develop, a business relationship with the Council.

RESERVES - Money set aside by the authorities to meet particular expenditure in future years, which do not fall within the definition of provisions.

REVALUATION RESERVE - a new account opened on 1st April 2007 that records all accumulated gains from fixed assets held by the Council offset by that part of depreciation relating to the revaluation.

REVENUE EXPENDITURE - The day-to-day running costs incurred by the Council in providing services, for example payment of salaries to employees or purchase of materials.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE - A charge arising from capital expenditure but where there is no tangible asset. An example is grants given for private property improvement. The Council is permitted to borrow for such expenditure

REVENUE SUPPORT GRANT - A grant paid by central government to aid local authority services in general, as opposed to specific grants, which may only be used for a specific purpose.

SERCOP - Service Reporting Code of Practice

SOLACE - Society of Local Authority Chief Executives

SPECIFIC GRANTS - These are grants paid by various government departments outside the main formula. They include ring-fenced grants and specific formula grants.

SURPLUS ASSETS - Assets which are no longer in use by the Council but which are not being actively marketed and are not expected to be sold within the next financial year.

TAXBASE - The number of Band D equivalent properties in a local authority's area. An authority's tax base is taken into account when it calculates its Council Tax, and when central government calculates entitlement to Formula Grant.

TRANSFER VALUE - A payment one superannuation fund makes to another when a member changes employment.

TRUST FUNDS - Money held in trust by the Council for a specified purpose.

USABLE RESERVES - Balances held by the Council which can be used to meet service expenditure.

Glossary

UNUSABLE RESERVES - Balances held by the Council which cannot be used to meet service expenditure

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

VIREMENT - The permission to spend more on one budget head when this is matched by a corresponding reduction on some other budget head, i.e. an authorised switch of resources between budget heads.

WORKS IN PROGRESS - Cost of work done on an uncompleted project at the balance sheet date.

YIELD - The amount of cash (in percent terms) of the return on investing activities

Reflections from the Redmond review

Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

Published on the 8th September 2020, Sir Tony Redmond's findings and recommendations from his independent review provides a significant opportunity to shape the future sustainability of local government financial reporting and auditing. We believe this will help ensure audit continues to meet the evolving needs of local authorities, the public, and the public interest.

Guiding principles for reform

We believe reforms should be guided by the following principles:

- Reforms should enhance, or at least should not create risks to, the quality of financial reporting and external audit.
- The importance of the multidisciplinary audit firm model, to enable local auditors to respond efficiently and effectively to the increased reporting complexity, risks and financial resilience pressures we have seen facing the public sector pre and post Covid-19.
- There should not be a two-tier system of generally accepted accounting and auditing standards between the public and corporate sectors.
- To be effective and sustainable, reforms need to focus on the public sector financial reporting and external audit ecosystem as a whole.

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What impact will the Redmond review have on Hillingdon?

- The proposed Office for Local Audit Regulation (OLAR), aimed to be a "system leader", will apply to the Council's external auditor. The transition from the current arrangements to OLAR may increase audit requirements.
- The publishing deadline for accounts is recommended to be 30 September.
- All stakeholders in the ecosystem have a role to play to improve accountability, transparency and sustainability of financial reporting. In particular, improving the effectiveness of Audit Committees, strengthening the training skills, capacity, capability and the attractiveness of public sector finance and audit professions.
- The review highlights the importance of the auditors work to critically assess the financial resilience and viability of public sector bodies and has proposals on how this assessment could be enhanced within the NAO's code of audit practice. This may lead to a change to how auditors consider financial resilience.
- Changes to how you account for and report on your property, plant and equipment and pension liability will require CIPFA to change its Code and may take some time.
- You may be required to prepare a 'standardised statement of service information and costs' which can be compared with the budget agreed to support the council tax/precept/levy and presented alongside the accounts.

Reflections from the Redmond review – a complicate eco-system

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Reflections from the Redmond review – our initial views

Taking our guiding principles, we broadly welcome the Redmond review and proposals, in particular:

Quality of financial reporting and external audit

- The recognition that all stakeholders in the ecosystem have a role to play to improve accountability, transparency and sustainability. This includes improving the effectiveness of Audit Committees, strengthening the training skills, capacity capability and attractiveness of the public sector finance and audit professions.
- His conclusion that the current procurement and fee structure does not support sustainable audit quality. We have provided you with our perspectives on how baseline audit fees need to change to take account of your risk profile, complexity as well as the regulatory and professional context which drive our audits.

Reforming the public sector financial reporting and external audit ecosystem

- Establishing the Office for Local Audit Regulation (OLAR), which provides a "system leader" and will bring clarity to the existing framework for local authority audit.
- The importance of MHCLG establishing a liaison committee of all key stakeholders to oversee reforms. To begin with MHCLG should take urgent action to implement primary legislation to establish OLAR, revise the timetable for financial reporting and revisit the procurement and fee structure for public sector audit.

Multidisciplinary audit firm model

- The importance of the auditors work to critically assess the financial resilience and viability of public sector bodies and his proposals on how this assessment could be enhanced within the NAOs code of audit practice.

Safeguarding professional accounting and auditing standards

- The need for CIPFA/LASAAC to revisit the accounting code and introduce summarised accounts. We agree that there is a need for more proportionality in the Code which also sets out the expectations of practitioners and auditors and how this could be applied in areas such as pensions and asset valuations. However, we believe that any future proposals on the accounting code should not create a two-tier system.

What are we doing in the meantime?

- Planning for a 30 September financial reporting target date for local government 2020/2021 accounts, integrated with our NHS work.
- Implementing the new NAO code and changes to our VFM conclusion work and reporting for 2020/2021 audits. We will also work with the NAO and other audit suppliers on any refinements to how auditors assess financial resilience.
- Continuing to engage with and influence MHCLG, NAO, PSAA CIPFA/LASAAC, FRC and other key stakeholders on the actions required to implement the Redmond proposals as swiftly as possible and how these effectively align to the broader package of audit reforms which BIES will consult on later this year.

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Financial Reporting Council (FRC) report on the inspection results of major local audit

On 30 October 2020 the FRC published for the first time the results of inspection of local audit, i.e. the work that auditors do on local government and NHS entities like yourselves under the NAO Code. We were very pleased that the three EY audits they reviewed were rated as good or only needed limited improvements (for the second year running), which compares extremely favourably to the other providers in this market. The results support the efforts we have made in focusing on audit quality and the investments in training and developing our audit methodology, including the use of specialists such as internal valuers and our attention to asset valuations which is highlighted as an example of good practice.

A link to the report is here - **(LINK).**

Summary: Findings from the FRC's inspection of major local audits in England, for the financial year ended 31 March 2019, were published on Friday last week. The FRC explains that its report focuses on the key areas local audit activity requiring action from across the firms. The FRC's primary aim is to safeguard and enhance the quality of local audits.

Of the 271 major local audits in the FRC's inspection scope, the FRC reviewed 15 across the seven largest audit firms, covering both the financial statement opinion and the Value for Money (VfM) arrangements. For the financial statement opinion two audits reviewed by the FRC required significant improvements and seven required improvements. None of the VfM conclusions reviewed required more than limited improvement.

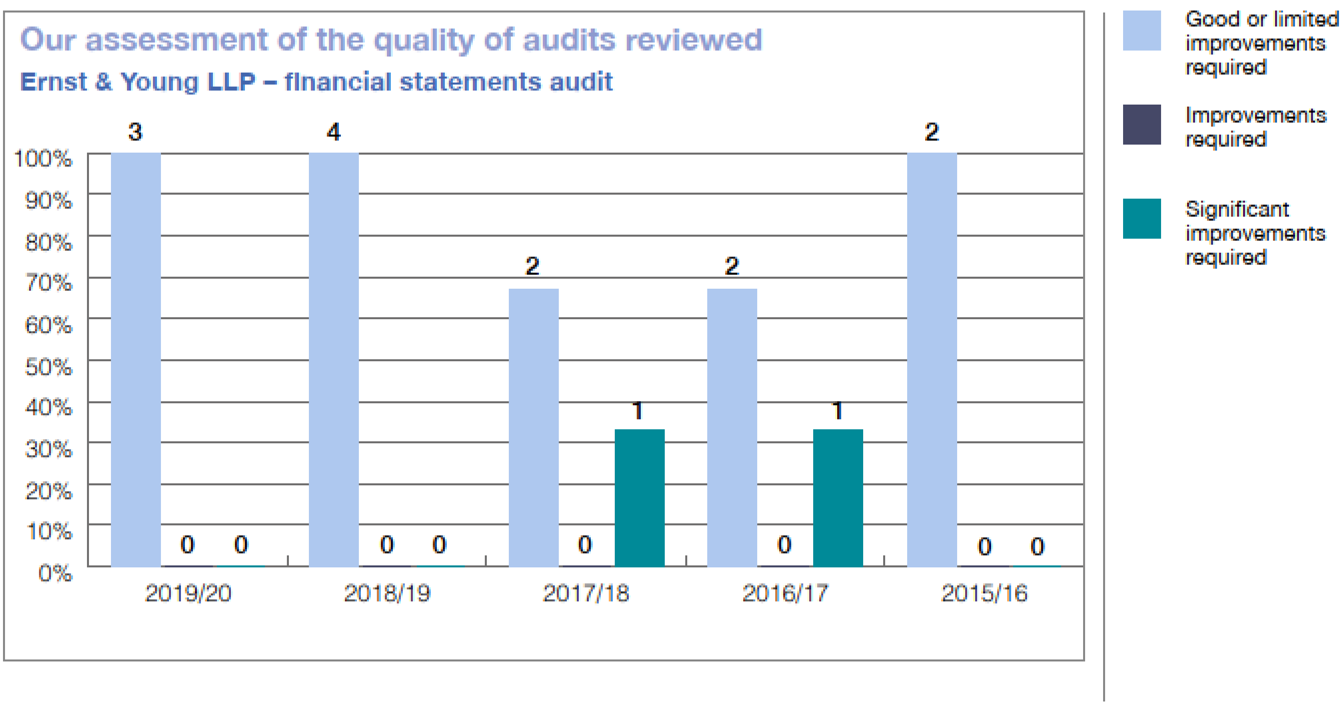
FRC states that 'some firms are still not consistently achieving the necessary level of audit quality and therefore need to make further progress.' For two firms, Grant Thornton and Mazars, the level of audit quality requires significant improvement, and those firms should perform a detailed Root Cause Analysis (RCA) of the issues the FRC has identified and put in place, with an audit quality action plan across local audits to address the FRC's findings.

The key areas of concern requiring action by some audit firms are as follows:

- the valuation of property (including investment property);
- sufficiency of audit procedures over the occurrence and completeness of expenditure;
- the response to fraud risks;
- the impairment of receivables;
- valuation of pension assets; and
- the effectiveness of the Engagement Quality Control review.

Financial statements audit – review trends

EY results



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