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Audit Committee

Date:	**THURSDAY, 26 SEPTEMBER 2013**
Time:	**5.00 PM**
Venue:	**COMMITTEE ROOM 4 - CIVIC CENTRE, HIGH STREET, UXBRIDGE UB8 1UW**
Meeting Details:	Members of the Public and Press are welcome to attend this meeting

Members on the Committee

John Morley (Chairman)
George Cooper(Vice-Chairman)
Paul Harmsworth (Labour Lead)
Raymond Graham
Richard Lewis

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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 monitor, but not direct, Internal Audit's work programmes, summaries of Internal Audit reports, their main recommendations and whether such recommendations have been implemented within a reasonable timescale, ensuring that work is planned with due regard to risk, materiality and coverage.

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

3. Review the Annual Report and Opinion and Summary of Internal Audit Activity (actual and proposed) and the level of assurance this can give over the Council's corporate governance arrangements.

4. Consider reports dealing with the management and performance of internal audit services.

5. Following a request to the Corporate Director of Finance, and subject to the approval of the Leader of the Council and Cabinet Member for Finance, Property and Business Services, to commission work from Internal Audit.

External Audit

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

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

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

9. 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.

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

11. Following a request to the Corporate Director of Finance, and subject to the approval of the Leader of the Council / Cabinet Member for Finance, Property and Business Services, to commission work from External Audit.

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

Governance Framework

13. 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.

14. Review any issue referred to it by the Chief Executive, a Deputy Chief Executive, Corporate Director, or any Council body.

15. Monitor and review, but not direct, the authority's risk management arrangements, including regularly reviewing the corporate risk register and seeking assurances that action is being taken on risk related issues.

16. Review and monitor Council policies on 'Raising Concerns at Work' and anti-fraud and anti-corruption strategy and the Council's complaints process, making any recommendations on changes to the Leader of the Council and the Deputy Chief Executive and Corporate Director of Residents Services.

17. Oversee the production of the authority's Statement of Internal Control and recommend its adoption.

18. Review the Council's arrangements for corporate governance and make recommendations to the Corporate Director of Finance on necessary actions to ensure compliance with best practice.

19. Where requested by the Leader of the Council, 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

20. 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 auditor that need to be brought to the attention of the Council.

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

Review and reporting

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

Agenda

CHAIRMAN'S ANNOUNCEMENTS

1 Apologies for Absence

2 Declarations of Interest in Matters coming before this meeting

3 Minutes of the meeting held on 25 June 2013 (**Pages 1-8)**

4 Exclusion of the Press and Public

To confirm that all items marked Part I will be considered in public and that any items marked Part II will be considered in private.

5 Category Management - Structure and Benefits **(Pages 9-14)**

6 Internal Audit - Progress Report for 2013/14 Quarter 2 **(Pages 15-34)**

7 Approval of the 2012/13 Statement of Accounts and External Audit Report on the Audit for the year ended 31 March 2013 **(Pages 34-204)**

8 External Auditor Report on the Pension Fund Annual Report and Accounts **(Pages 205-226)**

9 Deloitte - Annual Audit Letter – Draft **(Pages 227-238)**

10 Work Programme 2013-14 (**Pages 239-242)**

11 Changing Legislation and Current Issues

PART II

12 Risk Management Report 2013/14 **(Pages 243-256)**

Minutes

Audit Committee
Tuesday 25 June 2013
Meeting held at Committee Room 4 - Civic Centre, High Street, Uxbridge UB8 1UW

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	Independent Member: John Morley (Chairman). **Members Present:** Councillors Raymond Graham, Paul Harmsworth and Richard Lewis. **Officers Present:** Simon Bailey (Interim Head of Internal Audit), Kevin Byrne (Head of Policy, Performance and Partnerships), Garry Coote (Corporate Fraud Investigations Manager), Gill Crosbie (Audit Manager), Nancy Le Roux (Head of Corporate Finance), Paul Whaymand (Director of Finance) and Khalid Ahmed (Democratic Services Manager). **Others Present:** Heather Bygrave and Jonathan Gooding (Deloitte). **Interim Head of Internal Audit – Simon Bailey** The Committee thanked Simon Bailey for all his efforts during his time as Interim Head of Internal Audit and wished him all the best for the future.	
2.	**MINUTES OF THE MEETINGS HELD ON 12 MARCH AND 9 MAY 2013** Agreed as accurate records. [In relation to the Minutes of 12 March 2013, Declarations of Interest, it was noted that Councillor Paul Harmsworth had declared a Non-Pecuniary Interest in Agenda Item 6 – Deloitte – 2012/13 Annual Audit Plan as he was a Member of the Pensions Committee. He remained in the room and took part in discussions on the item.]	
3.	**EXCLUSION OF THE PRESS AND PUBLIC** It was agreed that Agenda Item 16 – Internal Audit Report which was in Part II of the Agenda be considered in private. The rest of the Agenda was considered in public.	
4.	**AUDIT COMMITTEE TERMS OF REFERENCE** Members were informed that at the Council meeting held on 9 May, the Terms of Reference of this Committee were amended. Details of those changes and the implications for the	

	work of the Committee were reported. The Committee was informed that since the Corporate Services & Partnerships Policy Overview Committee had produced a report into the effectiveness of the Audit Committee in 2011/12 there had been significant changes in Cabinet and officer structures and the Audit Committee's Terms of Reference had become outdated. The updated Terms of Reference provided clarity and clearly delineated the different roles and responsibilities that surround the Council's wide ranging audit and governance activities, namely: strategy and policy (Leader/Cabinet Members), operational / service delivery (officers) and review and monitoring (Audit Committee). Concern was expressed at the deletion of the power the Committee had to invite Heads of Services and Directors of Council services to attend meetings. The representatives from Deloitte reported that it was unusual for the Audit Committee of a local authority not to have this ability. The Chairman noted that the effectiveness of the Committee may be affected. The Chairman asked that the Head of Democratic Services provide more information on the reasoning behind the decision to remove this power from the Committee, and clarification about how the removal would work in practice. **RESOLVED:** **1. That the Committee's Terms of Reference be noted.**	**Action By:** **Head of Democratic Services**
5.	**REVIEW OF THE INTERNAL AUDIT TERMS OF REFERENCE** Reference was made to the last meeting of this Committee where approval was given to the Internal Audit Strategy for 2013/14 and where it was noted that the Terms of Reference would be reviewed. The report informed Members that from April 2013, the current CIPFA Code of Practice had been replaced by new UK Standards for internal audit in the public sector, the Public Sector Internal Audit Standards. The Interim Head of Internal Audit reported that as a result of these new standards, the Internal Audit Terms of Reference had been updated and these were before the Committee for approval. Members asked that in the introduction for the Terms of Reference, the word "Charter" should be deleted and a sentence should be added to read, "These Terms of Reference satisfy the Public Sector Internal Audit Standard's requirements for an Internal Audit Charter".	

		Action By:
	The Committee asked that a document be sent to Members indicating where the amendments had been made to the Terms of Reference. In addition, Members asked that the Terms of Reference for Internal Audit be aligned with the amended terms for Audit Committee. **RESOLVED:** **1. That the changes from the CIPFA Code of Practice to the Public Sector Internal Audit Standards, and the resultant changes to Internal Audit's Terms of Reference be noted.** **2. That the Internal Audit Terms of Reference be endorsed.**	**Head of Internal Audit**
6.	**ANNUAL REPORT TO COUNCIL ON THE WORK OF THE AUDIT COMMITTEE** Consideration was given to a report which provided Members with details of the Committee's annual report which was to be submitted to the Council. Members asked that the performance statistics for the previous year be added, together with the targets. **RESOLVED:** **1. That approval be given to the report for submission to Council.**	**Head of Internal Audit**
7.	**CONSOLIDATED FRAUD REPORT** The Corporate Fraud Investigations Manager introduced the report which summarised the proactive and reactive work undertaken in the second part of the year by the Corporate Fraud Investigation Team and the Internal Audit Team. Members were informed that the Corporate Fraud Investigation Team now fell within the remit of the Residents Services Directorate. Members asked that a report be submitted to the December meeting on how the Team was working under these new reporting structures. Reference was made to the national pilot exercise which Hillingdon was involved in, which was aimed at establishing a Single Fraud Investigation Services. This brought together the Council's benefit investigation team with Department for Work and Pensions Investigation Team, under a single team which was led by the Corporate Fraud Investigation Manager. The Committee asked that a report be submitted to the December meeting on how this was working.	**Corporate Fraud Investigations Manager** **Corporate Fraud Investigations Manager**

		Action By:
	RESOLVED: **1. That the report be noted.**	
8.	**CORPORATE FRAUD INVESTIGATION TEAM WORK PLAN 2013/14** Consideration was given to a report which explained how resources in the Corporate Fraud Investigation Team would be deployed over the year to meet the fraud risks faced, and also how the Team worked with other anti-fraud agencies to reduce crime generally. Reference was made to the good work the Team had carried out in relation to Social Housing Fraud and the target of recovering 52 properties for this year. This would generate £936,000 in savings and Members acknowledged this. The Committee was informed that a Financial Investigator had recently joined the team from the Training Standards department. The role was to undertake financial investigations into prosecution cases to ensure that the Council recovered overpaid monies and also used powers under the Proceeds of Crime Act 2002 to freeze assets and bank accounts. **RESOLVED:** **1. That the report be noted and the Corporate Fraud Investigations Team be congratulated for their good work.**	
9.	**ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT** The report provided Members with the results of the review of the effectiveness of the internal audit function in relation to the year 2012/13 carried out by the Interim Head of Internal Audit, and made suggestions about how it could be improved. **RESOLVED:** **1. That the report be noted.**	
10.	**HEAD OF INTERNAL AUDIT ANNUAL ASSURANCE STATEMENT** Members were provided with a report from the Interim Head of Internal Audit which supported the Annual Governance Statement. The report included the following:- • An opinion on the overall adequacy and effectiveness of the organisation’s control environment	

		Action By:
	• Disclosure of any qualifications to that opinion • A summary of the audit work from which the opinion was derived • Issues relevant to the Annual Governance Statement • Comments on compliance with standards and the results of the internal audit quality assurance programme. Members were informed that based on the work undertaken or reports finalised during the year, Internal Audit could provide satisfactory assurance that the systems of internal control within the Council were operating adequately and effectively. **RESOLVED:** **1. That the audit opinion and the evidence on which it was based be noted.**	
11.	**INTERNAL AUDIT PROGRESS REPORT** The Interim Head of Internal Audit provided Members with a summary of Internal Audit activity in the period from 9 February 2013 to 12 June 2013. Reference was made to the Internal Audit Team now being fully staffed, with the appointment of a permanent Head of Internal Audit taking up his post in July 2013. During the period of the 15 audits completed, 3 had received Full Assurance, 11 audits had received Satisfactory Assurance and 1 had received Limited Assurance. The following issues were raised by Members: • Civic Centre Mechanical and Electrical Maintenance Services Contract – Reference was made to the number of outstanding high risk recommendations. Members were informed that the recommendations were not being progressed as quickly as originally planned which had resulted in target dates for implementation changing. Reference was made to Procurement being involved in the programme of work to improve contract management in this area and the Committee asked for a report on this for the next meeting. The Director of Finance agreed that the Head of Procurement would produce a report for the next meeting on the Category Management approach in general and specifically progress on the Property/FM side. The Head of Procurement would also attend the next meeting of the Committee to answer questions on the report.	**Head of Internal Audit** **Director of Finance**

	• Statutory Requirements for Building Maintenance – The Committee noted that this audit had been requested by the interim Facilities Manager and Members were encouraged by this approach. • Music Service (Income & Asset Management) – The Committee expressed their disappointment at the failure to ensure controls were put in place to mitigate against the high risks in the areas identified. • Blue Badges – The Chairman commented it appeared that the removal of a basic control had undermined the work of the Corporate Fraud Investigation Team. • HR Operations Processing – Employee Change of Details Form – The Committee was informed that this was in relation to establishing controls in relation to new starters and leavers. • Internal Audit Plan Follow up Progress – Concern was expressed at the number of outstanding recommendations from 2009-10 and 2010-11, and the Director of Finance was asked to discuss these with the Corporate Management Team and bring a report back to the next meeting of this Committee. **RESOLVED-** **1. That the in year progress against the Internal Audit Plan for 2012/13 be noted and the updated position on the implementation of recommendations made in reports of audits undertaken in 2009-10, 2010-11 and 2011-12 be noted.**	**Action By:** **Head of Internal Audit** **Director of Finance**
12.	**DRAFT ANNUAL GOVERNANCE STATEMENT (AGS) 2012-13** The report provided Members with a draft Annual Governance Statement for 2012/13. Reference was made to the Governance issues which were detailed in an earlier agenda item (Head of Internal Audit Annual Assurance Statement) but were not included in the draft Annual Governance Statement. These included items which appeared to be of greater significance than those detailed in the draft Annual Governance Statement. Officers were asked to take this back and ensure the significant governance issues were considered further. **RESOLVED –** **1. That the draft AGS be noted.**	**Head of Policy, Performance & Partnerships**

13.	**WORK PROGRAMME 2013/14** Noted.	
14.	**INTERNAL AUDIT PROGRESS REPORT** The report on this item was included in Part II as it contained information relating to the financial or business affairs of any particular person (including the Authority holding that information) and the public interest in withholding the information outweighed the public interest in disclosing it (exempt information under paragraph 3 of Part 1 of Schedule 12 A to the Local Government (Access to Information) Act 1985 as amended. **RESOLVED –** **1. That the information contained in the report be noted.**	
	The meeting which commenced at 5.10pm, closed at: 6.45pm **Next meeting: 26 September 2013 at 5.00pm**	

These are the minutes of the above meeting. For more information on any of the resolutions please contact Khalid Ahmed on 01895 250833. Circulation of these minutes are to Councillors, Officers, the Press and Members of the Public.

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Category Management – Structure and Benefits

Contact Officer: Perry Scott
Telephone: 01895 557257

REASON FOR ITEM

At the last meeting of the Audit Committee, the Director of Finance agreed that the Head of Procurement would produce a report for Members providing details on the Category Management approach in general and specifically progress on the Property/Facilities Management (FM) side.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to note the information provided in the report and in the presentation from the Head of Procurement and to seek clarification and further information if required.

INFORMATION

Recent structural changes to both the Procurement and Commissioning teams have resulted in a combined Procurement and Commissioning function, resourced to deliver improved savings with greater supplier and contract management focus.

This new structure has followed the Category Management BID project, which first prototyped teams within FM/Housing and Children's and all the teams are now following a Category Management model. This has resulted in a shift in Procurement's role within the Council from one of a process and specification-driven team to one that is focussing on adding value and commercial challenge at all stages of the procurement cycle. The main category teams are as followed:

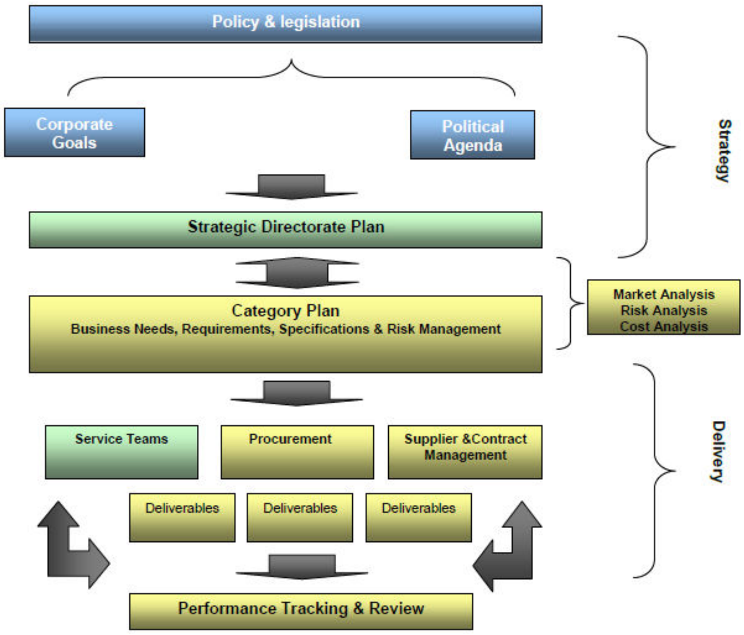
FM/Housing
Construction
Housing
ICT
Public Health
Children's
Adults Social Care

Category Management Integration

By understanding the Council-wide spend on a specific category, the category teams are developing and delivering specific activities based on needs, the markets and within the framework of the Council's wider strategy.

Category Management supports Service Teams deliver upon both the strategic and service goals of the Council, working along side operational service teams. This ensures that there is a more co-ordinated approach to identifying need, developing and delivering strategic plans and effectively managing suppliers. The Category Managers will identify and develop tactics to deliver these plans, through supplier management and procurement activity.

The context within which the Category Management plans and activity sit within the Council and Directorate strategies in shown in the diagram below:



Benefits of Category Management Structure

- The creation of a stronger Procurement function with an integrated structure
  - Delivering continued cost savings to the Council with total visibility of the category spend contracts and focussed objectives.

- Ensuring full compliance to UK & EU Procurement Law
  - Building upon a strong structure that will support compliance and Council Standing Orders including change control processes and supplier cost increases

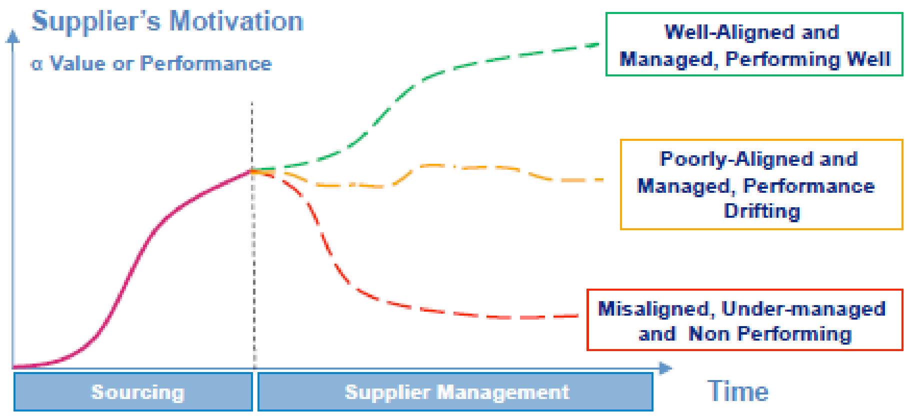
- The development of detailed Category Plans
  - Create full visibility of category initiatives, deliverables and efficiency savings, to track performance and outcomes.

- Focussed contract and supplier management
  - Clear oversight of total spend by provider to fully exploit efficiencies within the Council through improved contract terms and effective supplier and contract management

- Managing financial risk and supply contingency plans
  - Timely D&B reporting in line with supplier management and performance tracking measures
  - Proactive financial management and visibility

Supplier & Contract Management

Effective management of suppliers ensures that the maximum value is derived from both the supplier and the contract. If not managed well, some or most of this value can be lost within 6-18 months:



Supplier and contract management responsibility has now moved to all Category Managers, in order to ensure that the Council achieves best value from contracts and manages each supplier relationship effectively.

Objective setting, structured review meetings and clearly communicated activities are prioritised and managed by the Category Manager. This ensures a full end to end ownership from identifying need, the procurement process, to award and contract management.

Category Plans, Performance Tracking and MTFF Budgets

The Procurement team have identified and logged all procurement activity and prioritsed contracts for the current year and identified key future projects. There is now a central location for the planned projects by category, with supporting timescales and delivery milestones. This will form the basis of the resource planning and support required from within the team.

Each project, based on current and planned spend has been assigned specific savings targets which will feed into the MTFF budgets for in year savings (if applicable) and into 14/15 forecasts. The Procurement team will therefore track the delivery of projects and savings, demonstrating the project involvement and outcomes in each case.

These activities will be consistent with the outputs of the category plans and will be used to ensure that projects are on track to deliver as forecast.

The Procurement Team have also allocated a business owner/lead for all spend by contract, which will be shared centrally on Horizon, with all spend updated on a monthly basis.

Communication

The Procurement Team will be regularly reviewing and communicating existing documentation to share internally, to ensure that all relevant officers are aware of updated policies and procedures.

Clarification, guidance notes and tools will be available to support ongoing future decisions on procurement activity together with supplier management.

Progress on FM/Housing & Construction

The Construction category team have delivered significant number of projects across both the schools and corporate construction utilising various procurement tools and techniques such as traditional tendering, setting up LBH frameworks and collaboration.

This has lead to saving of £9.4m across the recent construction projects delivered by ensuring the suppliers are put under the right commercial pressure to deliver a value for money proposals.

The Housing category team have developed a rolling programme of procurements and contract management meetings the current tracker has 98 projects 37 of these are out to quote and tender.

The team have identified a clear programme within a category management structure and approach in the following ways:

- Identifying duplication in supply across the entire category, where suppliers can be reduced in number, without effecting responsiveness or service performance.
- Full oversight and detailed spend by supplier and contract status. Identification of where consolidation of spend can be achieved across the FM and Housing categories.
- Develop and enhance supplier relationship management, particularly with strategic suppliers, working proactively to promote the benefits of working with the Council. Managing risk and performance of critical and transactional suppliers in accordance with agreed contract terms and KPI’s.
- Implementation and effective management of performance tracking measures and management reporting routines, for MTFF targets.
- Continuous monitoring and assessment of on-going spend activities to ensure compliance with Standing Orders, financial management and the category plan objectives.

- Creating a short, tactical plan in conjunction with longer term strategic objectives to improve service delivery to residents at reduced cost.

BACKGROUND PAPERS
NIL

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Internal Audit - Progress Report for 2013/14 Quarter 2

Contact Officer: Muir Laurie
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REASON FOR ITEM

The attached report presents the Council's Audit Committee with summary information on all Internal Audit work covered and assurance in this respect during the July to September 2013 period. It also provides an opportunity for the Head of Internal Audit to highlight to the Audit Committee any significant issues that they need be aware of that have arisen since the last Internal Audit progress report in June 2013. It also enables the Audit Committee to hold the Head of Internal Audit to account on delivery of the Internal Audit plan and facilitates in holding management to account for managing risk and control weaknesses identified during the course of Internal Audit activity.

OPTIONS AVAILABLE TO THE COMMITTEE

The Audit Committee is asked to note the Internal Audit Progress Report for 2013/14 Quarter 2.

The Audit Committee should ensure that the coverage, performance and results of Internal Audit activity in this quarter are considered and any additional assurance requirements are communicated to the Head of Internal Audit.

INFORMATION

Internal Audit provides an independent appraisal and consultancy service that underpins good governance, which is essential in helping the Council achieve its strategic objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (England) Regulations 2011 that the Council undertakes an adequate and effective Internal Audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

The new Public Sector Internal Audit Standards which came into force on 1 April 2013 are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of Internal Audit across the public sector. They stress the importance of robust, independent and objective Internal Audit arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement.

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

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INTERNAL AUDIT

Progress Report to Audit Committee
2013/14 Quarter 2
September 2013

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Contents

The Internal Audit key contacts in connection with this report are:

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1. Introduction

1.1 Internal Audit (IA) provides an independent appraisal and consultancy service that underpins good governance, which is essential in helping the Council achieve its strategic objectives and realise its vision for the borough of Hillingdon. It is also a requirement of the Accounts and Audit (England) Regulations 2011 that the Council undertakes an adequate and effective IA of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

1.2 The new Public Sector IA Standards which came into force on 1 April 2013 are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of IA across the public sector. They stress the importance of robust, independent and objective IA arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement.

1.3 This report presents the Council's Corporate Management Team (CMT) and Audit Committee with summary information on all IA work covered and assurance in this respect during the July to September 2013 period. It also provides an opportunity for the Head of Internal Audit (HoIA) to highlight to CMT and the Audit Committee any significant issues that they need be aware of that have arisen since the last IA progress report in June 2013.

1.4 IA would like to take this opportunity to formally record its thanks for the co-operation and support it has received from the management and staff of the Council during the period.

2. Executive Summary

2.1 The new permanent HoIA took up his post in July 2013 and the immediate priority for the quarter 2 period was to ensure that all residual 2012/13 reviews were finalised as quickly as possible. As previously reported to CMT and the Audit Committee, there has been significant slippage in the 2012/13 IA plan and this has also had a negative impact on the timeliness of delivery of the 2013/14 IA plan. There are a range of factors that have caused the slippage in the IA plans for both years and work is underway by the HoIA to address this situation in the short-term, as well as taking a more strategic view of how the IA function can improve in the longer term.

2.2 Nevertheless, all 2012/13 IA work was completed to draft report stage by the end of August which is a considerable achievement against the backdrop of the significant amount of slippage in the IA plan. Further to this, the 2012/13 IA plan has now been completed and the primary focus is now on delivery of a risk based IA plan for 2013/14.

2.3 IA staff capacity has been reduced during the period following the departure of one of our graduate trainees who left us in early August to take up a position in HM Treasury. The HoIA is considering the options for replacing this member of the team as part of a wider review of the IA structure and skills mix, to ensure it fits with the Council's business needs going forward. In the mean time, RSM Tenon has agreed to provide some general IA work support to the Council if it is required, which should reduce the risk of further slippage in the 2013/14 IA plan.

2.4 A couple of key areas of IA work that have been successfully carried out in the quarter include **School Admissions** and **VAT**, where we found robust procedures in place and have issued 'Satisfactory' assurance opinions in both areas. Other work in the quarter included the **Housing Benefits Subsidy Grant Claim** which involved a number of staff within the IA team carrying out sample testing to satisfy the grant claim requirements. External Audit (Deloitte) place reliance on the work of IA in this area and this has resulted in a significant reduction in the external audit fees for the Council.

2.5 We also conducted a piece of **consultancy** (advisory) work in relation to **the Council's stock of garages** to help influence strategic decision making in this area. This change in approach was welcomed by Management who provided positive feedback on our work. Other consultancy work this quarter included advice in relation to the **Annual Governance Statement** and active participation in the Council's **Risk Management** Group.

2.6 All **investigations into allegations of fraud and/or corruption** are now carried out by the Corporate Fraud Investigations Team (CFIT) and so a period of handover has commenced between IA and the CFIT. All IA investigations have now been completed or handed over to the CFIT to take forward. IA is still completing the **National Fraud Initiative** (NFI) data matching exercise for 2012/13 but the responsibility for future data matches will be passed to CFIT as part of the handover period in the coming months. IA will continue to work closely with the CFIT to share intelligence and ensure a dovetailed approach to good governance to help avoid duplication.

2.7 Further details of the IA work carried out in the period are included in section 3 of this report.

3. Analysis of Internal Audit Activity in 2013/14 Quarter 2

3.1 Residual 2012/13 Internal Audit Assurance Work

3.1.1 All of the 2012/13 IA reviews carried out in the 2013/14 quarter two period are individually listed at Appendix A. This details the assurance levels achieved (in accordance with the assurance level definitions outlined at Appendix B) and provides an analysis of recommendations made (in accordance with the recommendation risk categories outlined at Appendix C).

3.1.2 In total 22* 2012/13 IA assurance reviews were finalised during the period. There were **not any 'No' assurance** 2012/13 IA opinions and **only five 'Limited' assurance** opinions issued during the period; this is a positive outcome.

Assurance Level (including Schools)	Number of 2012/13 IA assurance reviews finalised in Q2 2013/14
Full	1
Satisfactory	17
Limited	5
No	0
Totals	**23***

** = The Support for Carers had two assurance levels to recognise the split in responsibilities between Children's Services and Adult Social Care.*

3.1.3 The key findings from the **five limited assurance reviews** were as follows:

1. Support for 'Young' Carers

The assessment and support planning processes were found to be incomplete and not up-to-date. Specifically, we identified that comprehensive assessments of young carers' needs and support requirements were not always being consistently carried out to ensure that their needs were met. There were also delays in carrying out reviews to assess if the support being provided was achieving the required outcomes. However, we are satisfied that positive management action has been proposed to address the risks we identified. Management has already met with Hillingdon Carers to begin work on the revision of their assessment and follow up processes. These recommendations will be followed-up by IA in due course.

2. Children's Residential Services – Merrifield House

The main areas of concern in this IA review were in relation to health and safety issues surrounding the home. Ofsted had raised some concerns on health and safety at their last inspection and our IA identified that minimal progress had been made to address these concerns. This included monitoring inspections not being carried out to comply with statutory requirements. However, some of the areas of risk have now been addressed by management with the remaining recommendations due to be implemented in the near future. These recommendations will be followed-up by IA in due course.

3. Children's Residential Services – Olympic House

Health and safety issues were also the main IA findings in this home too. We identified that a health and safety assessment had not been carried out, there were no formal health and safety procedures, evacuation procedures were unclear and there were no trained First Aiders at the home. However, we are please to report that positive action has already been taken by management to address the main areas of risk. These recommendations will be formally followed-up by us in due course.

4. Trees – Compensation Claims

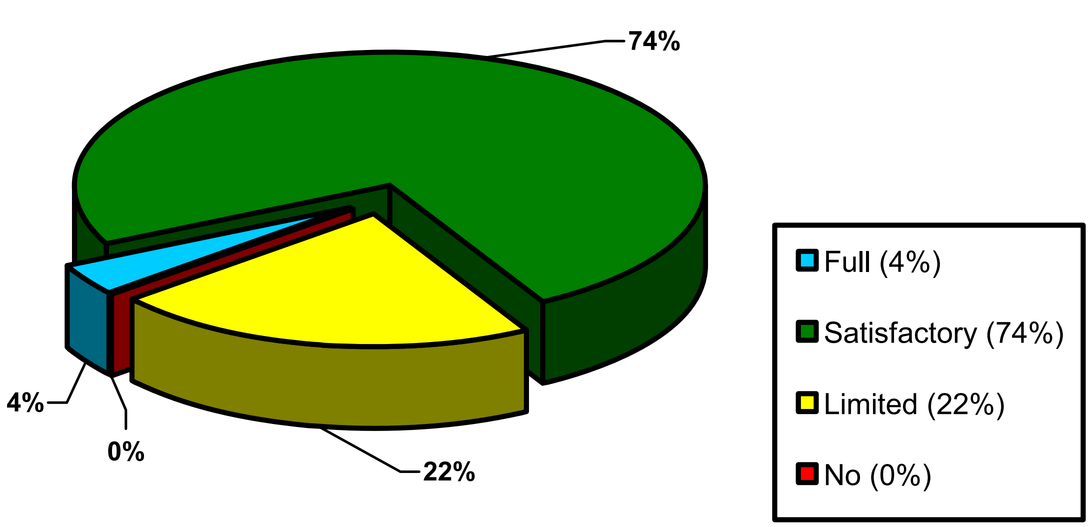
We found that this service was being provided on a reactive basis and consequently inspections and maintenance were only carried out as a result of complaints or insurance claims. No risk assessments had been carried out which would enable inspection and maintenance programmes to be focussed on trees that had a high risk of causing damage to nearby properties. Management have decided that a proactive approach would be preferred and have taken positive action to move the service in this direction. These recommendations will be followed-up by IA in due course.

5. Mental Health Service

Our audit identified that the Section 75 Partnership Agreement (for the delivery of adult mental health services) between the Council and Central and North West London NHS Foundation Trust (CNWL), had not been reviewed in its entirety. It also did not provide detailed information about the services being directly provided by CNWL and there were issues surrounding allocating Care Co-ordinators on a timely basis and evidence of Care Plan reviews. Positive action is being taken by management to address all of the risks we raised and these recommendations will be followed-up by us in due course.

3.1.4 **Overall, the results of the 2012/13 IA assurance work completed in this period are positive for the Council**. The graph below highlights that **78%** of the 2012/13 IA assurance opinions in this quarter were 'Satisfactory' or better.

Analysis of 2012/13 IA Assurance Opinions issued in Q2 2013/14



3.1.5 Given the dynamic level of transformational change going on across the organisation and the resulting risks that are created as a consequence, both CMT and the Audit Committee can take substantial assurance from the results of the 2012/13 IA assurance work completed in this period.

3.2 2013/14 Internal Audit Assurance Work

3.2.1 As mentioned earlier, the slippage in the 2012/13 IA plan has had a negative impact on the progress made with the 2013/14 IA plan during quarter two. Specifically, only seven 2013/14 IA assurance reviews have been completed to final report stage in this period. All seven of these reviews relate to schools which are individually listed at Appendix A.

3.2.2 However, the table below highlights that positive assurance levels were issued for all seven of the 2013/14 IA assurance reports issued this quarter.

Assurance Level (including Schools)	Number of 2013/14 IA assurance reports finalised in Q2	Percentage of 2013/14 IA assurance reports finalised in Q2
Full	2	29%
Satisfactory	5	71%
Limited	0	0%
No	0	0%
Totals	**7**	**100%**

3.2.3 Reasonable progress is being made by the IA team in reducing the backlog of 2013/14 planned work. Appendix A highlights that as at 17 September 2013 there are 21 IA assurance reviews in progress for 2013/14. However, there remains a significant challenge ahead for the IA team to ensure timely completion of the 2013/14 IA plan.

3.3 Follow-up of Previous Internal Audit Recommendations

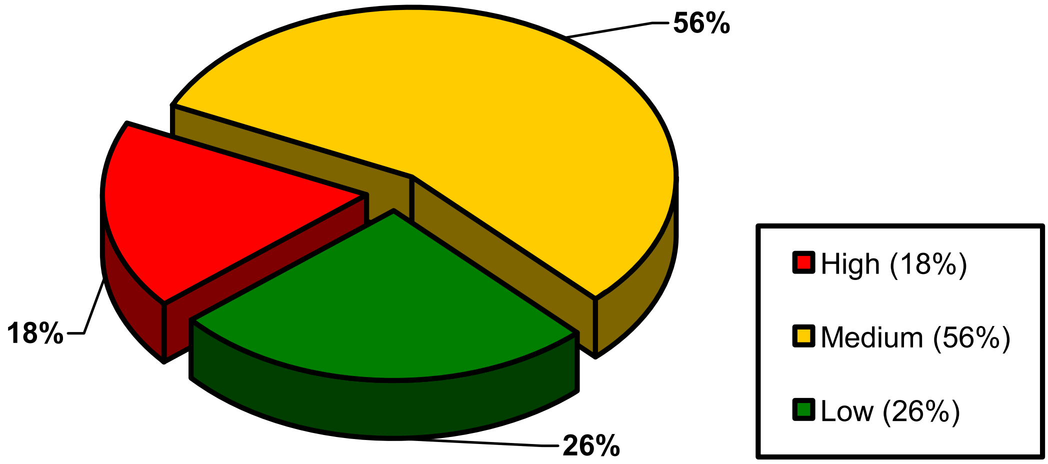
3.3.1 IA continues to monitor all recommendations it has raised through to the point where the recommendation has either been implemented or where a satisfactory alternative risk response has been proposed by management. However, the implementation of recommendations raised by IA is now monitored solely by the two IA Managers. This allows the rest of the IA team to focus on delivery of the IA plan and also ensures that organisationally we have a more consistent and streamlined approach to the process of following-up IA recommendations.

3.3.2 The focus of the quarter two work on IA follow-up has been predominantly on 2012/13 recommendations. Including the assurance reviews carried out this quarter, there have been **426** IA recommendations raised in 2012/13. The table below and graph overleaf highlights this.

Risk Rating	Number of IA Recommendations	Percentage of IA Recommendations
High	77	18%
Medium	239	56%
Low	110	26%
Totals	**426**	**100%**

3.3.3 Given that we use a risk based IA approach at the Council, it is in line with our expectations that nearly three quarters of the IA recommendations are High or Medium risk.

Analysis of all 2012/13 IA Recommendations Raised



3.3.4 Our follow-up work in this area has identified that **6 high risk recommendations** from 2012/13 due for implementation have not yet been fully implemented. However, given that IA's coverage of 2012/13 has only just finished, the results of our follow-up work highlights **a positive direction of travel** regarding the management response to IA recommendations raised.

3.3.5 The status of outstanding IA recommendations raised in 2009/10, 2010/11 and 2011/12 has been discussed at CMT and good progress is being made on establishing which of these recommendations have now been implemented, which are no longer relevant i.e. following organisational restructure and which require management attention. Following these discussions, IA has received positive assurance from management that there are now **only 5 high risk recommendations outstanding in relations to these three audit years**. Further information on all outstanding high risk recommendations will be provided by the HoIA as part of an oral update at the 26 September 2013 Audit Committee meeting.

3.4 Other Internal Audit Work 2013/14

3.4.1 During the quarter, the National Fraud Initiative (NFI) data matching exercise for 2012/13 has been progressed by IA, but we recognise that this area needs more resource focussed on it going forward. This issue should be alleviated once the responsibility for future data matches is passed to the Corporate Fraud Team (CFT) as part of the handover process in the coming months. As reported earlier, all IA investigations have now been completed or handed over to the CFT to take forward. In line with the Chief Finance Officer's statutory obligation to prevent and detect fraud and corruption against the Council, IA will continue to work closely with the CFT.

3.4.2 In this period we have also carried out consultancy (advisory) work in relation to the Council's stock of garages, the Carbon Reduction Commitment, the Annual Governance Statement and the Risk Management Group. In addition, we provided advice to the Asset Management BID review team regarding revised procedures they were in putting in place. The Housing Benefits Subsidy Grant Claim has been a significant piece of work and we also verified the Troubled Families Grant Claim this quarter.

3.5 Deferred Internal Audit Reviews

3.5.1 Per Appendix A, **five planned IA reviews have been deferred** during this period:

1. Business Continuity

The terms of reference of this IA review has been drafted, but at the request of management this audit has been deferred until quarter four due to a current lack of staff capacity within the relatively small Civil Protection Service team.

2. Land Charges

The terms of reference of this IA review has been drafted, but at the request of management this audit has been deferred until quarter four. This is as a result of the Land Charges team having to prioritise a large number of claims and appeals that go back a number of years.

3. Pensions Administration - Employees Contributions

The terms of reference of this IA review has been drafted, but at the request of management this audit has been deferred until quarter three. This is as a result of Capita's resources during quarter two being focussed on the submission of valuation data to the scheme actuary.

4. Housing Rents

The terms of reference of this IA review has been drafted, but at the request of management this audit has been deferred until quarter three. This is mainly due to the introduction of the benefits cap having an impact on the Housing Rent's team's workload.

5. Children in Care Teams 1 & 2

The terms of reference of this IA review has been drafted, but at the request of management this audit has been deferred until quarter three. This is due to the organisational restructuring being carried out in this area following a BID Transformation review.

3.5.2 Whilst it is never ideal to start planning an audit and to then have it deferred, **IA fully supports the reasons for deferring all five of these audits** and agrees that the audits will add more value carried out later in the audit year.

3.6 Internal Audit Performance

3.6.1 The current IA Key Performance Indicators (KPIs) previously agreed with CMT and the Audit Committee are:

- KPI 1 – Deliver **90%** of the agreed IA Plan to final report stage by 31 March 2014;
- KPI 2 – Deliver **95%** of the agreed IA Plan to draft report stage by 31 March 2014; and
- KPI 3 – Deliver **95%** of completed audits within the agreed time allocation.

3.6.2 As at the date of this IA progress report, actual cumulative IA performance against its KPIs is highlighted below:

IA KPI	IA Actual Performance	R.A.G. Status
KPI 1	**82%**	A
KPI 2	**87%**	A
KPI 3	**64%**	R

3.6.3 Both KPIs 1 and 2 are at 'Amber' status to alert CMT and the Audit Committee to the risk that **the targeted performance may not be achieved due to the slippage in the 2013/14 IA plan**. However, the HoIA is confident that the performance in this area will be improved once the IA approach across the organisation becomes more streamlined. This issue is directly related to the current 'Red' status of IA KPI 3 which indicates that in the year to date over a third of audits have taken longer than planned. There are a large number of reasons for that; some of them IA can directly control (i.e. ensuring we do not over-audit) and some we can influence (i.e. gaining access to management information in a timely manner). These are issues that the HoIA is currently taking forward.

3.6.4 In terms of Client satisfaction, Appendix A highlights that **only five Customer Feedback Questionnaires (CFQs) have been completed** to date from the 29 IA assurance reviews carried out in the period. Whilst the HoIA proactively seeks informal management feedback on audits that have been carried out, the lack of formal feedback is a slight concern. The most common reason given for the lack of formal management feedback is that the length of the current CFQ is too long. As a consequence, revising the CFQ template is an idea the IA service may want to consider at some point in the future.

4. Forward Look

4.1 Looking ahead to quarter three, work has already begun to pull together an **IA improvement plan** for the short and medium term. The key priority is to improve the efficiency of the IA process which will help reduce the slippage in the IA plan and create greater capacity for IA to add value across the organisation. A potential solution which would help improve the time taken to carry out IA reviews is IA software, which is one option the HoIA is currently exploring.

4.2 The HoIA is also **revisiting the 2013/14 IA plan** to see if there are any new or emerging significant risks that are not currently included in the planned programme of IA work. There is also scope to ensure that any work IA carries out is more closely **aligned to the Transformation work** being carried out across the organisation. This could include IA staff sitting on project groups, whilst ensuring they are clear about whether they are there in an assurance or advisory capacity. This type of approach will help increase IA's knowledge of corporate developments which can feed into the risk based deployment of IA resource on assurance work. Also, **participation in working groups** will help individual IA staff develop, whilst at the same time increasing the value IA provides to the Council.

4.3 As part of each individual IA assurance review, an overall assurance level is assigned, taking into account the level of our findings regarding the control environment, objectives and risk appetite. Attached at Appendix B are the 2012/13 assurance levels and definitions. Also at Appendix B are the HoIA's **proposed assurance levels to use for 2013/14 onwards**. Specifically, the proposal is to replace the 'Full' and 'Satisfactory' assurance levels with 'Substantial' and 'Reasonable' from now onwards. This comes as a result of discussions with a number of key stakeholders as well as reviewing what is considered good practice in IA assurance work.

4.4 In addition, each IA recommendation made to improve the control environment is assigned a risk rating. Attached at Appendix C are the 2012/13 risk ratings and their definitions. Also, at Appendix C, are the HoIA's **proposed changes to the risk rating definitions** as well as the introduction of a 'Notable Practice' rating and definition. It is proposed to use these from now onwards, which should help further ensure that IA work is risk focussed in its coverage and approach.

4.5 In line with the Public Sector IA Standards everyone in the IA team has their own **continuing professional development action plan** to ensure they are appropriately trained and experienced to carry out their roles effectively. This is an area the HoIA is keen to see further developed in the future.

4.6 There are no other matters that the Head of Internal Audit needs to bring to the attention of CMT or the Audit Committee at this time.

Muir Laurie ACCA CMIIA MAAT
Head of Internal Audit

17 September 2013

APPENDIX A

DETAILED INTERNAL AUDIT ASSURANCE WORK UNDERTAKEN IN 2013/14 QUARTER 2 (July to September 2013)

Key:
- **H** = High Risk
- **M** = Medium Risk
- **L** = Low Risk
- **CFQ** = Customer Feedback Questionnaire
- **ToR** = Terms of Reference

Residual 2012/13 IA Assurance Reviews (completed since the last IA Progress Report in June 2013):

IA Ref.	IA Review Area	Status as at 17 September 2013	Assurance Level	Risk Rating H	Risk Rating M	Risk Rating L	CFQ Received?
SCHH070	Children Residential Services -Charville Lane	Final report issued 30 May 2013	Satisfactory	1	1	3	No
SCHH070	Children Residential Services – Mulberry Parade	Final report issued 30 May 2013	Satisfactory	2	2	2	No
SCHH070	Children Residential Services – Olympic House	Final report issued 30 May 2013	Limited	5	4	3	No
SCHH070	Children Residential Services – Merrifield House	Final report issued 30 May 2013	Limited	2	6	2	No
SCHH065	Support for Carers	Final report issued 2 June 2013 – Assurance Level was split*: • Young Carers – Limited; and • Adult Carers – Satisfactory.	Split*	-	4	3	No
SCHH067	Young Offending Services	Final report issued 28 June 2013	Full	-	1	2	No
CS040	Sickness Absence	Final report issued 4 July 2013	Satisfactory	-	2	6	No
PEECS70	School Admissions	Final report issued 11 July 2013	Satisfactory	-	4	7	No
N/A	Hillingdon Primary School	Final report issued 22 July 2013	Satisfactory	-	6	2	No
N/A	Field End Junior School	Final report issued 22 July 2013	Satisfactory	1	6	4	No
RS084	Private Sector Housing – Empty Property Management	Final report issued 30 July 2013	Satisfactory	-	2	1	Yes

APPENDIX A (ctd)

2013/14 IA Assurance Reviews (ctd):

IA Ref.	IA Review Area	Status as at 17 September 2013	Assurance Level	Risk Rating			CFQ Received?
				H	M	L	
RS095	Libraries	Final report issued 30 July 2013	Satisfactory	2	7	1	Yes
PEECS69	Chrysalis	Final report issued 31 July 2013	Satisfactory	-	3	3	Yes
SCH073	Referral & Assessments – Asylum Children	Final report issued 9 August 2013	Satisfactory	-	2	1	No
SCHH061	Looked After Children 16-25 Education	Final report issued 19 August 2013	Satisfactory	-	4	1	No
CS043	Value Added Tax	Final report issued 21 August 2013	Satisfactory	-	2	-	No
CS045	Personnel Records	Final report issued 27 August 2013	Satisfactory	-	1	1	
AS046	Overtime and Standby Payments	Final report issued 27 August 2013	Satisfactory	-	3	1	
RS080	Investigations Team (A.S.B.)	Draft report issued 9 August 2013	Satisfactory	-	5	1	
RS078	Trees – Compensation Claims	Draft report issued 9 August 2013	Limited	2	8	-	
PEECS73	Council House Aids & Adaptations	Draft report issued 13 August 2013	Satisfactory	2	3	1	
ASHH032	Mental Health Service	Draft report issued 29 August 2013	Limited	2	7	2	

Total 2012/13 IA recommendations raised in 2013/14 Quarter 2	19	83	47

APPENDIX A (ctd)

2013/14 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 17 September 2013	Assurance Level	Risk Rating			CFQ Received?
				H	M	L	
N/A	Harefield Infant School	Final report issued 7 June 2013	Satisfactory	-	5	2	No
N/A	Glebe Primary School	Final report issued 7 June 2013	Satisfactory	-	3	2	Yes
N/A	Botwell House Primary School	Final report issued 2 July 2013	Full	-	1	2	No
N/A	Dr Tripletts (CE) School	Final report issued 18 July 2013	Satisfactory	-	6	3	No
N/A	Field End Infant School	Final report issued 23 July 2013	Full	-	-	2	Yes
N/A	Grange Park Junior School	Final report issued 23 July 2013	Satisfactory	2	5	1	No
N/A	St Andrew (CE) School	Final report issued 24 July 2013	Satisfactory	1	4	3	No
AS050	Agency Compliance Checks	Draft report in progress					
RS093	Childrens' Performance Licences	Draft report in progress					
RS087	Bridges and Other Highway Structures	Draft report in progress					
RS090	Trading Standards	Draft report in progress					
FS001	Treasury Management	Draft report in progress					
RS097	Arts Theatre Service	Draft report in progress					
RS089	Events	IA testing in progress					
SC080	Troubled Families Programme	IA testing in progress					
RS085	Building Control - Dangerous Structures	IA testing in progress					
SC079	Looked After Children Placed Out of Borough	IA testing in progress					
FS003	E-invoices	IA testing in progress					
RS096	Sheltered and Extra Care Housing	ToR being drafted					
FS004	Income Review (Cash Collection)	ToR being drafted					
tbc	Con troCC (ICT system)	ToR being drafted					
tbc	Capital Accounting	ToR being drafted					
tbc	Debtors	ToR being drafted					
tbc	Creditors	ToR being drafted					

APPENDIX A (ctd)

2013/14 IA Assurance Reviews (ctd):

IA Ref.	IA Review Area	Status as at 17 September 2013	Assurance Level	Risk Rating			CFQ Received?
				H	M	L	
tbc	Housing Benefits	ToR being drafted					
tbc	Council Tax	ToR being drafted					
tbc	NNDR (Business Rates)	ToR being drafted					
tbc	Email & Internet Security	ToR being drafted					
FS002	Pensions Administration – Employer's Contributions	ToR drafted, but IA review deferred until October 2013 at the request of Management					
RS092	Housing Rents	ToR drafted, but IA review deferred until October 2013 at the request of Management					
SC076	Children in Care Teams 1 & 2	ToR drafted, but IA review deferred until October 2013 at the request of Management					
RS086	Business Continuity	ToR drafted, but IA review deferred until quarter four at the request of Management					
RS091	Land Charges	ToR drafted, but IA review deferred until quarter four at the request of Management					

	H	M	L
Total 2013/14 IA recommendations raised in 2013/14 Quarter 2	**3**	**24**	**15**

APPENDIX B

INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS (2013/13)

The 2012/13 IA assurance levels were:

Assurance Level	Definition
Full	There is a minimal risk of serious fraud, loss, error or loss of reputation. You may have some minor control issues to address, but generally: • you apply key controls, or satisfactory compensating controls consistently and effectively; • your procedures work well; • you achieve your service objectives efficiently, effectively and economically; • you manage service risk effectively; • you comply with relevant laws and regulations; • you safeguard Council assets; and • you produce reliable data.
Satisfactory	You face some risk of fraud, loss, error or loss of reputation. You: • apply key or compensating controls, but with some inconsistencies or shortfalls, and procedures are generally adequate; • generally achieve objectives and value-for-money, but there are some identified weaknesses; • do not always manage service risk optimally; and • may have some minor shortfalls in compliance with laws and regulations, asset safeguarding, and compiling data.
Limited	You face a significant risk of fraud, loss, error or loss of reputation. We found: • significant evidence that key or compensating controls do not exist or are not applied consistently and effectively; • procedures are poor, and need urgent improvement; • inefficiency and ineffectiveness; • objectives that are not met; • major shortfalls in risk management; and • assets at risk, and inaccurate information.
No	You face a high risk of significant fraud, loss, error or loss of reputation: The service: • does not operate key or compensating controls • has poor or non-existent procedures; • does not comply with relevant laws and regulations; • does not meet its objectives; • does not manage its risks; • produces unreliable information; and • leaves assets vulnerable.

APPENDIX B (ctd)

INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS (from 2013/14 onwards)

The proposed 2013/14 IA assurance levels and definitions are:

Assurance Level	Definition
Substantial	There is a good level of assurance over the management of the key risks to the Council objectives. The control environment is robust with no major weaknesses in design or operation. There is positive assurance that objectives will be achieved.
Reasonable	There is a reasonable level of assurance over the management of the key risks to the Council objectives. The control environment is in need of some improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains some risk that objectives will not be achieved.
Limited	There is a limited level of assurance over the management of the key risks to the Council objectives. The control environment has significant weaknesses in either design and/or operation. The level of residual risk to the objectives is not aligned to the relevant risk appetite. There is a significant risk that objectives will not be achieved.
No	There is no assurance to be derived from the management of key risks to the Council objectives. There is an absence of several key elements of the control environment in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite and the residual risk to objectives. There is a high risk that objectives will not be achieved.

1. **Control Environment:** The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:

- establishing and monitoring the achievement of the authority's objectives;
- the facilitation of policy and decision-making;
- ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
- ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
- the financial management of the authority and the reporting of financial management; and
- the performance management of the authority and the reporting of performance management.

2. **Risk Appetite:** The amount of risk that the Council is prepared to accept, tolerate, or be exposed to at any point in time.

3. **Residual Risk:** The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

APPENDIX C

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS (2013/13)

The 2012/13 risk ratings and definitions of IA recommendations were:

Risk	Definition
High	We perceive the threat to your service to be considerable – there is a fundamental weakness in the control system that poses a threat to the service as a whole. It would be hard for a manager to justify inaction on such a risk without agreeing this course of action with their line manager.
Medium	There is a weakness in the control of your system that poses a moderate threat to your service. You are likely to want to take action to reduce the risk, but other priorities may mean that you cannot do so urgently. We will follow up recommendations in these two categories to check that you have addressed the issues.
Low	The risk to the service is relatively minor, and poses no great threat to your service as a whole. We regard our recommendations on such risks as suggestions, if you have the capacity to implement improvements. We will not always follow-up these recommendations.

APPENDIX C (ctd)

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS (2013/14)

The proposed 2013/14 risk ratings and definitions of IA recommendations are:

Risk	Definition
High ●	The recommendation relates to a significant threat or opportunity that impacts the Council's corporate objectives. The action required is to mitigate a substantial risk to the Council. In particular it has an impact on the Council's reputation, statutory compliance, finances or key corporate objectives. The risk requires senior management attention.
Medium ●	The recommendation relates to a potentially significant threat or opportunity that impacts on either corporate or operational objectives. The action required is to mitigate a moderate level of risk to the Council. In particular an adverse impact on the Department's reputation, adherence to Council policy, the departmental budget or service plan objectives. The risk requires management attention.
Low ●	The recommendation relates to a minor threat or opportunity that impacts on operational objectives. The action required is to mitigate a minor risk to the Council as a whole. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget or Section objectives. The risk may be tolerable in the medium term.
Notable Practice ●	The activity reflects current best management practice or is an innovative response to the management of risk within the Council. The practice should be shared with others.

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APPROVAL OF THE 2012/13 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT ON THE AUDIT FOR THE YEAR ENDED 31 MARCH 2013

Contact: Nancy Leroux
Telephone: 01895 250353

SUMMARY

The attached report summarises the findings of the External Auditor on the audit of the 2012/13 Statement of Accounts. The report will be presented to Audit Committee on 26 September 2013 by Deloitte.

The auditor has indicated that, subject to completion of some minor procedures, an unmodified opinion will be given and that the Statement of Accounts gives a ‘true and fair’ view. Additionally the auditor is planning to issue an unmodified conclusion on the Council’s arrangements for securing value for money.

The report addresses Key Audit risks that were identified prior to audit and reported to Audit Committee on 12 March 2013.

RECOMMENDATIONS

It is recommended that Audit Committee

1. **Approve the audited Statement of Accounts for 2012/13.**
2. **Considers the Auditors findings and adjustments outlined in Appendix 1 of the attached Deloitte report.**

Reason for Recommendation:

The arrangements for keeping and publishing the Council’s accounts are set out in the Accounts and Audit Regulations 2011. 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 2011 the Corporate Director of Finance approved the Statement of Accounts on xx June 2013, prior to the accounts release to the Council’s external auditor, Deloitte.

Deloitte has now audited these accounts and their report will be presented to this Committee. The regulations require the Audit Committee to consider and approve the audited Statement of Accounts by 30 September 2013 and for these accounts to be signed and dated by the committee Chairman.

SCOPE OF EXTERNAL AUDIT

The Council’s auditor, Deloitte, is responsible for undertaking an audit of the Statement of Accounts. The outcome of the audit is set out in the attached report.

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:

- Financial performance and position
- Accounting policies and financial reporting
- Materiality and identified misstatements
- Accounting and internal control systems
- Value for Money (VFM) conclusion

In addition, the Auditor requires a “Management Representation Letter” to be signed by management and the Committee. The contents of this letter are set out at Appendix 3 of the Deloitte report. The letter has to include representations from management on matters material to the statement where sufficient appropriate evidence cannot reasonably be expected to exist.

COMMENT ON THE CONTENTS OF THE REPORT

The audit process for 2012/13 was again efficient and rigorous, commencing during June and executed by auditors familiar to Hillingdon, thus requiring less officer input and time. The report highlights two factual misstatements and three judgemental. It also provides suggestions for improving several procedures and systems controls. Deloitte will discuss these issues in detail at Committee. This represents another very satisfactory audit outcome.

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 decrease on the Balance sheet by £40.2m, mainly caused by the writing out of £38.4m of community schools as a result of them transferring to academy status.

The Comprehensive Income and Expenditure shows a surplus of £13.5m mainly attributable to the introduction of the HRA self-financing regime.

There were no substantive changes to accounting requirements this year to report to Audit Committee

Post Balance Sheet Events:

i) The Council held a contingent liability for a claim under TUPE Regulations brought against the Council by twelve former employees of RS Gormanley. However, an Employment Tribunal found against the Council necessitating the removal of the contingent liability and the recognition of a £1m provision to cover potential claims.

ii) Following receipt of a Heritable dividend of £2.5m in respect of the investment in Icelandic banks during 2008 in late August, a late amendment was made to the accounts. This payment was unexpected and took our expected rate of recovery well over what had been impaired in the accounts. As a result a change was made to the final accounts to reduce the impairment and this then added £1.35m to the brought forward balances.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

Under section 2 of the Audit Commission Act 1998 the Statement of Accounts should be audited in accordance with the act by an auditor or auditors appointed by the Commission. In Hillingdon, Deloitte have been appointed by the Audit Commission to carry out this function.

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Deloitte.

The London Borough of Hillingdon

Report to the Audit Committee on the year ended 31 March 2013 Audit

4 September 2013

Deloitte.

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The Chairman of the Audit Committee
London Borough of Hillingdon
Civic Centre
High Street
Uxbridge
Middlesex
UB8 1UW

4 September 2013

Dear Sirs,

We have pleasure in setting out in this document our report to the Audit Committee of the London Borough of Hillingdon ("the Council") for the year ended 31 March 2013. This report covers the principal matters that have arisen from our audit of the Council for the year ended 31 March 2013.

In summary:

- The major issues, which are summarised in the Executive Summary, have now been substantially addressed and our conclusions are set out in this report.
- There are a number of judgemental areas to which we draw your attention in our report which you should consider carefully.
- Our work is largely complete and we are not aware of any circumstances which would cause us to issue a qualified opinion on the accounts or a qualified value for money conclusion.

We would like to take this opportunity to thank the management team for their assistance and co-operation during the course of our audit work.

Yours faithfully,

Heather Bygrave

Senior Statutory Auditor

Contents

Executive summary

We have the pleasure in setting out in this document our report to the Audit Committee of the London Borough of Hillingdon on the audit of the Council's financial statements for the year ended 31 March 2013. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2013.

This summary is not intended to be exhaustive but highlights the most significant matters which we would like to bring to your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

Status	Description	Detail
Completion of the audit		
Our audit is largely complete	We have completed our work on the areas of significant risk as identified in our audit plan. We did not identify any additional significant risks. Our outstanding areas are: • Completion of review of events after the reporting period. • Receipt of signed management representation letter. • Completion of Whole of Government Accounts (WGA) consolidation work which will enable certification of financial statements when the audit opinion is signed. • Final completion of internal review procedures.	n/a
Overall view		
We have not identified any matters through our work to date which would prevent us from issuing an unmodified audit opinion on the truth and fairness of the financial statements	We have not identified any matters through our work to date which would prevent us from issuing an unmodified audit opinion on the truth and fairness of the financial statements. The matters that we have taken into account in forming our overall view are described in the following sections of this report. Under the Audit Commission Act 1998, we issue a certificate 'when the audit of the accounts has been concluded'. The issue of the audit certificate marks the closure of the audit and the end of the exercise of the auditor's powers and duties in respect of that audit. The audit certificate can be issued as soon as all the work required to meet auditors' responsibilities under sections 2 and 3 of the Code has been completed. One of our statutory responsibilities is to issue an opinion on the Whole of Government Accounts return. The deadline for the audited return is 5 October. The Audit Commission has been delayed in finalising its instructions to auditors but these are now completed. Whilst we do not need to delay the issue of our opinion on the financial statements for this, we would not be able to issue our certificate until completion of our work and the issue of our opinion on the Whole of Government Accounts return.	n/a

Executive summary (continued)

Overview of risk	Description	Status	Detail

G Risk appropriately addressed — A Risk satisfactorily addressed but with unadjusted errors identified — R Material unresolved matter

Significant audit risks		Status	
There were no significant issues arising from our review of these audit risk areas	In our audit plan we identified a number of significant audit risks. Our findings in respect of those risks are as follows:		Section 1
	1. **Recognition of grant income:** our testing of grants did not identify any significant issues.	G	
	2. **Revaluation of properties:** in the 2012/13 year the Council valued a range of assets including community premises, sports premises, youth centres and investment properties. We concluded that the assumptions used were broadly reasonable but identified one adjustment relating to the use of indices for Council dwellings. In addition, we identified one asset classified as held for sale which we considered to be overstated in value by £0.4m and one asset which was classified as held for sale which we considered to be an asset under construction. Management accepted all of these adjustments and has reflected these changes in the latest draft of the financial statements.	G	
	3. **Valuation of the pension liability:** we considered the assumptions used to calculate the liability relating to the London Borough of Hillingdon Pension Fund to fall within a reasonable range when compared to the Deloitte in-house benchmarks.	G	
	4. **Calculation of the bad debt provision against sundry debts:** the sundry debt balance includes a number of different sub-categories of debt, each with different methods for calculating the level of provision required. Our testing concluded that overall the level of provision for this balance was reasonable.	G	
	5. **Recording of capital spend:** we did not identify any issues in our sample testing between the classification of capital and revenue spend.	G	
	6. **Housing Revenue Account ("HRA") self-financing:** the impact of the Localism Act 2011 on statutory mitigations for depreciation on HRA fixed assets was a new accounting requirement for 2012/13. Our testing has identified no material misstatements with respect to the new accounting requirements.	G	
	7. **Management override of key controls:** we are required to assume that all organisations have a risk of management override of controls in accordance with international auditing standards. Management has brought to our attention two adjustments: 1) relating to the need for a legal claim provision in the region of £1.0m, which was previously disclosed in the draft accounts presented for audit as a contingent liability. We have reviewed this and agree that an adjustment is required; 2) relating to a receipt of £2.5m in relation to an Icelandic investment which was previously impaired.	G	

Executive summary (continued)

Status	Description	Detail
Value for money (VFM) conclusion		
We expect to issue an unqualified value for money conclusion	One of our responsibilities is to include in our audit report a conclusion on whether the London Borough of Hillingdon has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources - this conclusion is known as "the VFM conclusion". The conclusion is given in relation to two criteria specified by the Audit Commission. On the basis of our work, we confirmed our preliminary assessment that there were no risks which required us to carry out other locally determined work and we propose to issue an unqualified VFM conclusion. However, we have made a recommendation around the current capital budgeting process which is included in Section 3.	Section 2
Risk management and internal control systems		
We did not identify any significant deficiencies in the financial reporting systems	Our audit findings did not identify any significant deficiencies in the financial reporting systems. However, we have identified a number of recommendations which we have identified during the course of our work. We have also provided an update on recommendations raised in 2011/12.	Section 3
Identified misstatements and disclosure misstatements		
Management has adjusted for all misstatements identified and the majority of disclosure deficiencies	Audit materiality was £7.5 million as set out in our Audit Plan. Management has corrected all misstatements identified in the course of our audit. We have also reported to you those disclosure deficiencies which we consider to be significant. Management has adjusted for the majority of these.	Appendix 1
Significant representations		
We will request management representations	A copy of the draft representation letter to be signed on behalf of the London Borough of Hillingdon is included at Appendix 3.	Appendix 3
Independence		
We confirm we comply with APB Revised Ethical Standards for Auditors	Our reporting requirements in respect of independence matters, including fees, are covered in Section 4.	Section 4

1. Significant audit risks

Understanding the subjective judgements and estimates

The table below shows, on a range of acceptable outcomes from less prudent to more prudent, where management's key assumptions and valuations relating to significant estimates lie. We have only included those significant risks which we consider to involve key judgements.

Acceptable range

	Less prudent — More prudent	
Pension liability	✓ ✓	We have concluded that the assumptions used by the Council's actuary to calculate the pension liability are reasonable. When compared to our own in-house benchmark we consider the assumptions to be slightly prudent but consistent with the prior year.
Asset revaluation	✓ ✓	We have identified some process weaknesses in our testing of the valuation of fixed assets and also an adjustment to increase the value of fixed assets based on updated indices. However, overall we consider the assumptions and judgements used to be reasonable.
Sundry debt provisioning	✓ ✓	We consider the Council's sundry debt provision to be slightly prudent but materially reasonable and consistent with the prior year.
Management override of controls	✓ ✓	We did not identify anything from our testing of journals or review of other estimates or judgements to suggest a prudent or aggressive stance taken by management.

Current year position ✓

Prior year position (if relevant) ✓

The results of our audit work on significant audit risks are set out below:

G Risk appropriately addressed	A Risk satisfactorily addressed but with unadjusted errors identified	R Material unresolved matter

Grant income recognition

G

We have not identified any errors in our sample testing of the grant income

Accounting for grant income can be complex as the basis for revenue recognition in the accounts will depend on the scheme rules for each grant. This risk was identified because grant income is a material income stream to the Council (revenue and capital grants amounted to over £416m in 2012/13) and there is an element of professional judgement in determining whether certain grants have conditions or restrictions attached and whether those conditions or restrictions have been discharged.

Deloitte response

We performed detailed testing on a sample of revenue and capital grants by reviewing correspondence attached to specific grants and comparing with the Council's accounting treatment. We have also tested the design and implementation of controls around recognition of grant income and concluded that they are designed and implemented satisfactorily.

Our testing identified no significant issues with the revenue and capital grants included within the sample selected.

1. Significant audit risks (continued)

Revaluation of properties

G●

We identified one adjustment relating to the indexation applied to Council Dwellings, and two adjustments relating to assets held for sale. All adjustments were accepted and corrected by management

The Council's substantial portfolio of assets is subject to a rolling five year revaluation programme. In the 2012/13 year the Council undertook a detailed revaluation of assets with a carrying value of £37.4m, which equates to 3.2% of the £1.2bn carried in the balance sheet value for property, plant and equipment at 31 March 2013. The assets subject to a detailed revaluation in 2012/13 included community premises, sport premises, youth centres and investment properties.

We identified this as a risk because of the size of the property balance in relation to the overall financial statements, and because any valuation is subject to estimates and assumptions.

Deloitte response

We engaged our property specialists Deloitte Real Estate (DRE) to review the assumptions and methodology used to value the different types of land and property. Overall, we concluded that the valuation methods selected, and the way in which those methods were applied, were reasonable. However, we have raised a management recommendation regarding the qualifications of the valuer and the valuations process which is detailed in Section 3.

The Council undertakes a full valuation of council dwellings every five years. In the intervening periods it applies a range of indices as a form of valuation as well as accounting for movements in stock. As in previous years, the Council applied the change in indices to February 2013, as opposed to the year end date of March 2013, because the latter information was not available at the time of preparing the accounts. As part of our testing we considered the potential change in valuation had March data been used; the difference was material and so we proposed an adjustment to increase the value of council dwellings by £6.8m. This adjustment was accepted and changed by management.

As part of our testing we also considered whether there was any evidence of impairment to assets which might mean the carrying value of other assets was not appropriate. Our testing did not identify any instances where this was the case.

Our testing of assets held for sale identified two errors. Our testing identified one property, Rosedale Court Apartments, which was originally classified as held for sale but subsequently confirmed that it was still in the course of construction at year end and so should have been included in this category; this was corrected by management. Secondly, another asset classified as held for sale, Elizabeth Court, was originally recognised in the financial statements at its full market value, despite being marketed for sale at 80% of its market value as part of a first time buyer scheme. Management has also accepted this adjustment and revised the valuation in the latest version of the financial statements.

1. Significant audit risks (continued)

Pension liability

G

We consider the assumptions used to calculate the pension liability for the LBH pension fund to fall within a reasonable range

The determination of the net pension liability was identified as a risk because it is substantial, and its calculation is sensitive to small changes in judgemental assumptions made about future changes in salaries, mortality and other key variables.

The total pension liability recognised in the draft financial statements of £373.3m is comprised of two funds within the Local Government Pension Scheme (LGPS); the London Borough of Hillingdon (LBH) Pension Fund (£370.1m) and the London Pension Fund Authority (LPFA) Pension Fund (£3.2m).

The total net pension liability has increased by £60.1m on the prior year. The main movements within this overall net increase are a higher than expected return on assets, which is more than offset by a reduction in the discount rate applied to liabilities.

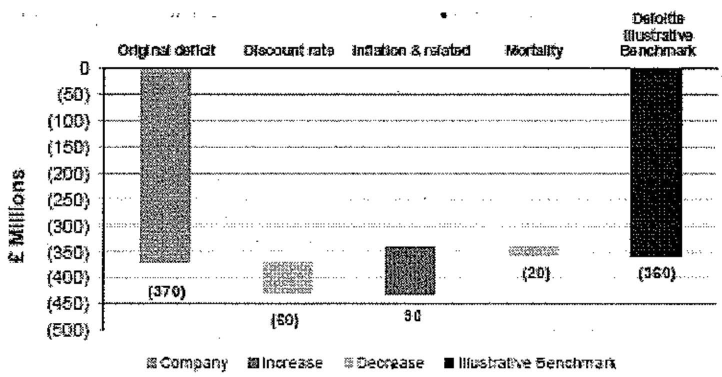
Deloitte response

We considered the Council's arrangements, including the use of actuarial services to calculate the pension liability, to be reasonable. We engaged our own actuarial experts to assist in the review of the assumptions used to calculate the pension liability and the resulting accounting entries and disclosures. Our actuaries did not undertake a high level review of the assumptions used in calculating the LPFA net pension liability due to the size of the liability being immaterial.

Our actuaries have concluded that the assumptions used in the calculation are near the middle of a range which we consider to be reasonable. We highlight that the assumptions used in the prior year were also considered to be reasonable.

Whilst we consider the Council's overall assumptions, and therefore the net pension liability, to be materially reasonable, for illustrative purposes we have shown below the difference in individual assumptions between the Council's approach and our own 'in house' benchmarks.

Deloitte Illustrative Benchmark Funded Status



1. Significant audit risks (continued)

Calculation of the bad debt provision against sundry debts

G●

We consider the level of bad debt provision for sundry debt to be materially reasonable

The sundry debt provision was identified as a significant risk because it comprises of different types of debt. The Council applies different methodologies for calculating the level of provision required against each of these types of debt. Provisions are judgemental by nature but should be based on sound assumptions and methodology.

Deloitte response

Within sundry debtors there are two types of debt (housing and social services) which attract significant provisions, as the Council deems these debts to have a higher risk of recovery. We tested the reasonableness of these two types of debt provisions by reviewing the cash recovery of 2011/12 debt and comparing to the level of provision held in the prior and current year. Along with information obtained from testing the recoverability and cash recovery of current year debtors, we have used this information to gauge whether we consider the level of provision to be materially reasonable.

	Gross balance £'000	Provision £'000	*Net balance £'000*
Total Sundry Debt	**21.4**	**11.1**	**10.3**
Housing and Social services debt	14.5	9.7	4.8
Other	6.9	1.4	5.5

The 2012/13 gross balance for housing and social services debt is £14.5m with a provision of £9.7m. If prior year cash recovery rates were to remain the same, we would expect a provision of £9.4m, a difference of £0.3m when compared to the current year provision. Therefore, we consider the provision for housing benefit and social care debt to be prudent, but also materially reasonable based on historical cash recovery rates.

Other sundry debtors include other commercial debts within directorates and some small debts relating to council tax and NNDR costs of collection. The total of these debts for 2012/13 is £6.9m with a provision of £1.4m. We have tested the significant risk over the provision and consider that the provision is reasonable based on the change in the level of the council debt from the prior year.

We therefore conclude that the level of provision for sundry debt is materially reasonable.

1. Significant audit risks (continued)

Recording of capital spend	
G● **Our sample testing over the recording of capital spend identified no material errors**	The Council has had significant capital spend during 2012/13 of £49m (2011/12: £54m). This is less than the planned capital spend of £89m. Classification of expenditure requires management judgement on whether it is capital or revenue in nature.
Deloitte response	In the prior year our testing identified several inconsistencies of treatment with expenditure relating to council dwellings and the housing revenue account. As a result, we recommended that management undertook an exercise to determine whether certain categories of spend should be treated as capital or revenue. A detailed review of capital expenditure was performed by management in the 2012/13 year and adjustments made prior to the audit visit. In the current year we tested the risk of misclassification of capital expenditure in three ways: • sample testing of repairs and maintenance expenditure which had been classified as revenue; • sample testing of capital additions within fixed assets; and • sample testing of the disposal of any replacement assets. No issues were found in our testing this year with regards to the classification of capital and revenue spend.

1. Significant audit risks (continued)

Housing Revenue Account (HRA) self-financing settlement payment	
G● **We did not identify any issues from our testing of the HRA self-financing settlement**	In the year ending 31 March 2012, the Council made an HRA self-financing settlement payment of £191.6m which will allow it to retain surpluses on the HRA account going forward. As a result, all HRA revenue and capital expenditure is expected to be funded from existing resources meaning that rent collection, depreciation and impairment of HRA assets have a real impact on the HRA surplus or deficit. There are transitional arrangements in place for a 5 year period that allow the Council to mitigate the impact of depreciation or impairment of HRA dwellings by reducing the impact of a portion of depreciation on the bottom line. The Council has made the decision not to use these transitional arrangements, as the depreciation calculated by the Council for the current year is broadly in line with the prior year Major Repairs Allowance. This is a new requirement in the current year and there is a risk that the impact of depreciation and impairment of HRA properties is understated; therefore it is considered a significant audit risk.
Deloitte response	We have reviewed the estimate on the depreciation charge of HRA properties to verify that it is in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 Guidance Notes and Item 8 Determination. We have noted that there has been no split of land and buildings for the purpose of calculating depreciation. Management's opinion is that removing the value of the land would have a negligible effect on the depreciation charge as the land can only be used for social housing and therefore has a reduced market value. In the prior year, the amount used for depreciation was a formula calculation based on what the Council considered was the correct amount to put to reserves to maintain the housing stock. This value was described as the Major Repairs Allowance. In the current year, as a result of the new requirements, a true figure for depreciation has been used as calculated using SORP guidelines. This calculation is materially similar to the prior year MRA "proxy" depreciation calculation. If the land value was removed from the depreciation calculation, it would reduce the depreciation value for the current year and would make the prior year and current year values incomparable. Under the new guidelines, if land was removed from the depreciation calculation and the depreciation value was lower, a voluntary revenue provision could be made to the Major Repairs Allowance to include the amounts which the HRA think are reasonable to maintain the housing stock. Therefore, we concur with management's judgement that the depreciation value as calculated in the current year in not materially misstated. We have verified that the depreciation and impairment charges are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 Guidance Notes and Item 8 Determination and have not noted any material misstatements.

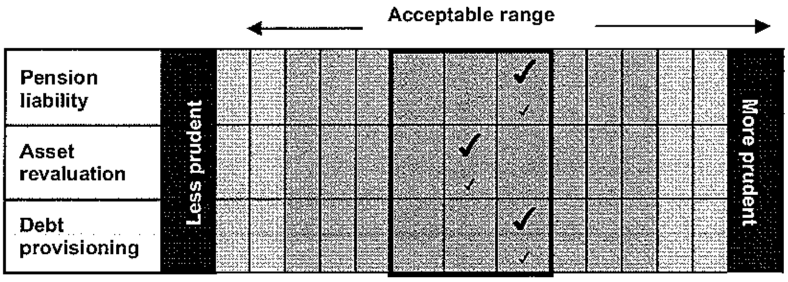
1. Significant audit risks (continued)

Management override of controls

We consider some of management's judgements to be at the more prudent end of an acceptable range.

Deloitte response

International Standards on Auditing include a presumption of a risk of management override of key controls which cannot be rebutted by the auditor. This recognises that management may be able override controls that are in place to prevent inaccurate or even fraudulent financial reporting.



Current year position ✓ *Prior year position (if relevant)* ✓

Our work focused on testing of journals, significant accounting estimates and any unusual transactions, including those with related parties. In testing journals, we made use of computer assisted audit techniques to analyse the whole population of journals and to identify those which had features which could be indicators of possible fraud and to focus our testing on these. We did not identify any issues from the work carried out.

Key accounting judgements have been reported in this document as separate significant risks, notably the valuation of fixed assets, the valuation of the pension liability and the bad debt provision estimate. Our testing concluded satisfactorily in each of these individual areas. From the table above, we highlight to the committee that the Council application of judgement in all areas is within the acceptable range.

During our testing, management brought to our attention two post year end updates relating to accounting estimates which gave rise to the potential need to adjust the accounts.

The first was in relation to an adjustment to provisions relating to a claim which was previously disclosed as a contingent liability. The reason for this proposed change was the result of an employment tribunal which ruled against the Council in relation to the termination of a contract with a supplier in October 2012. We held discussions with the Council's in-house legal team and concluded that we considered this ruling to represent an adjusting event after the reporting period, and so recognition as a provision would be appropriate. The estimate of settling these claims has been assessed at £1m by the in-house legal team and so we agreed with management that this change should be made to the draft financial statements.

The second was in relation to an unexpected dividend that was received in August 2013 from a previously impaired Icelandic investment. We have reviewed the receipt of the dividend and reviewed management's recalculation of the necessary impairment over the investment, taking into account the percentage of the investment now received. A reduction in the impairment of £1.3m has been made and we agreed with management that this change should be made to the draft financial statements.

We consider management's application of judgements to be materially reasonable and did not identify any instances where the business rationale was not clear.

2. Value for money conclusion

Scope of our work

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the London Borough of Hillingdon has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources - this conclusion is known as "the VFM conclusion".

Our conclusion is given in relation to two criteria:

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2013
The organisation has proper arrangements in place for securing financial resilience.	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Approach to our work

We draw sources of assurance relating to our VFM responsibilities from:

- The audited body's system of internal control as reported on in its Annual Governance Statement.
- The results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on the our responsibilities.
- Any work mandated by the Commission – of which there was none in 2012/13.
- Any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

Risk assessment

Our preliminary assessment identified a number of potential risks in relation to our VFM, which we reported in our audit plan. These related to:

- The monitoring and control of construction contracts.
- Capital budgeting and forecasting.
- Evidence of achieving savings.

In our audit plan we said we would undertake a wider risk analysis but also pay specific attention to these areas. We have done this and reported our findings below.

Monitoring and control of construction contracts

We identified this as a potential risk because Internal Audit identified a number of control deficiencies in monitoring housing repairs and construction contracts, because the 2011/12 Annual Governance Statement reported a significant governance issue around the monitoring and control of construction contracts, and because of allegations made by an MP in Parliament during the 2012/13 financial year.

Our testing included reviewing subsequent internal audit reports and investigation papers relating to construction contracts. It also extended to reviewing other internal audit reports on other areas of contract management. We also met with the Head of Procurement to discuss issues raised in these reports and his plans for addressing weaknesses identified.

2. Value for money conclusion (continued)

Monitoring and control of construction contracts (continued)

During the audit we also became aware of the Council being found liable by an employment tribunal for employment costs relating to the termination of a contract held with a contractor for housing maintenance. The estimated cost of settlement is £1m, which has been recognised as a provision by the Council. Given that this was another example of contractual issues relating to construction / maintenance, we requested some further assurance from management that they were not aware of any further matters of this type, and assurances around planned improvements to contractual monitoring controls.

We found that management recognised the need for improvement of controls around all aspects of contract management at the Council and could demonstrate actions that were taking place to address these issues. Considering progress, and that the contracts where issues were noted were not material, we concluded that this was not a significant risk to our VFM opinion.

Capital budgeting and forecasting

We raised a recommendation as part of our 2011/12 audit regarding capital budgeting and the need for this to be more accurate in order to be meaningful as a tool to measure the risk of potential non-delivery. As a result, we revisited this area this year.

We recommended that management should prepare a breakdown of the budgeted 2012/13 capital spend by project and compare that with the actual outturn spend for the year. Management performed this review and this showed an original budget of £89m, which was revised up to £101m in May, compared to actual outturn spend of £45m, which is significantly less than both original and revised budget. We focussed on the two most significant areas of underspend which were the schools programme and the supported housing programme. Regarding schools, management agreed that improvements could be made to the phasing and monitoring of school expenditure, and that the school programme project team had been developed in recent years, but stated that the noted underspend to budget had not, to date, resulted in a detrimental effect on services such as provision of school places. With the supported housing programme, we understand a detailed review is currently underway to reassess this area of capital spend. This capital programme plays a key part in the delivery of the Council's revenue savings programme and so is important that it is delivered.

We found no evidence that the underspend of capital budgets has had a detrimental effect on the provision of Council services. Our key finding was that there are still opportunities to improve the budgeting and monitoring of capital spend and so we have made this recommendation in Section 3.

Evidence of achieving savings

Our 2011/12 report identified some areas for improvement regarding clarity around the tracking of savings made, with particular emphasis on the Reablement savings project, which is one of the major savings projects in the Council's plan. Working with the Council's corporate finance team, we reviewed this area again in the 2012/13 year. Regarding the Reablement project we found some improvements had been made but in some areas it was still difficult to link the planned saving to the overall outcome for some component parts of the overall programme. However, we have seen that management are aware of this and taking active steps to improve this in the 2013/14 year. Given that this area of risk has already been identified by the Council, and we can see evidence of progress, we concluded it was not a material risk to our VFM conclusion.

Overall conclusion

On the basis of the work detailed above, and supplemented by more general enquiries such as reviewing the matters reported in the Annual Governance Statement, and other matters which came to our attention, we concluded that there were no significant risks which required us to carry out further work and we propose to issue an unqualified VFM conclusion.

3. Risk management and internal control systems

Our audit approach in relation to internal control was set out in our 'Briefing on audit matters' and our planning report circulated to you in February 2012.

Risk management and control observations

We have identified a number of control observations, the most significant of which are detailed below. We have grouped the recommendations into those in relation to the finance function and those in relation to the wider business.

Finance Function

Accuracy check of data submitted to the Actuary	
Description	In 2012/13 the Council outsourced the administration of its Pension scheme to Capita. Capita are also responsible for sending data to the scheme's actuary, without the involvement of management. There were a number of errors in their submission in 2012/13, although these were not material.
Deloitte response	We recommend that management put controls in place to check that the data sent to the actuary is accurate before it is submitted.
Management response	Whilst the submission of data to the actuary is part of the contract with Capita Employee Benefits, processes will be changed going forward to ensure that all data will be submitted through the in house Pensions Team who will undertake a review of the data before final submission to the actuary.
Timeframe	Revised process now in place, to ensure IAS 19 data for schools this autumn is checked prior to submission.
Owner	Nancy Leroux, Deputy Director Strategic Finance

3. Risk management and control systems (continued)

Journal codings	
Description	As part of our testing over the management override of controls, we undertake a risk-based approach to test journals. A number of the journals we were directed to test were picked up as a result of the journal heading containing the word 'correction' or 'error'. Our testing identified a number of journals which were originally posted to incorrect accounts and further journals were made to correct these.
Deloitte response	Whilst we acknowledge that the controls within the Council are picking up these miscodings, we recommend refresher training is considered for all staff and for new joiners involved with posting. This will encourage journals to be posted correctly in the first instance and will reduce the risk of miscodings not being identified and making journal entries more efficient by making 'right first time'.
Management response	'Back to Basics' training for all accountants will be part of the work plan for the coming year, which will include training on getting things correct first time, with the aim of reducing the number of journals posted. As part of this training, accountants will be reminded of the need to post journals correctly in the first instance. Once training is completed, regular reviews of journals will be undertaken to ensure procedures are followed correctly.
Timeframe	Winter 2013
Owner	Nancy Leroux, Deputy Director Strategic Finance

3. Risk management and control systems (continued)

Property valuation technique	
Description	Our testing of asset valuations identified a number of areas where improvements could be made. Firstly, we identified that, whilst the Council's valuers are registered with the Royal Institute of Chartered Surveyors (RICS), they are not Registered Valuers. The Registered Valuer scheme was introduced in 2011 and is compulsory for all surveyors who undertake valuations. Secondly, our detailed review of asset valuations identified some areas where the 20 minimum requirements of a Red Book valuation report were not complied with. We highlight that these were largely documentation points such as a statement over the valuation approach. The Code also notes that best practice is for the Valuer to agree formal terms of engagement when undertaking this work; this was also not in place. Finally, our detailed review identified some areas where the assumptions used by the valuer were not clearly documented and could only be understood through discussions. There were some cases where our independent valuers did not agree with the assumptions made by the Council's valuer, although these differences were not material.
Deloitte response	We recommend: • The Council's valuers enrol in the Registered Valuer scheme; • The documentation of valuation reports is improved and the valuation process formalised; • The Council considers the portfolio of assets requiring valuation and engage specialist support where appropriate.
Management response	1. Registered Valuer Scheme - We were advised by the RICS registration monitoring section that registration would be optional if the valuations undertaken were exempt under PS1.2. We took the view that as the valuations provided are 'internal valuations' neither in the public domain or relied on by third parties that they were technically exempt. However the Council may choose to enrol the appropriate valuers in the Registered Valuer scheme to cover any valuations which may become public and to comply with the auditors' recommendation. 2. Valuation Documentation - It is noted that the documentation of individual valuations could be improved on individual valuation files though background information is documented generally. It is noted that 'Terms of Engagement' are recommended to be agreed and standard terms of engagement are being drawn up for the current financial year. With respect to the independent valuers not agreeing with assumptions in some cases, it is not uncommon in the valuation process to find that valuers' opinions are often different. As current staff have a high level of experience and local knowledge, we are confident that our valuations are appropriate for their purpose. The Council may choose to appoint independent valuers in some cases though the benefit of this over relying on internal valuations would have to be weighed against the additional costs involved.
Timeframe	March 2014
Owner	David Murnaghan, Deputy Director Asset Management

3. Risk management and control systems (continued)

Capital Budgeting	
Description	As part of our 2011/12 Value For Money (VFM) procedures we identified significant variances between the capital budget and actual capital spend, and recommended that the Council reviews this process. As part of our VFM procedures for 2012/13, we revisited this area. We found that the actual capital spend of £45m was £44m less than the original capital budget of £89m. One of the major purposes of monitoring capital spend is to measure whether projects are delivered on time and within planned resources. We consider that the current capital process of capital budgeting and monitoring, and the way this is presented to Cabinet, is limited in achieving this.
Deloitte response	We recommend the Council reviews its current capital budgeting and monitoring process, and the presentation of this to Cabinet. The aim of the review should be to design a capital monitoring system which is risk-focussed and will highlight where projects are not progressing against agreed milestones or where non delivery will have a detrimental impact on services. Where actual spend is significantly different to budgeted spend, commentary should be provided detailing why projects are not on track and the mitigating actions being undertaken to address this.
Management response	Whilst we acknowledge that there have been delays in the completion of some projects within the Schools Capital Programme against the original plan, we can confirm that these delays have had no impact on the delivery and opening of those schools in time to meet demand. Hillingdon are delivering one of the largest school build programmes across London and when the capital programme was set last year much of the planning was at an early stage, resulting in the programme developing as the year progressed. Additionally, budgets are set for a financial year, whereas the schools programme is delivered to meet the start of academic years, meaning the profile of spend over a financial year will not be directly linked to project milestones. However, all budget monitoring processes are under review and are being revised during the first half of the 2013/14 year. As part of the review, the format of capital budget monitoring reports will be improved to make more relevant and to take more account of the risks contained within projects.
Timeframe	October 2013
Owner	Andy Evans, Deputy Director Operational Finance

3. Risk management and control systems (continued)

The Wider Business Functions

Audit Committee terms of reference	
Description	Through attendance at recent Audit Committee meetings we are aware of changes made to the Council constitution, specifically the decision to remove the Audit Committee's ability to 'invite relevant Heads of Service, Corporate Directors and Cabinet Members to answer questions on the implementation of outstanding audit recommendations where satisfactory assurance levels have not been received.' We would like to draw the Council's attention to the CIPFA publication *Audit Committees: Practical guidance for local authorities.* Whilst this guidance is not mandatory, it is the single publication that we are aware of which specifically provides guidance on how audit committees should operate in local authorities. Regarding the specific issue right of access the publication states *"the Committee should have the right to call any other officers or agencies of the Council as required".*
Deloitte response	We recommend the Council reviews the CIPFA publication Audit Committees: Practical guidance for local authorities and considers the specific guidance around right of access to individuals. The publication also offers wider guidance, including a checklist on the effectiveness of the Audit Committee which could be considered.
Management response	We note the recommendation and will consider this as part of our 2013/14 review of the effectiveness of the Audit Committee, currently scheduled for March to May 2014.
Timeframe	May 2014
Owner	Paul Whaymand, Corporate Director of Finance

3. Risk management and control systems (continued)

NFI – process formalisation	
Description	The Council participates in the National Fraud Initiative (NFI), a national data matching exercise designed to identify potential cases of fraud across public sector bodies. As part of a review of the Council's progress with the NFI process, we identified some areas for improvement around formalising the approach to NFI at the Council, and ensuring that the NFI lead has a method of obtaining regular progress updates.
Deloitte response	We recommend that: • the key contact for NFI requests regular (monthly) updates from other NFI leads within the Council in order for them to monitor and report on overall progress; and • the formal strategy document for NFI is refreshed to include resources allocated to the NFI process, a project plan with expected milestones to monitor progress, and a section detailed expected outcomes.
Management response	The Council's participation in the NFI has in the past sat with the Head of Internal Audit, but is now in the process of being handed over to the Corporate Fraud Team which falls under the Deputy Director of ICT, Highways and Business Services. We agree that more work could be done to co-ordinate the NFI process across the Council and this will be addressed and introduced for the next data matching exercise in 2014/15. Internal Audit is in the process of completing the data matching exercise for 2012/13. We will also give consideration to updating our current strategy in relation to NFI work at Hillingdon.
Timeframe	Any counter fraud work that has sat with Internal Audit in the past is gradually being handed over to the Corporate Fraud Team. The handover process will have been completed in time for the Corporate Fraud Team to take responsibility for the next NFI data matching exercise due in 2014/15 (April 2014).
Owner	Steve Palmer, Deputy Director of ICT, Highways and Business Services / Garry Coote, Corporate Fraud Manager

3. Risk management and control systems (continued)

Mail archives and back ups	
Description	With the implementation of Google Apps for e-mails, at present the organisation does not have mail archives and back-ups. There is a risk that in the absence of employee e-mail back-ups, if a specific email needs to be found for an internal investigation or in response to litigation, it may not be discoverable.
Deloitte response	We recommend that management considers implementing an e-mail archiving and back-up solution according to an agreed data retention schedule, to minimise the risk that data is lost.
Management response	An email archive facility is now in place known as Google Vault.
Timeframe	Already implemented.
Owner	Steve Palmer, Deputy Director ICT & Business Services / Shirley Clipp, Senior Service Manager - ICT

3. Risk management and control systems (continued)

We also provide below an update on relevant observations made in the prior year.

Revenue and capital expenditure classification	
Prior year observation	Our testing identified several examples of inconsistent treatment of capital and revenue expenditure, especially in relation to council dwellings. The Council undertook an analysis of specific categories of assets to determine whether they should be recognised as revenue or capital expenditure.
Current year update	Management has implemented part of our recommendation and has drawn up and agreed a general set of principles to apply to expenditure to determine its correct treatment.

Depreciation policy for infrastructure assets	
Prior year observation	There are many different types of asset within the infrastructure category, such as road foundations, road surfacing, street lighting and bridges. We noted that the Council adopted a policy of depreciating all infrastructure assets over a period of 40 years, regardless of the type of asset, which we observed was not as accurate as it could be.
Current year update	Plans are underway to change the way in which infrastructure assets are valued. CIPFA published a Code of Practice on Transport Infrastructure assets. This Code of Practice has not yet been adopted into the IFRS based Code. However, Council valuations of their infrastructure are made and submitted for the purpose of filling in their WGA returns.

4. Independence

As part of our obligations under International Standards on Auditing (UK & Ireland), we are required to report to you on the matters listed below.

Confirmation	
We confirm we comply with APB Revised Ethical Standards for Auditors	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.

<table>
<tr><th colspan="2">Non-audit services</th></tr>
<tr><td>We confirm that our independence is not compromised by our provision of non-audit services</td><td>In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors, the Audit Commission's additional instructions in relation to independence and non-audit services provided.
We apply the following safeguards to eliminate identified threats to independence or reduce them to an acceptable level are as follows:
<table>
<tr><th>Service provided</th><th>Consideration of threats to independence</th><th>Safeguards applied</th></tr>
<tr><td>Advice provided by Deloitte Real Estate in relation to lease advisory work</td><td>Potential threats to self-review and management threat</td><td>Non audit work is carried out by partners and staff who have no involvement in the audit.</td></tr>
</table></td></tr>
</table>

Fees	
The level of non-audit fees is within appropriate guidelines	An analysis of professional fees earned by Deloitte in the year from 1 April 2012 to 31 March 2013 is included in Appendix 2.

5. Responsibility statement

This report should be read in conjunction with the "Briefing on audit matters" circulated to you in February 2012 and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to the board and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the London Borough of Hillingdon Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Deloitte LLP.

Deloitte LLP

Chartered Accountants

St Albans

4 September 2013

Appendix 1: Audit adjustments

Unrecorded audit adjustments

All identified misstatements were corrected by management.

Recorded audit adjustments

We report all individual identified recorded audit adjustments in excess of £375,000 and other identified misstatements in aggregate adjusted by management in the table below.

		Charge / (credit) to current year Comprehensive Income and Expenditure Statement £'000	Increase/ (decrease) in Net assets £'000	Decrease/ (increase) in unusable Reserves £'000
Factual misstatements				
Collection Fund adjustment	1			
- Income from business rate payers		10,842	-	-
- Payment to national pool		(10,842)	-	-
Right to buy adjustment	2			
- Debtors owed from Government		-	(3,169)	-
- Creditors owed to Government		-	3,169	-
Judgemental misstatements				
Valuation Indices	3			
- Fixed assets		-	6,763	-
- HRA revaluation reserve		-	-	(6,763)
Reclassification of Rosedale Court	4			
- Assets under construction		-	1,560	-
- Revaluation reserve		-	-	690
- Assets held for sale		-	(2,250)	-
Adjustment to Elizabeth Court	5			
- Revaluation reserve			-	420
- Assets held for sale		-	(420)	-
		-	5,653	(5,653)

1 This represents an error in the draft financial statements which double-counted the effect of rates received in relation to Crossrail. The adjustment has an equal and opposite effect on income and expenditure.

2 The Council had originally recorded a Creditor in the draft financial statements in relation to a payment due to Government. It was subsequently agreed that this payment did not need to be made and so the Creditor should have been reversed. It was instead posted as a debtor. This adjustment removes both the Debtor and Creditor.

Appendix 1: Audit adjustments (continued)

3 The Council revalues its Council dwelling each year using the house price index from land registry website. In keeping with previous years, the Council had used the February 2013 index information as we understand this was the only available information available at the time of preparing the financial statements. The data available for March 2013 shows an increase in the indexation movement which would have a significant impact on the overall balance. Given that the Council prepares its accounts to 31 March we have suggested this change is reflected.

4 The Council has classified Rosedale Court apartments as Assets held for Sale at the year end. However, from our testing, we do not consider that the apartments should have been classified as held for sale as at the year end. At the time of testing, the site was noted to have just been completed and therefore ready for sale.

5 The Council has valued Elizabeth Court apartments at the full value. However, through our testing we have noted that these are due to be sold for 80% of market value. This has been announced and therefore as the information is in the public domain, the value of the apartments in the accounts should be disclosed at the lower value.

Disclosure deficiencies

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements.

The table below highlights those areas, up to the date of this report, which we have concluded are not material but would like to bring to the attention of the audit committee.

Disclosure	Detail
Disclosure of useful economic lives	Our testing of accounting policies has noted that the disclosure of useful lives of the different asset classes gives discrete values. From our testing we know that assets with different lengths of UEL are grouped together. We recommend that the disclosure should list the UELs in ranges, ranging from the shortest to the longest asset life in the respective category. Management has made this adjustment.
Net interest expense in the cash flow	We noted that an amount for net interest expense had been included within the Services line of the cash flow. As per the Code, this should be removed and included under the heading Adjustments for items included in the net surplus or deficit on the provision of services that are investing or financing activities. The balance is £10,524k for the current year and £5,933k for the prior year. Management has made this adjustment.
Carrying amount of non-current assets sold	We noted that the value against this in the cash flow was actually the cost of non-current assets sold rather than the carrying value. Management has made the adjustment to change this to the carrying value.
External audit costs	In the note to the accounts, fees payable for the certification of grant claims and returns shows the fees for external audit on a cash basis. We note that this should be disclosed on an accruals basis. The effect for the current year is immaterial at £115k. Management has not adjusted for this.

Appendix 2: Independence – fees charged during the year

The professional fees earned by Deloitte in respect of the period 1 April 2012 to 31 March 2013 are as follows:

	2013 £'000	2012 £'000
Fees payable in respect of our work under the Code of Audit Practice in respect of the London Borough of Hillingdon's annual accounts, assurance report on the Whole of Government accounts and the value for money conclusion	207.1	345.2
Fees payable for the audit of the London Borough of Hillingdon's pension scheme annual report	21.0	36.5
	228.1	381.7
Fees payable for the certification of grant claims (Note 1)	90.2	120.0
Total fees payable in respect of our role as Appointed Auditor	318.3	501.7
Non audit fees		
Deloitte Real Estate contract monitoring engagement (Note 2)	157.1*	177.8

Note 1: Our work in respect of 2012/13 is ongoing and the amount shown above is an estimate only. The 2012-13 scale fees that the Audit Commission has set include reductions of up to 40% on 2011-12 fees. These result from savings generated from the outsourcing of the Audit Commission's in-house Audit Practice and internal efficiency savings that the Commission is passing on to audited bodies. Under our new arrangements with the Audit Commission, Deloitte's net re-imbursement for external services provided remains unchanged from those previously agreed. The scale fee reductions do not therefore have an impact on our ability to continue offering a high quality service to you.

The fees receivable in respect of private and voluntary funds and in respect of the local government pension scheme are dealt with in separate reports to this meeting of the Audit and Risk Management Committee.

Note 2: In our audit plan issued to you on 27 February 2013 we reported that one of our divisions, Deloitte Real Estate, was successful in its proposal to monitor the delivery of a building contract for the expansion of six primary schools. We do not consider this to compromise our independence as external auditor to the Council and we have also received approval from the Audit Commission to undertake this work.

* The draft financial statements show a fee in respect of £349k for 2012/13. The reason for the difference is two-fold: firstly, the fee shown above is the net figure excluding subcontractor fees, plus some timing differences of invoices.

Appendix 3: Management representation letter

This representation letter is provided in connection with your audit of the financial statements of the London Borough of Hillingdon for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements present fairly the financial position of the London Borough of Hillingdon at 31 March 2013 and of the results of its operations, other comprehensive income and expenditure and its cash flows for the year then ended in accordance with applicable accounting framework and Accounts and Audit Regulations 2010.

We acknowledge our responsibilities for preparing financial statements for the London Borough of Hillingdon ("the local authority") which present fairly and for making accurate representations to you. For the avoidance of doubt, references to the local authority should be taken as applying equally to the London Borough of Hillingdon Pension Scheme and references to the financial statements of the local authority, includes information in those financial statements dealing with the London Borough of Hillingdon Pension Scheme.

We confirm, to the best of our knowledge and belief, the following representations.

Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework and the Accounts and Audit Regulations 2003 (as amended) which give a true and fair view.

2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

3. The measurement processes, including related assumptions and models used to determine accounting estimates in the context of the applicable financial reporting framework are appropriate and have been applied consistently.

4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 "Related party disclosures".

5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.

6. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the Council or cease trading as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Council's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

7. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. The uncorrected misstatements and disclosures are included in an appendix to this report.

8. Our reasons for not making the adjustments set out in the attached summary are due to the size of adjustments found.

9. The measurement processes, including related assumptions and models used to determine accounting estimates in the context of the applicable financial reporting framework are appropriate and have been applied consistently.

10. The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures.

11. The disclosures related to accounting estimates under the entity's applicable financial reporting framework are complete and appropriate.

12. We confirm that there is no best estimate regarding the timing of the crystallisation of the provisions and that we are happy that all provisions are recorded as being due in more than one years time.

13. There have been no subsequent events that require adjustment to the accounting estimates and disclosures included in the financial statements.

14. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and have disclosed in Note 40 to the financial statements all guarantees that we have given to third parties.

15. We have reconsidered the remaining useful lives of the fixed assets and confirm that the present rates of depreciation are appropriate to amortise the cost less residual value over the remaining useful lives.

16. We are not aware of events or changes in circumstances occurring during the period which indicate that the carrying amount of fixed assets or goodwill may not be recoverable.

17. We confirm that:

- all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
- all settlements and curtailments have been identified and properly accounted for;
- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

Information provided

18. We have provided you with all relevant information and access.

19. All minutes of member and management meetings during and since the financial year have been made available to you.

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

21. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

22. 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.

23. We are not aware of any fraud or suspected fraud that affects the entity and involves:
(i). management;
(ii). employees who have significant roles in internal control; or
(iii). others where the fraud could have a material effect on the financial statements.

24. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

25. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements.

26. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

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

28. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

29. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

30. We are not aware of any events or changes in circumstances occurring during the period which indicate that the carrying value of fixed assets may not be recoverable.

31. We have evaluated whether the restrictions, terms or conditions on grants have been fulfilled with and deferred income to the extent that they have not.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

London Borough of Hillingdon

Statement of Accounts
for the year to 31 March 2013

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London Borough of Hillingdon

Statement of Accounts for the year ended 31 March 2013

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1. Leader's Statement

Introduction by Councillor Ray Puddifoot, Leader of the Council

Welcome to the London Borough of Hillingdon's Statement of Accounts for 2012/13. These accounts set out how the Council has dealt with income and expenditure during the year and provide details of the Council's financial position and cash-flows.

Over the last year, the Council's very strong financial management has ensured the delivery of a further £17.7 million in savings, whilst continuing to protect those services valued by our residents. Like all Councils, Hillingdon has faced further cuts in funding as central government continues to reduce the national debt. But through the effectiveness of the Business Improvement Delivery (BID) programme and sound budget management we have been able to manage those funding cuts and to increase our overall balances.

Hillingdon had the foresight to make a very early start on its transformation with the development of the BID programme, which was established prior to the commencement of the real cuts in central government funding. As a result, through changing the way we deliver services and continually driving improvements in efficiency, particularly in back-office functions, we have been able to maintain front line services. This means we can keep things such as weekly rubbish collections which so many residents favour. For a fourth successive year we were able to freeze council tax for all residents and for a sixth year for pensioners, and to also freeze fees and charges for residents.

Our strong financial management has also helped us to build up our balances further in the last year to £30.3 million which will help us to continue to deliver those valued services as the period of national austerity is now expected to continue until at least 2018.

We continue to support the borough's older residents, once again offering free burglar alarms, winter heater loans and free swimming. The very popular brown badge parking scheme has been extended to include on-street spaces, making it even easier for older residents to get out and about. More than 1,350 people have also signed up for TeleCareLine of which 696 received this service free of charge; our alarm system supports residents to live independently in their own home for longer.

With an investment of £150 million we have the largest school building programme of its kind in London. This will ensure that all Hillingdon's children have a primary school place near their home.

We are improving our recycling services by increasing the frequency of garden waste collections to weekly and introducing doorstep collections of food waste and textiles.

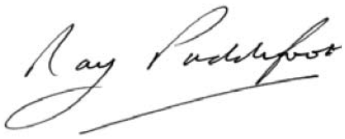
Hillingdon has been awarded more Green Flags for parks and open spaces than any other local authority in the country.

The enhancements to Ruislip Lido continue, with work on-going to make it somewhere residents can be proud to go to and enjoy. Residents are also encouraged to apply for funding from the Chrysalis programme to make environmental improvements to their local area.

When Uxbridge library re-opens early next year we will have refurbished or rebuilt all 17 of the borough’s libraries, we believe this is the only programme of its kind in the country.

As ever our values remain our people, our environment and our heritage, with our approach remaining putting Hillingdon residents first.

Sound financial management has never been as important as it is in the current economic climate and our strength in this area will enable us to continue delivering good quality value for money services.



Councillor Ray Puddifoot
Leader of the Council

2. Explanatory Foreword

This document sets out the annual accounts of the London Borough of Hillingdon for the year ended 31 March 2013. 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 foreword is to provide a guide to the most significant matters reported in the financial statements. Included are a number of technical terms that are specific to local government finance and a glossary has been provided on page 128 to assist the understanding of the financial statements.

The core accounting statements comprise:

Comprehensive Income and Expenditure Statement

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

The statement shows a surplus of £13.5 million on the provision of services for 2012/13.

Adjustments between Accounting Basis and Funding Basis under Regulations

This (Note 1) reports items of income and expenditure that are required to be credited or charged to the General Fund Balance by statute, or non-statutory practices, other than in accordance with IFRS. These are items that are taken into consideration in determining the Council's budget requirement and its Council Tax demand.

Total adjustments for 2012/13 were £5.8 million. This reduces the surplus of £13.5 million to an overall General Fund surplus of £7.7 million.

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 also excludes the Pension Fund assets and liabilities, which have been accounted for on an IAS19 basis.

The total net worth of the Council in 2012/13 was £496.0 million largely constituting non-current assets valued at £1,172.5 million, net pension liabilities of £373.3 million and long term borrowing of £332.9 million.

Movement in Reserves Statement

This splits the Council's reserves into usable and unusable balances, and shows movement into and out of 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.

Usable reserves increased in 2012/13 from £73.8 million in 2011/12 to £99.5 million in 2012/13, however these include £17.2 million of capital grants that will predominantly be applied to the Primary Schools Capital Programme in 2013/14. Unusable reserves decreased from £462.3 million in 2011/12 to £396.5 million in 2012/13.

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 an increase in cash and cash equivalents in 2012/13 of £17.8 million. This was made up of a decrease in cash held of £3.5 million and an increase in cashable short term investments of £21.3 million.

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 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.

There was a surplus in 2012/13 on HRA services of £27.9 million; this is attributable to planned works being re-phased into future years following internal reorganisation of housing services.

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 to amounts to be charged to Housing tenants.

The overall HRA surplus for the year, after adjustments made in the Statement of Movement on the HRA Balance, was £5.7 million in 2012/13.

Collection Fund Revenue Account

The Collection Fund is a separate account into which amounts raised from local taxation are paid. From this, amounts due to preceptors including the Council itself are paid. This account also collects and distributes the national business rates pool, which the Council collects on behalf of central government.

The Collection Fund showed a surplus of £1.0 million in 2012/13. Council Tax income for the year was £144.6 million, which was £2.3 million higher than the amount anticipated at the start of the year.

Pension Fund Accounts

These show contributions to the Council's Pension Fund for employees 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 document also includes the following:

Notes to the Accounts

The notes provide further explanation of figures contained in the core and supplementary accounting statements.

Statement of Accounting Policies

The accounts can be properly appreciated only if the policies that have been followed in dealing with material items are understood. Therefore the Statement of Accounting Policies and various notes to the accounting statements form an integral part of these accounts. There is also a glossary of terms and abbreviations at the end of this document.

Annual Governance Statement

This statement is required under the CIPFA/SOLACE framework ‘Delivering Good Governance in Local Government’. This sets 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.

3. Summary of the Council's Financial Performance

Summary

The financial challenges facing the Council as a result of the Government's austerity programme and the wider economic situation continued through 2012/13, with central government funding continuing to decline in line with the programme of reduction set out in the 2010 Comprehensive Spending Review. Although the resources available to support local services have continued to decline, the Council successfully froze Hillingdon's share of Council Tax for the fourth successive year without impacting on front-line service to the public while managing significant increases in demand for those services.

This balancing of local demand for services and financial constraints has been successfully managed through the Council's Business Improvement Delivery (BID) Programme, which enabled delivery £17,696k savings required to balance the budget while driving improvement in service quality across the Council. The success of the Council's approaches to budget management and service delivery has been borne out by the delivery of this ambitious savings target for 2012/13 while contributing an additional £6,937k to reserves.

The Council's proactive financial management ensured that a balanced revenue budget for 2013/14, including provision for a further Council Tax Freeze, was fully developed by the end of 2012 ensuring that work could commence on delivery of yet another ambitious savings programme in response to further reductions in funding of £7.4m. 2013/14 will also see significant changes to arrangements for Local Council Tax Support and the retention of a share of Business Rates income raised within Hillingdon, both of which are expected to offer both new challenges and opportunities.

Alongside the Council's day to day operations, the £149m programme of investment in expanding Primary School capacity remains a top priority for capital budgets, with additional school places for 5,500 children to be delivered over the next three years.

Revenue Budget

The Council's net revenue budget for 2012/13 totalled £190,668k, 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, frozen for a fourth year.

Throughout the year, monthly budget monitoring reports were reviewed by Cabinet, enabling corrective action to be taken in response to emerging pressures while continuing to deliver on the Council's priorities for residents. This strong financial management, coupled with the ambitious BID Transformation programme, delivered an underspend of £4,811k against budget at outturn – enabling an additional £6,937k to be added to reserves, bringing general reserves to £30,250k at 31 March 2013.

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

General Fund Services	**Budget £'000**	**Outturn £'000**	**Variance £'000**
Administration & Finance	11,883	11,037	(846)
Residents Services	85,158	84,139	(1,019)
Social Care & Health	98,525	98,869	344
Contingencies & Priority Growth	17,372	16,712	(660)
Net Cost of Services	**212,938**	**210,757**	**(2,181)**
Financing Costs	11,419	8,169	(3,250)
IAS 19 Pension Adjustment	2,495	2,495	0
Asset Management A/c	(20,210)	(20,210)	0
Levies & other corp budgets	11,132	11,132	0
Corporate Govt Grants	(29,232)	(29,232)	0
Exceptional Items	0	620	620
Budget Requirement	**(190,668)**	**(190,668)**	
Contributions to/from Balances	2,126	6,937	
General Fund Surplus for 2013/14			**(4,811)**

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

Achievement of a surplus in 2013/14 was a significant achievement, particularly following delivery of £17,696k savings. Variances reported in the above table are explained below:

- An underspend of £846k was reported on Administration & Finance budgets, with the favourable outturn primarily due to early delivery of savings factored into the approved 2013/14 revenue budget.

- An underspend of £1,019k was reported on Residents Services, again primarily from the early delivery of 2013/14 savings particularly in the Education Service as well as from windfall income across the Group. This more than compensated for significant pressures in Imported Food service testing and delays in delivering the savings target transferred into the Group with the Housing Needs service.

- Social Care & Health are reporting a net overspend of £344k (£125k adverse movement) but this included providing £375k towards redundancy costs potentially arising from proposed changes in the structure and delivery of services in the Group. The Social Care & Health position contains significant pressures due to delays in the delivery 2012/13 Supported Housing savings, which have been largely covered by early delivery of other 2013/14 savings.

- In addition, sums set aside to fund new Priority Growth Initiatives were not required in 2012/13 and resources identified to support capital financing costs of new investment in schools were not required, resulting in additional underspends.

Prudent management of the Council's finances to date has ensured the organisation is well placed to meet on-going challenges, with sufficient reserves available to meet risks arising into 2013/14 and beyond.

Reserves

The Council sets aside reserves to meet the costs of unforeseen demands and unpredictable events, such as adverse weather or other business risks. Each year the Corporate Director of Finance reviews the Council's level of reserves and assesses its adequacy, with the appropriate minimum level determined to be £12m for 2012/13. Following outturn unallocated general reserves stood at £30m, with £15m to £30m deemed to be an acceptable range for 2013/14 in light of the new risks and responsibilities transferring to the Council at 1 April 2013.

In addition to such unallocated reserves, General Fund resources earmarked for specific projects and purposes totalled £10m at 31 March 2013, with further monies set aside by schools and from the Housing Revenue Account to manage risks within those services.

Capital Investment

The Council's programme of capital investment for 2012/13 totalled £48,982k (£54,028k in 2011/12) and was funded from a range of funding sources. These included grants (£22,537k), Section 106 & other third party contributions (£4,202k), contributions from revenue resources (£7,073k), proceeds from asset sales (£7,457k) and Prudential Borrowing (£7,713k). In cases where borrowing was undertaken, the subsequent financing costs will be met from identified revenue resources as required by the Prudential Code.

Investment during 2012/13 focused heavily on the Council's major programme of Primary school expansions adding 30.5 forms of entry by 2015, with new places provided for September 2012 and work well underway for further places in 2013 and 2014. While Department for Education funding has been insufficient to manage the full cost of providing schools places for the borough's growing population, the Council's sound financial management has enabled resources to be set aside to ensure this demand is met.

Other projects underway during 2012/13 saw continued investment in services including the on-going libraries refurbishment programme, which will see the Council's 17 libraries upgraded by the end of 2013/14. In addition major investment in the borough's environment, both natural and man-made, continues with significant resurfacing of roads across the borough and on-going investment in open spaces through the Council's flagship Chrysalis programme and other programmes.

Treasury Management

A major focus for treasury management during 2012/13 was to minimise loan interest costs by using internal resources such as reserves, provisions and working capital whilst maintaining sufficient liquidity in lieu of new borrowing for capital purposes. This strategy was also designed to reduce credit risk within the investment portfolio and relieve pressure from the Council’s lending list thus facilitating easy placement of income.

As a consequence of this, no new external borrowing was taken for the General Fund and £10.3m of debt which naturally matured, was not refinanced. Due to high premiums on outstanding debt, there was no debt rescheduling or repayments during 2012/13. The year end loan balance was £346.5m (£93.4m General Fund, £253.1m HRA) at an overall average interest rate of 3.0%. Total interest costs for the year amounted to £10.5m.

At the start of the financial year there were unpaid investments with Icelandic banks: Heritable (£4.75m) and Landsbanki (£3.54m). The administrators of Heritable issued dividends during the year totalling £1.41m leaving an outstanding balance of £3.34m. Total dividends received for Heritable now equate to 77% of the claim value, with an overall total dividend expected of between 86% and 90%. With Landsbanki, dividends were received during the year of £0.9m leaving a balance at year end of £2.6m. Dividends now received total 47% with an expected recovery rate of 100%. An additional 6,962k of Icelandic Krona (ISK) is being held in an Icelandic escrow account. As there are currently controls on the distribution of ISK, these funds will remain in this account until the winding up board has obtained permission from the Central Bank of Iceland (CBI) to pay the money to Creditors. The Local Authorities’ Steering Committee and Bevan Brittan are negotiating with CBI to release funds.

In August 2013 the Council received a further dividend from the administrators of Heritable Bank. Further details are disclosed in Post Balance Sheet Events below.

Collection Fund

The Council is required to manage Council Tax receipts through the collection fund, which due to substantial growth within the borough reported a surplus of £3,687k in 2012/13. This surplus will be shared between the Council and Greater London Authority and available to support local services into 2013/14.

Post Balance Sheet Events

Following the approval of applications for Academy status, four Community schools and two Foundation schools are expected to become Academies during 2013/14. Under Academy status, Community schools would not form part of the Council's accounts and hence will result in significant movements in income, expenditure, schools reserves and current assets for the 2013/14 Statement of Accounts.

The administrators of Heritable Bank issued a dividend of £2.5m in August 2013 bringing the total return to 94% of the claim. As this dividend exceeded previous estimates an impairment reversal of £1.3m was credited to the 2012/13 Income & Expenditure Account with the corresponding entry in the Balance Sheet.

Outlook for the Future

In February 2013 the Council approved the budget for 2013/14, which once again included no increase in the Hillingdon share of Council Tax despite reductions in central government funding of 7% from 2012/13. Beyond 2013/14 all indications are that resources available to provide services will continue to shrink as central government's austerity agenda continues into the next parliament and potentially to the end of this decade.

From 2013/14 the Council has assumed responsibility for administering and delivering a localised Council Tax Reduction scheme following the abolition of Council Tax Benefit. In addition to resulting in a significant transfer of risk to the Council, this new responsibility was transferred with only 90% on funding previously applied to Council Tax Benefit.

A second fundamental change for 2013/14 is the local retention of a share of Business Rates revenue, which provides a mechanism for retaining a share of local economic growth for reinvestment in local services. These reforms will again result in the transfer of risks to the local authority; however will also provide a mechanism for mitigating the impact of continuing government funding reductions through encouraging economic growth.

While Hillingdon faces significant challenges in the medium-term, with economic conditions and reforms to benefits and other public services likely to increase demand for services, the Council's track record for sound financial management and healthy balances is expected to provide a strong basis for overcoming these challenges.

4. Statement of Responsibilities for the Statement of Accounts

1. Council's Responsibilities

   The Council is required to:

   - Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council that officer is The 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

2. 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 2011/12 (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.

3. 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 Great Britain ('the code of practice'), as at 31 March 2012 and its income and expenditure for the year then ended.

Paul Whaymand
CORPORATE DIRECTOR OF FINANCE
26 September 2013

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 26 September 2013.

Signed on behalf of London Borough of Hillingdon

John Morley
CHAIRMAN (AUDIT COMMITTEE)
26 September 2013

5. Independent Auditor's Report to the Members of the London Borough of Hillingdon

Opinion on the Authority accounting statements
We have audited the accounting statements of the London Borough of Hillingdon for the year ended 31 March 2013 under the Audit Commission Act 1998. The accounting statements comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in the General Fund Balance, the Movement in Reserves Statement, the Cash Flow Statement and the related notes 1 to 47, the Housing Revenue Account Comprehensive Income and Expenditure Statement, the Movement on the Housing Revenue Account Balance and related notes 1 to 7 and Collection Fund and the related notes 1 to 7. 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 2011/12.

This report is made solely to the members of the London Borough of Hillingdon in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Finance Officer and auditor
As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements
An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the accounting statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
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 2013 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 2012/13.

Opinion on other matters
In our opinion, the information given in the explanatory foreword and other information included in the Statement of Accounts for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which we report by exception
We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;

- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects

Opinion on the pension fund accounting statements
We have audited the pension fund accounting statements for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26. 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 2012/13.

This report is made solely to the members of the London Borough of Hillingdon in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Finance Officer and auditor
As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund accounting statements
An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the accounting statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on pension fund's accounting statements
In our opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013*,* other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters
In our opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor
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.

We am required under Section 5 of the Audit Commission Act 1998 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 Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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 Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion
On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, we are satisfied that, in all significant respects, the London Borough of Hillingdon has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate
We certify that we have completed the audit of the accounts of the London Borough of Hillingdon in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Heather Bygrave (Engagement lead)
For and on behalf of Deloitte LLP
Appointed Auditor, St Albans, UK
26 September 2013

6. Statement of Accounting Policies

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice 2010/11 (SeRCOP), 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 an accruals and going concern basis.

<u>CAPITAL</u>

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 direct 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;

- All other classes of asset shall be measured at fair value. 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; and

- 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.

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value.

Assets included in the Balance Sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a 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 £10,000 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 does not own foundation school assets and the value of these assets are not included in the Council's balance sheet.

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 and certain Community 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:

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

Where an item of Property, Plant and Equipment asset has major components the cost of which are material (20% or £250k) the asset is split into component parts and depreciated separately. Where component parts are identified, the carrying value of the asset is reviewed and an estimate is made on the carrying amount of the component being replaced and this is then 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.

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. 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 Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses. Depreciation is not charged on Assets Held for Sale.

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 in the Other Operating Expenditure line in 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 £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is 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 Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed 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 to Plant, Property and Equipment with a finite useful life, the amounts are credited to the Comprehensive Income and Expenditure Statement. 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

FRS30 Heritage Assets was adopted by the Council in 2011/12 resulting in Mayoral Regalia and the statue ‘Anticipation’ being brought onto the balance sheet.

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.

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 Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

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 fixed 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 foundation 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.

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 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 £10,000) 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 Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease 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 liability (together with any premiums received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and 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 fixed 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 Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

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 of received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including those rendered by the Council's officers) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for 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.

Where the Council is acting as an agent for another party (e.g. in the collection of National Non-Domestic Rates (NNDR) and Council Tax), income and expenditure are recognised only to the extent that commission is receivable by the Council for the agency services rendered or the Council incurs expenses directly on its own behalf in rendering the services.

9. Acquisitions and Discontinued Operations

The Council's subsidiary, Hillingdon Homes Ltd, was discontinued at the end of September 2010 and services were amalgamated back into the Council. The accounts have been prepared on a single entity basis applying the principles of merger accounting, as set out in Financial Reporting Standard 6 (Acquisitions and Mergers).

10. 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.

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

11. 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.

12. 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 and paid sick leave, flexi 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 or making an offer to encourage voluntary redundancy.

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 three defined benefit pension schemes:

- The Teachers' Pension Scheme;
- The London Borough of Hillingdon 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' scheme is unfunded and administered on behalf of the Department for Children, Schools and Families (DCSF) by Capita Hartshead. The pension cost charged to the accounts is the contribution rate set by the DCSF on the basis of a notional fund.

The Local Government Pension Scheme

- The pension liabilities attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earning 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 seven components:
    - 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 Non Distributed Costs.
    - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
    - Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
    - Gains/losses on settlements and curtailments – the result of action to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited/credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve.
- Contributions paid to 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.

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.

13. 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 commitments are outlined in a note to the accounts.

14. Private Finance Initiative (PFI) Contract

PFI and similar contracts are agreements to receive services, where responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase property, plant and equipment) are balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non current assets recognised on the Balance Sheet are re-valued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five 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.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as a finance lease)
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

15. Government Grants and Contributions

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

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

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 transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Area Based Grant

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

16. 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.

17. Overheads and Support Services

In line with CIPFA recommended practice and complying with the Service Reporting Code of Practice (SERCOP), support service costs are recharged to front line services. The basis of allocation is as follows:

Cost	Basis of Allocation
Central department costs (e.g. Finance & Resources)	Staff numbers
Administrative buildings	Area occupied
Computing and Telephony	Estimated usage

Costs are not allocated in relation to:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on surplus assets in Property, Plant & Equipment.

These two cost categories are defined in SERCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

18. Corporate and Democratic Core

Corporate and Democratic Core services are identified and accounted for separately. These include democratic representation and management and corporate management. They receive recharges of support costs.

19. Non-Distributed Costs

Some costs are not allocated to services and appear under the heading "Non-Distributed Costs" in the Comprehensive Income and Expenditure Statement. These include costs associated with the loss of work or function that cannot be reduced, impairment losses on assets under construction and surplus assets, and revenue costs of holding surplus assets.

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 or are with other Public Sector Bodies except in exceptional circumstances. Of all remaining debts, the Council makes a provision for bad debts based upon continuous reviews on likely recovery undertaken by service managers and supporting finance staff.

Reserves

Amounts set aside for purposes falling outside the definition of provisions or contingent liabilities, required for future policy purposes or to cover contingencies, are treated as reserves. Transfers to and from reserves are distinguished from service expenditure. Expenditure is not charged directly to any reserve.

Revaluation Reserve	Records the accumulated gains on non-current assets held by the Council arising from increases in value. This value is offset by that part of depreciation relating to the revaluation for each asset. Impairments of non-current assets with a previous revaluation gain are written out to the revaluation reserve. This account replaced the Fixed Asset Restatement Account with effect from 1st April 2007. It had a nil balance at 1st April 2007
Capital Adjustment Account	Accumulates resources that have been set aside to finance capital expenditure offset by the write down of historical cost fixed assets (depreciation and impairments) or written off on disposal. This covers both capital assets and expenditure that is capital by statute (revenue expenditure funded from capital under statute).
Capital Receipts Reserve	Includes capital receipts that have not yet been used to finance capital expenditure or to repay debt
Government Grants Unapplied Reserve	Capital grants which are unapplied and do not have a condition to repay the grant, are held in this reserve
Pension Reserve	Represents the surplus or deficit arising from the valuation of pension assets and liabilities of Hillingdon's interests in the London Borough of Hillingdon pension scheme and the London Pension Fund Authority pension scheme
Major Repairs Reserve	A requirement of the HRA resource accounting and holds depreciation charged to the HRA in excess of the major repairs allowance

21. 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.

22. 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.

23. Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at their fair value. They are then carried at their amortised cost. Annual credits are made to the Comprehensive Income and Expenditure Statement for interest receivable and are based on the carrying amount of the asset multiplied by the effective interest rate applicable to the financial instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus any accrued interest. The interest receivable for the year in the loan agreement is credited to the Comprehensive Income and Expenditure Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge is made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-sale Financial Assets

Available-for-sale assets 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. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective interest rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available for Sale Financial Instruments Reserve and the gain/loss is recognised in the Surplus/Deficit on Revaluation of Available for Sale Financial Assets line in the Comprehensive Income and Expenditure Statement. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired due to a past event indicating that amounts due under the contract will not be made or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses previously recognised in the Available for Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

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.

24. Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. 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 effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means the amount presented in the Balance Sheet is the outstanding principal payable plus any accrued interest. The interest payable for the year according to the loan agreement is charged to the Comprehensive Income and Expenditure Statement. However, any stock issued by the Council is carried at a lower amortised cost than the outstanding principal and interest is charged at a marginally higher effective rate of interest than the rate payable to stockholders as a material amount of costs incurred in its issue is being financed over the life of the stock.

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/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.

25. 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.

In addition to the scheduled repayments the Council will also reschedule or redeem debt early as part of the overall management of the portfolio by utilising the Council's ability to repay and/or replace debt based on prevailing market conditions.

26. Minimum Revenue Provision

The Council has to make an annual provision for the repayment of borrowing. For all borrowing prior to 1 April 2009 and borrowing that receives support via the Revenue Support Grant the Council applies the Capital Financing Requirement concept based upon figures from the balance sheet (4% of outstanding debt). For other borrowing, the Council makes provision for the repayment of debt over the life of the asset to which the borrowing is applied.

27. 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 council tax in the core financial statements are:

- In its capacity as a billing authority the Council acts as agent; it collects and distributes council tax income on behalf of the major preceptors and itself.
- While the council tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund 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. 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
- Cash collected from NNDR taxpayers by billing authorities (net of the cost of collection allowance) belongs to the Government and the amount not yet paid to the Government at the Balance Sheet date shall be included in the Balance Sheet as a creditor; similarly, if cash paid to the Government exceeds the cash collected from NNDR taxpayers (net of the billing authority's cost of collection allowance), the excess shall be included in the Balance Sheet as a debtor.

28. 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.

29. 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.

30. 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.

31. 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 2013 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 dependant 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.

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. 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 assumptions interact in complex ways. The actuaries review the assumptions triennially and changes are adjusted for in the accounts.

32. Carbon Reduction Commitment (CRC)

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

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

The following accounting policy changes are not yet reflected in the 2012-13 IFRS Code:

- IAS1 Presentation of Financial Statements (other comprehensive income, June 2011 amendments);
- IFRS7 Financial Instruments: Disclosures (offsetting financial assets and liabilities, December 2011 amendments);
- IAS12 Income Taxes (deferred tax: recovery of underlying assets, December 2010 amendments); and
- IAS19 Employee Benefits (June 2011 amendments).

The 2012/13 Code of Practice does not require the amendments to IAS19 Employee Benefits to be applied in 2012/13. The application of the Standard as revised would not have a material impact on the accounts for 2012/13, were it to be applied this year.

Main Financial Statements

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 Great Britain. Further details of these requirements are detailed in the Statement of Accounting Policies.

These statements are published in accordance with Regulation 11 of the Accounts and Audit Regulations 2003. They summarise the overall financial position of the Council and in particular include the following:

Comprehensive Income and Expenditure Statement (page 35)
This statement 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 37)
This sets out the assets and liabilities of the Council as at 31 March 2013, but excludes the assets and liabilities of pension and trust funds.

Movement in Reserves Statement (page 38)
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 40)
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.

Comprehensive Income and Expenditure Statement

This statement shows the economic cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

		Year Ending 31 March 2013			Year Ending 31 March 2012		
	Note	**Expenditure £000's**	**Income £000's**	**Net Expenditure £000's**	Expenditure £000's	Income £000's	Net Expenditure £000's
EXPENDITURE ON SERVICES							
Central Services to the Public		30,514	25,349	5,165	30,666	25,262	5,404
Culture and Related Services		19,186	3,128	16,058	19,263	2,834	16,429
Environmental and Regulatory Services		33,036	8,340	24,696	33,455	9,289	24,166
Planning Services		5,602	3,689	1,913	5,764	3,338	2,426
Education and Children's Services		239,496	183,645	55,851	281,911	222,398	59,513
Highways and Transport Services		28,301	9,041	19,260	27,882	7,544	20,338
Local Authority Housing (HRA)		28,050	60,928	(32,878)	60,490	57,812	2,678
- Settlement payment to Government for HRA self financing		0	0	0	191,571	0	191,571
Other Housing Services		166,894	153,422	13,472	164,368	149,688	14,680
Adult Social Care		91,958	20,515	71,443	90,502	20,900	69,602
Corporate and Democratic Core		8,237	808	7,429	8,643	702	7,941
Non-Distributed Costs		(6,674)	532	(7,206)	1,148	923	225
COST OF SERVICES		644,600	469,397	**175,203**	915,663	500,690	**414,973**
Other Operating Expenditure	*3*	2,191	0	2,191	1,691	0	1,691
Net loss on disposal of fixed asset		34,746	0	34,746	2,406	0	2,406
Net Financing and Investment Income and Expenditure	*4*	21,679	3,214	18,465	13,311	2,728	10,583
Taxation and Non-Specific Grant Income	*5*	0	244,116	(244,116)	0	256,856	(256,856)
Corporate Amount		58,616	247,330	**(188,714)**	17,408	259,584	**(242,176)**
(SURPLUS)/DEFICIT ON PROVISION OF SERVIC		**703,216**	**716,727**	**(13,511)**	**933,071**	**760,274**	**172,797**
(Surplus)/Deficit on revaluation of Property, Plant and Equipment assets				(5,182)			417
Actuarial loss on pension assets and liabilities	*46/47*			58,859			67,442
(Surplus) on revaluation of available for sale financial assets	*23*			(5)			(20)
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE				**40,161**			**240,636**

Loss on disposal on fixed assets: The net loss on disposal of fixed assets is attributable to the transfer of community schools to academy status.

The deficit for 2011/12 of £172,797k included a single payment to Central Government of £191,571k as settlement on the introduction of HRA self-financing regime. This entry was reversed in the Movement in Reserve Statement. The application of the new regime in 2012/13 has contributed towards a surplus through the non-payment of Housing Subsidy.

Movement in General Fund Balance

The Comprehensive Income and Expenditure Statement shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last 12 months. However the Council is required to raise council tax on a different accounting basis, the main differences being:-

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government scores as an expense in the Comprehensive Income and Expenditure Statement, but is met from the Capital Receipts
- Depreciation and Impairment charges are replaced with the Minimum Revenue Provision to provide for the repayment of debt.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits are earned.

The General Fund Balance compares the Council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

The reconciliation below summarises the differences between the outturn on the Comprehensive Income and Expenditure Statement and the General Fund Balance. Further details are provided in note 1 on page 41.

	Notes	2012/13 £000's	2011/12 £000's
(Surplus)/Deficit for the year on the Comprehensive Income and Expenditure Statement		(13,511)	172,797
Net additional amount required by statute or non-statutory proper practices to be credited to the General Fund balance for the year (Page 43).	*1*	5,846	(175,820)
Increase in General Fund balance for the year		**(7,665)**	**(3,023)**
General Fund balance brought forward		(40,052)	(37,029)
General Fund balance carried forward		**(47,717)**	**(40,052)**
Comprising			
General Fund Balance held by schools	*2*	(14,950)	(16,332)
General Fund Balance generally available for new expenditure	*2*	(32,767)	(23,720)
		(47,717)	**(40,052)**

The Net Cost of Services reported in the Comprehensive Income and Expenditure Statement and the Movement in General Fund Balance differ from those reported internally for resource allocation decisions. Note 28 provides a reconciliation between amounts reported internally to management and those reported in the accounting statements.

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 by the Council.

Reserves are reported in two categories:

The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve 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	At 31st March 2013 £000's	At 31st March 2012 £000's
Property, Plant & Equipment	6	1,163,938	1,178,225
Intangible Assets	11	570	712
Investment properties	10	5,806	5,722
Long Term Investments	12	1,732	2,517
Long Term Debtors	15	405	516
LONG TERM ASSETS		**1,172,451**	**1,187,692**
Inventories	13	255	275
Short Term Debtors	14	22,930	25,413
Short term Investments	12	33,293	39,373
Cash and Cash Equivalents	18	71,972	54,179
Assets held for sale	19	11,539	12,966
CURRENT ASSETS		**139,989**	**132,206**
Short Term Borrowing	12	(11,791)	(11,884)
Short Term Creditors	16	(69,698)	(84,108)
CURRENT LIABILITIES		**(81,489)**	**(95,992)**
Provisions	21	(7,380)	(9,129)
Deferred credits		(87)	(97)
Long term borrowing	12	(332,895)	(343,149)
Long term creditors	17	(3,897)	(3,802)
Capital grant receipts in advance	36	(14,980)	(15,657)
Deferred liabilities	38	(2,473)	(2,735)
Net liabilities related to defined benefit pension schemes	46	(373,262)	(313,199)
LONG TERM LIABILITIES		**(734,974)**	**(687,768)**
NET ASSETS		**495,977**	**536,138**
Usable Reserves	22	99,502	73,819
Unusable Reserves	23	396,475	462,319
TOTAL RESERVES		**495,977**	**536,138**

Paul Whaymand
Corporate Director of Finance
26 September 2013

Movement in Reserves Statement

This statement shows movement in the year on different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves are undertaken by the Council.

	Notes	General Fund Balance	Schools Reserves	Earmarked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Grants Unapplied Reserve	Capital Receipts Reserve	**Total Usable Reserves**	Unusable Reserves	**Total Authority Reserves**
		£000's	£000's	£000's	£000's	£000's	£000's	£000's	**£000's**	£000's	**£000's**
Balance at 31 March 2012		**23,720**	**16,332**	**5,457**	**13,412**	**0**	**14,898**	**0**	**73,819**	**462,319**	**536,138**
Surplus on provision of services		13,511	0	0	0	0	0	0	**13,511**	0	**13,511**
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	0	**0**	(53,672)	**(53,672)**
Total Comprehensive Income and Expenditure		13,511	0	0	0	0	0	0	**13,511**	(53,672)	**(40,161)**
Adjustments between accounting basis & funding basis under regulations	*1*	(169)	0	0	5,677	1,123	2,258	3,283	**12,172**	(12,172)	**0**
Net increase/(decrease) before transfers to earmarked reserves		13,342	0	0	5,677	1,123	2,258	3,283	25,683	(65,844)	(40,161)
Transfers (from)/to Earmarked Reserves	*1&2*	(4,295)	(1,382)	5,677	0	0	0	0	**0**	0	**0**
Increase/(Decrease) in Year		9,047	(1,382)	5,677	5,677	1,123	2,258	3,283	**25,683**	(65,844)	**(40,161)**
Balance at 31 March 2013		**32,767**	**14,950**	**11,134**	**19,089**	**1,123**	**17,156**	**3,283**	**99,502**	**396,475**	**495,977**

Movement in Reserves Statement

	Notes	General Fund Balance	Schools Reserves	Earmarked Reserves	Housing Revenue Account	Capital Grants Unapplied Reserve	Capital Receipts Reserve	**Total Usable Reserves**	Unusable Reserves	**Total Authority Reserves**
		£000's	£000's	£000's	£000's	£000's	£000's	**£000's**	£000's	**£000's**
Balance at 31 March 2011		**16,859**	**20,170**	**3,979**	**12,923**	**594**	**1,823**	**56,348**	**720,426**	**776,774**
(Deficit) on provision of services		(172,797)	0	0	0	0	0	**(172,797)**	0	**(172,797)**
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	**0**	(67,839)	**(67,839)**
Total Comprehensive Income and Expenditure		(172,797)	0	0	0	0	0	**(172,797)**	(67,839)	**(240,636)**
Adjustments between accounting basis & funding basis under regulations	*1*	176,929	0	0	858	14,304	(1,823)	**190,268**	(190,268)	**0**
Net increase/decrease before transfers to earmarked reserves		4,132	0	0	858	14,304	(1,823)	**17,471**	(258,107)	**(240,636)**
Transfers to / (from) Earmarked Reserves	*1 & 2*	2,729	(3,838)	1,478	(369)	0	0	**0**	0	**0**
Increase / (Decrease) in Year		6,861	(3,838)	1,478	489	14,304	(1,823)	**17,471**	(258,107)	**(240,636)**
Balance at 31 March 2012		**23,720**	**16,332**	**5,457**	**13,412**	**14,898**	**0**	**73,819**	**462,319**	**536,138**

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority 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 authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority'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 authority.

	Note	2012/13 £000's	2011/12 £000's
Net (surplus)/deficit on the provision of services	*24*	(13,511)	172,797
Adjust net surplus on the provision of services for non cash movements	*24*	(55,928)	(39,279)
Adjust for items in the net deficit on the provision of services that are investing or financing activities.	*24*	33,023	40,888
Net cash flows from operating activities	*24*	(36,416)	174,406
Net cash flows from investing activities	*25*	656	31,396
Net cash flows from financing activities	*26*	17,967	(217,069)
(Increase) in cash and cash equivalents		**(17,793)**	**(11,267)**
Cash and cash equivalents at the beginning of the reporting period		**(54,179)**	**(42,912)**
Cash and cash equivalents at the end of the reporting period		**(71,972)**	**(54,179)**

Notes to Main Financial Statements

1. 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 Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

2012/13	General Fund Balance £000's	Earmarked GF Reserves £000's	Housing Revenue Account £000's	Capital Grants Unapplied Reserve £000's	Capital Receipts Reserve £000's	Major Repairs Reserve £000's	Unusable Reserves £000's
Adjustments primarily involving the Capital Adjustment Account:							
Amortisation of intangible assets	(279)						279
Depreciation and impairment of non current assets	(7,757)						7,757
Revenue expenditure funded from capital under statute	(6,785)						6,785
Capital grants and contributions applied	29,023			(2,258)			(26,765)
Amounts written off on disposal of non current assets	(34,746)				(12,304)		47,050
Statutory provision for the financing of capital investment	11,820						(11,820)
Capital expenditure charged in year to the General Fund balance	2,694						(2,694)
Finance Lease Principal	388						(388)
Gain/Loss Investment Property	206						(206)
Other Income	706						(706)
Balance B/fwd	**(4,730)**	**0**	**0**	**(2,258)**	**(12,304)**	**0**	**19,292**

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2012/13 Continued	General Fund Balance £000's	Earmarked GF Reserves £000's	Housing Revenue Account £000's	Capital Grants Unapplied Reserve £000's	Capital Receipts Reserve £000's	Major Repairs Reserve £000's	Unusable Reserves £000's
Balance C/fwd	**(4,730)**	**0**	**0**	**(2,258)**	**(12,304)**	**0**	**19,292**
Adjustments primarily involving the Capital Receipts Reserve:							
Use of Capital Receipts Reserve to finance new capital expenditure					7,457		(7,457)
Transfer from capital receipts reserve to meet payments to the housing capital receipts pool	(1,564)				1,564		
Adjustments primarily involving the Financial Instruments Adjustment Account:							
Premiums and discounts	12						(12)
Adjustments primarily involving the Pensions Reserve:							
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	(22,410)						22,410
Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	21,206						(21,206)
Balance B/fwd	**(7,486)**	**0**	**0**	**(2,258)**	**(3,283)**	**0**	**13,027**

Continued on next page

Notes to Main Financial Statements

2012/13 Continued	General Fund Balance £000's	Earmarked GF Reserves £000's	Housing Revenue Account £000's	Capital Grants Unapplied Reserve £000's	Capital Receipts Reserve £000's	Major Repairs Reserve £000's	Unusable Reserves £000's
Balance C/fwd	**(7,486)**	**0**	**0**	**(2,258)**	**(3,283)**	**0**	**13,027**
Adjustments primarily involving the Collection Fund Adjustment Account:							
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	740						(740)
Adjustments primarily involving the Accumulated Absences Account:							
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	1,238						(1,238)
Other adjustments							
Transfer to Major Repairs Reserve						(1,123)	1,123
Housing Revenue Account balance	5,677		(5,677)				
Net transfer (to) or from earmarked reserves	5,677	(5,677)					
Total Adjustments	**5,846**	**(5,677)**	**(5,677)**	**(2,258)**	**(3,283)**	**(1,123)**	**12,172**

2011/12 comparatives	General Fund Balance £000's	Earmarked GF Reserves £000's	Housing Revenue Account £000's	Capital Grants Unapplied Reserve £000's	Capital Receipts Reserve £000's	Unusable Reserves £000's
Adjustments primarily involving the Capital Adjustment Account:						
Amortisation of intangible assets	(304)					304
Depreciation and impairment of non current assets	(28,568)					28,568
Revenue expenditure funded from capital under statute	(7,181)					7,181
Capital grants and contributions	40,364			(14,304)		(26,060)
Amounts written off on disposal of non current assets	(2,407)				(3,181)	5,588
Statutory provision for the financing of capital investment	4,180					(4,180)
Capital expenditure charged in year to the General Fund balance	2,033					(2,033)
Finance Lease Principal	431					(431)
Gain/Loss Investment Property	454					(454)
Housing Reform Settlement	(191,571)					191,571
Balance B/fwd	**(182,569)**	**0**	**0**	**(14,304)**	**(3,181)**	**200,054**

Continued on next page

Notes to Main Financial Statements

2011/12 Comparatives Continued	General Fund Balance £000's	Earmarked GF Reserves £000's	Housing Revenue Account £000's	Capital Grants Unapplied Reserve £000's	Capital Receipts Reserve £000's	Unusable Reserves £000's
Balance C/fwd	**(182,569)**	**0**	**0**	**(14,304)**	**(3,181)**	**200,054**
Adjustments primarily involving the Capital Receipts Reserve:						
Use of Capital Receipts Reserve to finance new capital expenditure					4,974	(4,974)
Transfer from capital receipts reserve to meet payments to the housing capital receipts pool	(1,059)				1,059	
Other Income	1,031				(1,029)	(2)
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Premiums and discounts	12					(12)
Adjustments primarily involving the Pensions Reserve:						
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	(19,325)					19,325
Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	22,014					(22,014)
Balance B/fwd	**(179,896)**	**0**	**0**	**(14,304)**	**1,823**	**192,377**

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2011/12 Continued	General Fund Balance £000's	Earmarked GF Reserves £000's	Housing Revenue Account £000's	Capital Grants Unapplied Reserve £000's	Capital Receipts Reserve £000's	Unusable Reserves £000's
Balance C/fwd	**(179,896)**	**0**	**0**	**(14,304)**	**1,823**	**192,377**
Adjustments primarily involving the Collection Fund Adjustment Account:						
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	1,531					(1,531)
Adjustments primarily involving the Accumulated Absences Account:						
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	578					(578)
Other adjustments						
Housing Revenue Account balance	489		(489)			
Net transfer (to) or from earmarked reserves	1,478	(1,478)				
Total Adjustments	**(175,820)**	**(1,478)**	**(489)**	**(14,304)**	**1,823**	**190,268**

2. EARMARKED RESERVE TRANSFERS

	At 31 March 2013 £000's	Transfers Out 2012/13 £000's	Transfers In 2012/13 £000's	At 31 March 2012 £000's	Transfers Out 2011/12 £000's	Transfers In 2011/12 £000's	At 31 March 2011 £000's
General Fund :							
- Schools delegated funds	14,950	(1,382)	0	16,332	(3,838)	0	20,170
- Working balance	32,767	0	9,047	23,720	0	6,861	16,859
Total	**47,717**	**(1,382)**	**9,047**	**40,052**	**(3,838)**	**6,861**	**37,029**
Earmarked Reserves:							
- Abbotsfield School	94	(865)	494	465	0	465	0
- Backdated Council Tax Benefit	180	0	180	0	0	0	0
- Capital Investment Pump Priming	1,000	0	1,000	0	0	0	0
- Children Services Reserves	205	0	205	0	(310)		310
- Elections	280	0	72	208	0	208	0
- Environmental Waste	470	0	386	84	0	84	0
- Grant Funded Reserve	2,188	(200)	1,308	1,080	(1,048)	639	1,489
- Highways Management	909	0	111	798	(694)	60	1,432
- Housing	830	0	830	0	0	0	0
- HS2 Contingency	129	0	129	0	0	0	0
- Insurance Provision	1,220	(287)	1,200	307	0	257	50
- Leisure Facilities Reserve	11	(899)	436	474	0	76	398
- Libraries Reserve	81	(15)	0	96	(43)	0	139
- Miscellaneous	1,947	(59)	929	1,077	0	977	100
- Music Bursary Fund	350	0	175	175	0	175	0
- Ward Budget Initiative	125	(138)	0	263	0	263	0
- Workforce Restructure	400	0	400	0	0	0	0
Total	**10,419**	**(2,463)**	**7,855**	**5,027**	**(2,095)**	**3,204**	**3,918**
- Housing Revenue Account	19,089	0	5,677	13,412	0	489	12,923
- HRA Repairs and Investments	669	0	669	0	0	0	0
- HRA Earmarked Reserves	46	(384)	0	430	0	369	61
Total	**19,804**	**(384)**	**6,346**	**13,842**	**0**	**858**	**12,984**
	77,940	**(4,229)**	**23,248**	**58,921**	**(5,933)**	**10,923**	**53,931**

Specific Reserves

Schools delegated funds - Schools are able to carry forward unspent balances of delegated budgets. These balances are committed to be spent by the schools concerned and are not available to the Council for general use.

Abbotsfield School - Funds set aside for urgent building works.

Backdated Council Tax Benefit - Funds set aside for Backdated Council Tax Benefit Awards

Capital Investment Pump Priming - Pump Priming for St. Andrews Site

Children Services Reserves - Grant income set aside to fund future expenditure relating to Children Services.

Elections - Council elections occur every four years. An amount is set aside each year from the Council's budget to meet the cost of elections.

Environmental Waste - Funds set aside for Capital Development at New Years Green Lane and WLWA

Grant Funded Reserves - Various grant income received in year set aside to fund future expenditure.

Highways Management - Funds set aside for maintenance and improvement of Highways management.

Housing - Funds set aside towards maintenance and development of housing stock.

HS2 Contingency - Funds set aside for HS2 impact.

Insurance Provision - Funds set aside to cover future insurance liabilities including part of previous provision for Municipal Mutual Insurance (MMI).

Leisure Facilities Reserve - Surplus from outsourcing set aside for reinvestment in the service.

Libraries Reserve - Surplus from Libraries are set aside for reinvestment in the service.

Miscellaneous - Funds set aside to cover various planned future expenditure.

Music Bursary Fund - Resources to be used in the review of the music service.

Ward Budget Initiative - Funds set aside to finance ward specific projects.

Workforce Restructure - Earmarked Reserve for Council Transformation Programme.

HRA - Grant income set aside to fund future expenditure relating to the Housing Revenue Account and building improvements

3. OTHER OPERATING EXPENDITURE

	2012/13 £000's	2011/12 £000's
Payments to Government Housing Capital Receipts Pool	1,564	1,059
Precepts and Levies	627	632
Total	**2,191**	**1,691**

4. NET FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2012/13 £000's	2011/12 £000's
Interest payable and Similar Charges	11,525	7,239
Interest receivable	(2,302)	(1,243)
Pensions interest cost and expected return on pension assets	10,154	6,072
Changes in the fair value of investment properties	(206)	(454)
Other income	(706)	(1,031)
Total	**18,465**	**10,583**

5. TAXATION AND NON-SPECIFIC GRANT INCOME

	2012/13 £000's	2011/12 £000's
Council tax income	(113,629)	(110,405)
Non domestic rates	(79,004)	(65,599)
Non-ringfenced government grants	(28,883)	(45,385)
Capital grants & contributions	(22,600)	(35,467)
Total	**(244,116)**	**(256,856)**

6. MOVEMENT OF PROPERTY, PLANT & EQUIPMENT 2012/13

	Council Dwellings £000's	Other Land & Buildings £000's	Vehicles, Plant & Equipment £000's	Infrastructure Assets £000's	Community Assets £000's	Assets Under Construction £000's	Surplus Assets £000's	Total Plant, Property & Equipment £000's
Cost or Valuation as at 1 April 2012	503,752	505,969	52,680	222,855	10,253	12,432	10,675	**1,318,616**
Additions	1,614	22,999	8,096	4,178	391	4,634	3	**41,915**
Donations	0	0	0	0	0	0	0	**0**
Revaluation (decreases)/increases recognised in Revaluation Reserve	0	3,343	323	0	0	0	200	**3,866**
Revaluation (decreases)/increases recognised in Surplus/Deficit on the Provision of Services	11,909	(1,522)	0	0	(51)	0	0	**10,336**
Derecognition - Disposals	(2,630)	(42,311)	(3,877)	0		(319)	0	**(49,137)**
Derecognition - Other	8,355	(3,691)	1,165	0	(620)	(5,646)	437	**0**
Assets reclassified (to) & from Held for Sale & Investment Properties	0	93	0	0	0	(1,331)	(447)	**(1,685)**
Other Movements in Cost Valuation	0	(104)	0	0	0	0	(5)	**(109)**
Cost of Valuation as at 31 March 2013	**523,000**	**484,776**	**58,387**	**227,033**	**9,973**	**9,770**	**10,863**	**1,323,802**
Accumulated Depreciation & Impairment at 1 April 2012	(8,581)	(17,623)	(38,150)	(75,947)	0	0	(90)	**(140,391)**
Depreciation charge for 2012/13	(8,537)	(10,490)	(2,828)	(5,520)	0	0	(121)	**(27,496)**
Depreciation written out to revaluation reserve	0	1,333	0	0	0	0	0	**1,333**
Depreciation written out to Surplus/Deficit on Services	0	436	0	0	0	0	0	**436**
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	**0**
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	**0**
Derecognition - Disposals	0	2,387	3,758	0	0	0	0	**6,145**
Derecognition - Other	0	148	0	0	0	0	(39)	**109**
Other Movements in Depreciation & Impairment	0	0	0	0	0	0	0	**0**
Accumulated Depreciation & Impairment at 31 March 2013	(17,118)	(23,809)	(37,220)	(81,467)	0	0	(250)	**(159,864)**
Balance Sheet amount 1 April 2012	495,171	488,346	14,530	146,908	10,253	12,432	10,585	**1,178,225**
Balance Sheet amount 31 March 2013	**505,882**	**460,967**	**21,167**	**145,566**	**9,973**	**9,770**	**10,613**	**1,163,938**
Nature of asset holding								
Owned	505,882	458,544	20,854	145,566	9,973	9,770	10,613	**1,161,202**
Finance Lease	0	0	313	0	0	0	0	**313**
PFI	0	2,423	0	0	0	0	0	**2,423**
Balance Sheet amount 31 March 2013	**505,882**	**460,967**	**21,167**	**145,566**	**9,973**	**9,770**	**10,613**	**1,163,938**

Of the £43.0m written out for disposals, £38.4m relates to community schools converting to academy status

Notes to Main Financial Statements

6. MOVEMENT OF PROPERTY, PLANT & EQUIPMENT 2011/12

	Council Dwellings £000's	Other Land & Buildings £000's	Vehicles, Plant & Equipment £000's	Infrastructure Assets £000's	Community Assets £000's	Assets Under Construction £000's	Surplus Assets £000's	Total Plant, Property & Equipment £000's
Gross book value as at 1 April 2011	495,142	495,237	48,205	217,357	14,395	7,918	18,177	**1,296,431**
Additions	8,001	17,856	1,908	5,498	132	13,409	5	**46,809**
Derecognition - Disposals	(728)	(2,829)	0	0	0	0	0	**(3,557)**
Reclassifications	7,868	4,800	2,389	0	(1,407)	(9,275)	(4,375)	**0**
Revaluation (decreases)/increases recognised in Revaluation Reserve	(6,531)	870	178	0	0	0	300	**(5,183)**
Revaluation decreases recognised in Surplus/Deficit on the Provision of Services	0	(6,206)	0	0	(2,867)	0	(46)	**(9,119)**
Assets reclassified (to) & from Held for Sale & Investment	0	(3,759)	0	0	0	380	(3,386)	**(6,765)**
Gross book value as at 31 March 2012	**503,752**	**505,969**	**52,680**	**222,855**	**10,253**	**12,432**	**10,675**	**1,318,616**
Depreciation								
Accumulated at 1 April 2011	0	(10,199)	(35,257)	(70,571)	0	0	(324)	**(116,351)**
Depreciation charge for 2011/12	(8,581)	(9,647)	(2,767)	(5,376)	0	0	(136)	**(26,507)**
Depreciation written out to revaluation reserve	0	1,696	0	0	0	0	281	**1,977**
Depreciation written out to Surplus/Deficit on Services	0	406	0	0	0	0	0	**406**
Reclassifications	0	121	(126)	0	0	0	89	**84**
Accumulated at 31 March 2012	(8,581)	(17,623)	(38,150)	(75,947)	0	0	(90)	**(140,391)**
Balance Sheet amount 1 April 2011	495,142	485,038	12,948	146,786	14,395	7,918	17,853	**1,180,080**
Balance Sheet amount 31 March 2012	**495,171**	**488,346**	**14,530**	**146,908**	**10,253**	**12,432**	**10,585**	**1,178,225**
Nature of asset holding								
Owned	495,171	485,670	14,082	146,908	10,253	12,432	10,585	**1,175,101**
Finance Lease	0	0	448	0	0	0	0	**448**
PFI	0	2,676	0	0	0	0	0	**2,676**
Balance Sheet amount 31 March 2012	**495,171**	**488,346**	**14,530**	**146,908**	**10,253**	**12,432**	**10,585**	**1,178,225**

Additionally, PFI assets with a gross book value of £6,052k and accumulated depreciation of £3,376k are included in other Land & Buildings.

7.VALUATION OF LONG TERM ASSETS CARRIED AT CURRENT VALUE

The freehold and leasehold properties which comprise the Council's property portfolio have been valued as at 1 April 2012 by the Estate and Valuation service of the council. Revaluations are made on a rolling five year period. The only external valuation included is of Council dwellings which were revalued as at 1 April 2010 by King Sturge. A valuation certificate has been given by the estates manager that the properties have been valued in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors, and with guidance notes issued by the Chartered Institute of Public Finance and Accountancy. Property inspections, in accordance with the rolling valuation programme, were carried out between April 2012 and March 2013. Full details of the basis of valuation for each asset category is provided in the statement of accounting policies (page 16).

	Council Dwellings £000's	Other Land & Buildings £000's	Vehicles, Plant & Equipment £000's	Surplus Assets £000's	Total £000's
Value at historical cost	0	0	21,167	0	**21,167**
Last valued in 2012/2013	10,711	(27,379)	0	28	**(16,640)**
Last valued in 2011/2012	29	3,308	0	(7,268)	**(3,931)**
Last valued in 2010/2011	495,142	131,738	0	0	**626,880**
Last valued in 2009/2010	0	238,590	0	3,637	**242,227**
Last valued in 2008/2009	0	114,710	0	14,216	**128,926**
Total	505,882	460,967	21,167	10,613	**998,629**

8.REVALUATION LOSSES/GAINS RECOGNISED IN CI&E STATEMENT

During 2012/13, the Council has recognised total revaluation losses of £51,785k (£12,831k in 2011/12), which were fully charged to the relevant service lines in the Comprehensive Income and Expenditure Statement. Of this, £44,762k represents the value of schools written out of the Council's balance sheet on transferring to academy status. The Council recognised valuation gains of £18,260k representing the reversal of previously recognised losses. These entries were then reversed through the Movement in Reserves Statement to mitigate any impact on General Fund and Housing Revenue Account Balances.

9. COMMITMENTS UNDER CAPITAL CONTRACTS

At 31 March 2013, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2012/13 and future years budgeted to cost £14,917k. Similar commitments at 31 March 2012 were £20,291k. The major commitments occur:

Year	31 March 2013 £000's	31 March 2012 £000's
2012/13	0	19,718
2013/14	14,344	573
2014/15	573	0
	14,917	**20,291**

Capital commitments at 31 March 2013 include £9,857k school expansions, £2,015k new vehicles and £3,045k for other capital projects.

10. INVESTMENT PROPERTIES

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

	2012/13 £000's	2011/12 £000's
Rental income from investment property	(449)	(449)
Direct operating expenses arising from investment property	66	88
Net gain	**(383)**	**(361)**

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 properties.

The following table summarises the movement in the fair value of investment properties over the year.

	2012/13 £000's	2011/12 £000's
Opening Balance	5,722	5,725
Net gains from fair value adjustments	206	454
Transfers:		
- to Property, Plant and Equipment	(122)	(457)
Closing Balance	**5,806**	**5,722**

11. INTANGIBLE ASSETS

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets are all purchased software licences as opposed to internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The current useful lives assigned to all software is 5 years.

The carrying amount of intangible assets is amortised on a straight-line basis, to the following service headings:

	2012/13 £000's	2011/12 £000's
Service		
Central Services to the Public	93	93
Cultural, Environment and Planning	184	189
Adult Social Care	2	22
Total	**279**	**304**

The movement on Intangible Asset balances during the year is as follows:

Software	2012/13 £000's	2011/12 £000's
Gross carrying amounts	2,494	2,456
Accumulated amortisation	(1,782)	(1,478)
Net carrying amount at the start of the year	**712**	**978**
Purchases	137	38
Amortisation for the period	(279)	(304)
Net carrying amount at end of year	**570**	**712**
Comprising		
Gross carrying amounts	2,631	2,494
Accumulated amortisation	(2,061)	(1,782)
Total	**570**	**712**

12. FINANCIAL INSTRUMENT BALANCES

	Note	Current		Long-Term		Total	
		31 March 2013	31 March 2012	**31 March 2013**	31 March 2012	**31 March 2013**	31 March 2012
	Note	**£000's**	£000's	**£000's**	£000's	**£000's**	£000's
Investments							
Loans and receivables at nominal value		34,739	42,371	1,626	2,415	36,365	44,786
Available-for-sale financial assets		0	0	106	102	106	102
Impairment		(1,760)	(3,463)	0	0	(1,760)	(3,463)
Accrued Interest		111	64	0	0	111	64
Accrued notional Icelandic interest		203	401	0	0	203	401
Total investments		**33,293**	**39,373**	**1,732**	**2,517**	**35,025**	**41,890**
Cash Equivalents							
Cash in hand		15,968	19,471	0	0	15,968	19,471
Loans and receivables at nominal		25,900	8,500	0	0	25,900	8,500
Available-for-sale financial assets		30,100	26,200	0	0	30,100	26,200
Accrued Interest		4	8	0	0	4	8
Total Cash Equivalents	*18*	**71,972**	**54,179**	**0**	**0**	**71,972**	**54,179**
Trade Receivables							
Loans and receivables		8,296	11,724	393	414	8,689	12,138
Total Financial Instrument Debtor		**8,296**	**11,724**	**393**	**414**	**8,689**	**12,138**
Borrowings							
Financial liabilities at nominal cost		6,778	6,778	151,655	158,434	158,433	165,212
HRA Reform Settlement		3,500	3,500	184,571	188,071	188,071	191,571
Premium		0	0	(3,331)	(3,356)	(3,331)	(3,356)
Accrued Interest		1,513	1,606	0	0	1,513	1,606
Total borrowings	*43*	**11,791**	**11,884**	**332,895**	**343,149**	**344,686**	**355,033**
Other Long Term Liabilities							
PFI and finance lease liabilities		263	389	2,473	2,735	2,736	3,124
Total other long term liabilities	*39*	**263**	**389**	**2,473**	**2,735**	**2,736**	**3,124**
Trade Payables							
Financial liabilities at amortised cost		40,875	43,420	17,355	18,206	58,230	61,626
Total Financial Instrument Creditor		**40,875**	**43,420**	**17,355**	**18,206**	**58,230**	**61,626**
Net Total		**60,632**	**49,583**	**(350,598)**	**(361,159)**	**(289,966)**	**(311,576)**

Notes to 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:

	2012/13				2011/12			
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and Receivables	Financial Assets: Available for Sale	Total	Financial Liabilities measured at amortised cost	Financial Assets: Loans and Receivables	Financial Assets: Available for Sale	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Interest expense	(10,521)	0	0	(10,521)	(6,087)	0	0	(6,087)
Total expense in Surplus or Deficit on the Provision of Services	**(10,521)**	**0**	**0**	**(10,521)**	**(6,087)**	**0**	**0**	**(6,087)**
Interest income	0	798	0	798	0	816	0	816
Notional Icelandic Interest	0	203	0	203	0	401	0	401
Impairment Adjustment	0	1,301	0	1,301	0	0	0	0
Total income in Surplus or Deficit on the Provision of Services	**0**	**2,302**	**0**	**2,302**	**0**	**1,217**	**0**	**1,217**
Gains on revaluation	0	0	5	5	0	0	20	20
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	**0**	**0**	**5**	**5**	**0**	**0**	**20**	**20**
PFI Interest	(926)	0	0	(926)	(981)	0	0	(981)
Other	(78)	0	0	(78)	(82)	0	0	(82)
Net (loss)/gain for the year	**(11,525)**	**2,302**	**5**	**(9,218)**	**(7,150)**	**1,217**	**20**	**(5,913)**

FAIR VALUES OF ASSETS AND LIABILITIES

Financial liabilities, financial assets represented by loans, receivables, long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming the transaction were negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price. The fair value of a financial instrument on initial recognition is generally the transaction price.

The fair value of an instrument is determined by calculating the Net Present Value of future cashflows 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 OF LIABILITIES CARRIED AT AMORTISED COST

	31 March 2013		31 March 2012	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	£000's	**£000's**	£000's	£000's
PWLB (Maturity Fixed)	147,530	151,454	150,567	146,356
PWLB (Maturity Variable)	40,002	39,864	40,003	39,825
PWLB (EIP Fixed)	98,035	97,378	103,838	97,975
PWLB (EIP Variable)	10,503	10,470	12,004	11,956
Market	48,616	68,165	48,621	68,033
Total Financial Liabilities	**344,686**	**367,331**	**355,033**	**364,145**
Trade Payables	58,230	58,230	61,626	61,626

The fair value of the liabilities is higher than the 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. This shows a notional future loss (based on economic conditions at 31 March 2013) arising from a commitment to pay interest to lenders above current market rates.

Financial Liabilities 2012/13

- Public Works Loan Board (PWLB)

The rate at which new borrowing could be undertaken has been used as the discount factor for all PWLB borrowing. This approach has been applied to maintain consistency with discount factor proxies used for other types of fair value calculations. The new borrowing rate is used to calculate the notional interest gain/loss that will accrue if the council keeps the loan until maturity.

- Market

Requests were made directly for market loan fair values, however this information is not available in all cases, hence a consistent methodology was applied to all market loans. The fair values of long-term “Lender’s Option Borrower’s Option” (LOBO) loans have been calculated by discounting the contractual cash flows over the whole life of the instrument at the appropriate interest rate SWAP rate and adding the value of the embedded options. The Lender’s options to propose an increase to the interest rate on the loan have been valued according to Bloomberg’s proprietary model for Bermudan cancellable swaps. The 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.

- Trade Payables

The fair value of trade payables is taken to be the invoiced or billed amount.

Financial Assets 2012/13

The Council's current portfolio of investments may include instruments where the calculation of fair value replicates the carrying amount on the balance sheet.

To ascertain fair values, financial assets have been divided into five categories:

- Maturities within 12 months

Following IFRS Code of Practice guidance for instruments that mature within 12 months (short term) the carrying amount is assumed to approximate fair value.

- Impaired Investments

When assessing an impairment, identifying or estimating the recoverable amount or fair value is fundamental. Impairments have been calculated with reference to CIPFA guidance (LAAP Bulletin 82 updates). By applying this to the amortised value of the investment the resulting balance is assumed to be the fair value.

- Available for Sale investments

Available for sale assets and liabilities are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

- Long Term Investments

The fair value is normally calculated based on an equivalent SWAP rate, however as at 31 March 2013 the Council did not hold any long term investments other than those disclosed under impaired investments and available for sale investments.

- Trade Receivables

The fair value of trade receivables is taken to be the invoiced or billed amount.

FAIR VALUE OF ASSETS CARRIED AT AMORTISED COST

	31 March 2013		31 March 2012	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	£'000s	**£'000s**	£000's	£000's
Short Term	89,297	89,297	74,081	74,081
Long Term	1,626	1,626	2,415	2,415
Available for Sale	106	106	102	102
Financial Assets	**91,029**	**91,029**	**76,598**	**76,598**
Trade Receivables	8,689	8,689	12,138	12,138

ICELANDIC IMPAIRMENTS

At the commencement of 2012/13 the Council had a balance of unpaid deposits with Heritable Bank of £4,750k and Landsbanki Islands of £3,536k. During the year dividends were received from the administrators of Heritable Bank totalling £1,412k representing 9.36% of the claim and dividends were received from Landsbanki Islands totalling £909k representing 18.02% of the claim. In addition, 6,962k of Icelandic Krona (ISK) is being held in an Icelandic escrow account. As there are currently controls on the distribution of ISK, the funds will remain in this account until the winding up board has obtained permission from the Central Bank of Iceland (CBI) to pay the money to Creditors.

In 2010/11 the Council made a charge to the Comprehensive Income and Expenditure Account representing an estimated final impairment of £2,500k based on recovery rates published by CIPFA (LAAP 82 bulletin update). In August 2013 however, the Council received a further dividend from Heritable of £2.5m which exceeded previous estimates. This event necessitated a post balance sheet impairment reversal leaving a £0.9m impairment against Heritable Bank. A revised recovery rate of 100% has been issued for Landsbanki but the Council still considers it prudent to leave a £0.25m impairment at the present time due to economic uncertainties within the Eurozone, foreign currency exchange rates risk and fluctuating asset values.

Impairments are calculated using a discounted cash flow calculation with interest credited back each year until the relevant banks' books are closed. In accordance with accounting policies £203k of notional interest was credited to the Comprehensive Income and Expenditure Statement during 2012/13.

HERITABLE BANK

Heritable Bank is a UK registered bank under Scottish law. The company was placed in administration on 7 October 2008. To date, dividends received total £11,662k which represents 77.28% of the claim value. The remaining dividends are to be received during 2013/14.

LANDSBANKI

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (New Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. Old Landsbanki’s affairs are being administered under Icelandic law.

In 2011 The Icelandic Supreme Court awarded priority status for local authority deposits. Following that decision the Winding Up Board of Landsbanki have made dividend payments totalling £2,373k which represents 47.06% of the claim value. The future pattern of distributions by the Landsbanki Winding Up Board is not known, but regular payments are expected with the final dividend being made in 2018.

13. INVENTORIES

	Consumable Stores		Maintenance Materials		Total	
	2012/13 £000's	2011/12 £000's	2012/13 £000's	2011/12 £000's	2012/13 £000's	2011/12 £000's
Balance outstanding at start of year	100	82	175	150	275	232
Purchases	1,259	1,081	468	419	1,727	1,500
Recognised as expense in year	(1,268)	(1,063)	(479)	(394)	(1,747)	(1,457)
Balance outstanding at year-end	**91**	**100**	**164**	**175**	**255**	**275**

14. SHORT TERM DEBTORS

	2013 £000's	2012 £000's
Central Government Bodies	6,404	7,985
Allowance for Impairment	(249)	(128)
Central Government Bodies net of Impairment	**6,155**	**7,857**
Other local authorities	**1,393**	**2,705**
NHS bodies	335	25
Allowance for Impairment	(331)	0
NHS bodies	**4**	**25**
Housing rents	4,586	7,099
Allowance for Impairment	(3,294)	(4,521)
Housing rents net of Impairment	**1,292**	**2,578**
Council taxpayers	10,202	8,637
Allowance for Impairment	(6,518)	(5,961)
Council taxpayers net of Impairment	**3,684**	**2,676**
Other entities and individuals	21,433	20,091
Allowance for Impairment	(11,031)	(10,519)
Other entities and individuals net of Impairment	**10,402**	**9,572**
Total Debtors	44,353	46,542
Less: Provision for doubtful debts	(21,423)	(21,129)
	22,930	**25,413**

15.LONG TERM DEBTORS

	2013 £000's	New Advances £000's	Repayments £000's	2012 £000's
Housing advances & associations	9	0	(3)	12
Sale of Council houses	87	0	(12)	99
Long term payments in advance	52	0	(51)	103
Other loans & advances	257	0	(45)	302
	405	**0**	**(111)**	**516**

16.SHORT TERM CREDITORS

	2013 £000's	2012 £000's
Council taxpayers	(2,833)	(2,733)
Central Government departments	(4,871)	(7,977)
NHS Bodies	(1,526)	(1,469)
Housing Rents	(575)	(523)
Non-domestic rates pool	(20,196)	(27,197)
Other Local Authorities	(4,607)	(3,789)
Sundry Creditors	(35,090)	(40,420)
	(69,698)	**(84,108)**

17.LONG TERM CREDITORS

Long Term Creditors consist of balances held under Section 106 and 278 Agreements and deposits which would become repayable after more than 1 year. These amount to £3,897k at 31 March 2013 (£3,802k at 31 March 2012).

18. CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is made up of the following elements:

	2013 £000's	2012 £000's
Cash held by the Council	15,968	19,471
Instant Access Accounts	56,004	34,708
Total Cash and Cash Equivalents	**71,972**	**54,179**

19. ASSETS HELD FOR SALE

At 31 March 2013 the Council held £14,209k of non-current assets which were available for immediate disposal and being actively marketed. It is expected that the carrying value of these assets will be recovered through proceeds of sale rather than through continuing use.

	Current	
	At 31 March 2013 £000's	At 31 March 2012 £000's
Balance outstanding at start of year	12,966	6,996
Assets newly classified as held for sale:		
Property Plant & Equipment	1,807	7,222
Revaluation gains	348	1,145
Impairment losses	0	(182)
Assets sold	(3,727)	(2,217)
Other movements	145	2
	11,539	**12,966**

20. HERITAGE ASSETS

At 31 March 2013 the Council held Civic Regalia and a statue 'Anticipation' that were insured for £501k. As neither a current market valuation, nor a replacement cost are available, this insurance value has been used as the basis for valuation and is included under Vehicle, Plant and Equipment within Fixed Assets. In addition the Council holds an 18th Century stable block within the grounds of Cranford Park alongside a collection of antique farm equipment. 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.

	Non Current	
	At 31 March 2013 £000's	At 31 March 2012 £000's
Balance at start of year	178	0
Assets newly classified as Heritage Assets	0	178
Increase/(Decrease) in value	323	0
Balance at end of year	**501**	**178**

21. PROVISIONS

	Balance at 31 March 2013 £000's	Additional provisions made in 2012/13 £000's	Amounts used in 2012/13 £000's	Unused amounts reversed in 2012/13 £000's	Balance at 1 April 2012 £000's
- Adult Services	358	309	0	0	49
- Highways - Carriage and Pavement Trips and Vehicle Damage	1,339	0	(430)	0	1,769
- Hillingdon Housing Services	203	0	(61)	0	264
- Housing - Other	5	0	(117)	0	122
- Schools and Other Education Establishments	416	0	(167)	0	583
- Tree Damage	336	0	(190)	0	526
- Motor Vehicles	173	78	0	0	95
- Other Establishments	829	132	0	0	697
Total Insurance Provision	**3,659**	**519**	**(965)**	**0**	**4,105**
Housing Repairs Claim	1,000	1,000	0	0	0
MMI	1,222	0	0	(1,207)	2,429
Housing Benefits Subsidy Claim	0	0	0	(1,164)	1,164
CRC Allowance Purchase	328	328	(362)	0	362
Section 117 Mental Health Act	268	0	(63)	0	331
Dilapidation Provision	639	596	(180)	0	223
Fusion Leisure Contract	0	0	(200)	0	200
Repossessed Properties	154	154	0	0	0
Other Provisions	110	11	(216)	0	315
Total Provisions	**7,380**	**2,608**	**(1,986)**	**(2,371)**	**9,129**

All provisions have been classified as long-term, as there is no certainty as to when any of the claims or costs will be incurred.

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 - £100k

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 2013.

Housing Repairs Claim
Outstanding legal claim relating to Housing Repairs Contracts.

21. PROVISIONS (Continued)

Municipal Mutual Insurance (MMI)

MMI ceased trading in 1992 and have been only dealing with claims relating to their period of trading since that time, using existing reserves to pay for claims with the hope of achieving a solvent run off. In November 2012, it was deemed that this would not be possible and MMI went to the Scheme Administrator, Ernst & Young, to determine the likely outstanding liability for Incurred But Not Reported (IBNR) claims and to then impose a levy on Scheme Creditors to ensure sufficient funds to cover this. The provision of £2.429m made at the end of 2011/12 was to cover 100% of the previous claims incurred and in light of information received in April 2013, that indicated the initial payment on the levy will be 15% of all known claims since 1992; this provision is now being reduced. As the likely final levy is still uncertain at this stage, the provision has been reduced to reflect the best estimate of future claims and will be monitored as more information becomes available.

CRC Allowance Purchase

The 2012/13 financial year was the second year for which there is an obligation to purchase and surrender Carbon Reduction Commitment (CRC) Allowances in relation to carbon dioxide emissions. The retrospective purchase of allowances is anticipated to take place from 1 June 2013. The Council will then be required to surrender allowances to the scheme by the last working day in July 2013 in proportion to their reported emissions for the preceding scheme year.

Housing Benefits Subsidy Claim

In previous years, a provision has been made to cover any liability to the Council arising from the Housing Benefit Subsidy claim failing to pass the audit process, as the DWP are entitled to withhold a proportion of the final claim amount should this occur. As a result of successful audits of claims over the past few years, it has been decided that this no longer meets the definition of a provision and a lesser amount has been set aside in a reserve.

Section 117 Mental Health Act

A provision has been made to accommodate possible contribution payment claims by clients who were sectioned under the S117 of the Mental Health Act. This provision has been reduced reflecting the increasingly historic nature if these potential claims.

Dilapidation Provision

The Council is contractually obliged to fund dilapidation costs on a number of leased properties. This includes a number of homes leased for use as temporary accommodation, the Council's liability has been increased by £416k this year. The Remaining provision of £639k relates to a number of commercial properties, upon which works are expected to be carried out during 2013/14.

Fusion Leisure Contract

Provision was previously made for likely compensation to the contracted operator of Hillingdon Sports & Leisure Centre (Fusion Lifestyle) for the provision of free parking in the centre's car park since its opening in March 2010. Under the contractual arrangements agreed with Fusion (the 'Best And Final Offer' (BAFO)), Fusion expected to earn £198k per annum from receipts from parking at the centre. The Council's imposition of free parking in the centre car park therefore created a reasonable expectation that this amount would be reimbursed to Fusion. However, the Council has reached agreement with Fusion over the car parking arrangement at the centre, with car parking charges introduced from September 2012 and the Council providing a 75% share of this income to Fusion, with no backdated compensation required. Hence the previous provision is no longer required.

Repossessed Properties

Properties that are repossessed where former owners have failed to adhere to the terms of lease, can be subject to claims for the original deposit paid and a share in the rise of value of the property. A provision has been made until the Council is satisfied that, in accordance to statute, former owners have no share in sale proceeds.

Other Provisions

These typically include Personal Searches, Building Control Fees and Social Care Provisions.

22. USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and in notes 1 and 2.

23. UNUSABLE RESERVES

These are reserves which do not relate directly to in-year Income and Expenditure and are thus classed as 'Unusable' under the Code.

	2012/13 £000's	2011/12 £000's
Capital Adjustment Account	713,540	723,483
Financial Instruments Adjustment Account	(367)	(379)
Collection Fund Adjustment Account	2,853	2,112
Revaluation Reserve	59,624	57,458
Pensions Reserve	(373,262)	(313,199)
Accumulated Absences Account	(5,959)	(7,197)
Available for Sale Financial Instruments Reserve	46	41
Total	**396,475**	**462,319**

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.

	2012/13		2011/12	
	£000's	£000's	£000's	£000's
Balance at 1 April		**723,483**		**917,354**
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	(18,494)		(17,380)	
- Revaluation gains/(losses) on Property, Plant and Equipment	10,882		(10,641)	
- HRA depreciation (greater than MRA 2011/12)	(9,002)		(547)	
- Amortisation of intangible assets	(279)		(304)	
- Revenue expenditure funded from capital under statute	(6,785)		(7,181)	
- 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	(46,719)	(70,397)	(5,588)	(41,641)
-HRA settlement debt		10,251		(191,571)
Adjusting amounts written out of the Revaluation Reserve		3,272		1,209
Net written out amount of the cost of non-current assets consumed in the year		(56,874)		(232,003)
Capital financing applied in the year:				
- Use of the Capital Receipts Reserve to finance new capital expenditure	7,457		4,974	
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	12,605		25,466	
- Application of grants to capital financing from the Capital Grants Unapplied Account	14,134		594	
- Statutory and voluntary provision for the financing of capital investment charged against the General Fund and HRA balances	5,068		4,180	
- Finance Lease Principal	388		431	
- Capital expenditure charged against the General Fund and HRA balances	7,073	46,725	2,033	37,678
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		206		454
Balance at 31 March		**713,540**		**723,483**

FINANCIAL INSTRUMENT ADJUSTMENT ACCOUNT

The Financial Instrument Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains in accordance with statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

	2012/13 £000's	2011/12 £000's
Balance at 1 April	**(379)**	**(392)**
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0	0
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	98	99
Discounts incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0	0
Proportion of discounts incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(86)	(86)
Balance at 31 March	**(367)**	**(379)**

COLLECTION FUND ADJUSTMENT ACCOUNT

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying amounts across to the General Fund from the Collection Fund.

The Collection Fund balance at 1 April 2012 had a surplus of £2,112k. An in-year surplus of £741k resulted in a remaining deficit balance at 31 March 2013 of £2,853k, which has been split on the basis that surpluses and deficits are shared with the Greater London Authority (70.8% to Hillingdon, 29.2% to GLA).

	At 31 March 2013 £000's	At 31 March 2012 £000's
Balance at 1 April	**2,112**	**581**
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from the council tax income calculated for the year in accordance with statutory requirements	741	1,531
Balance at 31 March	**2,853**	**2,112**
(Creditor) in respect of GLA share	(834)	(554)
	2,019	**1,558**

Notes to Main Financial Statements

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.

	2012/13		2011/12	
	£000's	**£000's**	£000's	£000's
Balance at 1 April		**57,458**		**59,084**
Upward revaluation of assets				
- Land & Buildings	7,241		1,307	
- Surplus Assets	200		567	
-Assets held for sale	348		435	
-Heritage Assets	323	8,112	178	2,487
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services				
- Land & Buildings	(2,851)		(2,647)	
- Surplus Assets	0		(18)	
-Assets held for sale	0	(2,851)	(123)	(2,788)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		**5,261**		**(301)**
Difference between fair value depreciation and historical cost depreciation				
- Land & Buildings	(2,992)		(1,041)	
-Surplus Assets	(24)		(2)	
-Assets held for sale	0	(3,016)	(8)	(1,051)
Accumulated gains on assets sold or scrapped				
-Assets held for sale	(79)		(158)	
- Land & Buildings	0	(79)	(116)	(274)
Amount written off to the Capital Adjustment Account		**(3,095)**		**(1,325)**
Balance at 31 March		**59,624**		**57,458**

PENSIONS RESERVE

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet these costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pension for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2012/13 £000's	2011/12 £000's
Balance at 1 April	**(313,199)**	**(248,446)**
Actuarial (losses) or gains on pensions assets and liabilities	(58,859)	(67,442)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(22,410)	(19,325)
Employer's pension contributions and direct payments to pensioners payable in the year	21,206	22,014
Balance at 31 March	**(373,262)**	**(313,199)**

ACCUMULATED ABSENCES ACCOUNT

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2012/13 £000's	2011/12 £000's
Balance at 1 April	**(7,197)**	**(7,776)**
Settlement or cancellation of accrual made at the end of the preceding year	7,197	7,776
Amounts accrued at the end of the current year	(5,959)	(7,197)
Balance at 31 March	**(5,959)**	**(7,197)**

AVAILABLE FOR SALE FINANCIAL INSTRUMENTS RESERVE

The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The value has increased due to upward valuations of the financial assets.

	2012/13 £000's	2011/12 £000's
Balance as at 1 April	**41**	**21**
Change in Fair Value in year	5	20
Balance as at 31 March	**46**	**41**

24. CASH FLOW STATEMENT - OPERATING ACTIVITIES

	2012/13 £000's	2011/12 £000's
(Surplus)/Deficit on the provision of services	**(13,511)**	**172,797**
Depreciation and impairment of non current assets	(7,757)	(28,568)
Amortisation of intangible fixed assets	(279)	(304)
Revenue Expenditure Funded from Capital under Statute	(6,785)	(7,181)
Pension Fund adjustments	(1,204)	2,689
(Increase) in impairment for provision for bad debts	(294)	(1,239)
Decrease / (Increase) in creditors	14,315	(9,908)
(Decrease) / Increase in debtors	(2,300)	(5,303)
(Decrease) / Increase in inventories	(20)	193
Carrying amount of non-current assets sold	(46,719)	(2,407)
Other non-cash items charged to the net Surplus or Deficit on the Provision of Services	(4,885)	12,749
Total adjusting items	**(55,928)**	**(39,279)**
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	12,438	4,210
Net proceeds from long-term investments	785	2,310
Capital Grants credited to Surplus or Deficit on the Provision of Services	29,023	40,364
Interest payable and similar charges	(11,525)	(7,239)
Interest receivable	2,302	1,243
Total included elsewhere on Cash Flow Statement	**33,023**	**40,888**
Net cash flows from operating activities	**(36,416)**	**174,406**

25. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2012/13 £000's	2011/12 £000's
Cash Outflows		
Purchase of property, plant and equipment	42,197	46,847
Other payments for investing activities	6,785	7,181
	48,982	**54,028**
Cash Inflows		
Sale of property, plant and equipment	(12,438)	(4,210)
Capital grants received	(24,821)	(36,394)
Other receipts from investing activities	(4,202)	(3,970)
	(41,461)	**(44,574)**
Net Cash Outflow	**7,521**	**9,454**
Net (Decrease)/Increase in Short-Term Investments	(6,080)	24,252
Net (Decrease) in Long-Term Investments	(785)	(2,310)
Net cash flows from investing activities	**656**	**31,396**

26. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2012/13 £000's	2011/12 £000's
Cash Outflows		
Repayments of amounts borrowed	10,278	3,389
Capital element of finance lease rental and on-balance sheet PFI payments	389	431
Cash Inflows		
Long term loans raised	0	(198,571)
Council Tax and NNDR Adjustment	7,300	(22,318)
Net cash flows from financing activities	**17,967**	**(217,069)**

Notes to Main Financial Statements

27. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice (SERCOP). However, decisions about resource allocation are taken by the Council on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement).
- the cost of retirement benefits is based on cash flows (payment of employer's pension contributions) rather than current service cost of benefits accrued in year

This note details a reconciliation between service income and expenditure as reported by Hillingdon Council's internal management structure and the Service Reporting structure.

SERVICE INFORMATION 2012/13 RECORDED IN OUTTURN REPORT

	Administration & Finance £000's	Residents Services £000's	Social Care & Health £000's	Total £000's
Total Income	(173,917)	(365,794)	(26,613)	**(566,324)**
Total operating expenses	185,425	453,757	136,111	**775,293**
Corporate Items	12,432	620	0	**13,052**
Net Cost of Services in Service Analysis	**23,940**	**88,583**	**109,498**	**222,021**

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

	£000's	
Cost of Services in Service Analysis (above)	**222,021**	
Add services not included in main analysis	(40,903)	The Housing Revenue Account (HRA) Net Cost of Services does not form part of the outturn report to management.
Add Net Cost of Service Adjustments	(5,534)	Amounts to repay the principal amounts for finance leases, revenue contribution to capital outlay and annual leave accrual are required to be shown separately from the Net Cost of Services in the accounting statements.
Remove amounts reported to management not included in Comprehensive Income and Expenditure net cost of services	(381)	The Code of Practice requires certain items to be shown below the Net Cost of Services in the Comprehensive Income and Expenditure Statement which are included within the service lines in the Outturn report.
Cost of Services in Comprehensive Income and Expenditure Statement	**175,203**	

Notes to Main Financial Statements

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the deficit on the provision of services included in the Comprehensive Income and Expenditure Statement.

2012/13

Reconciliation to Subjective Analysis	Service Analysis	Service Amounts not in Analysis	Net Cost of Service Adjustments	Not included in I&E services	Net Cost of Services	Below Net Cost of Services	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Fees, charges & other service income	(257,186)	(60,734)	157,468	0	**(160,452)**	(706)	**(161,158)**
Interest and investment income	0	0	0	0	**0**	(2,508)	**(2,508)**
Income from council tax	0	0	0	0	**0**	(113,629)	**(113,629)**
Government Grant and Contributions	(309,304)	(2,610)	2,969	0	**(308,945)**	(130,487)	**(439,432)**
Total Income	**(566,490)**	**(63,344)**	**160,437**	**0**	**(469,397)**	**(247,330)**	**(716,727)**
Employee expenses	227,095	(6,253)	(1,238)	0	**219,604**	0	**219,604**
Other service expenses	560,860	28,694	(164,177)	(381)	**424,996**	10,154	**435,150**
Depreciation, amortisation & impairment	556	0	(556)	0	**0**	11,525	**11,525**
Interest Payments	0	0	0	0	**0**	626	**626**
Precepts & Levies	0	0	0	0	**0**	1,564	**1,564**
Payments to Housing Cap Receipts Pool	0	0	0	0	**0**	0	**0**
Local Authority Housing settlement payment to Government for HRA self financing	0	0	0	0	**0**	0	**0**
Gain or Loss on Disposal of Non Current Assets	0	0	0	0	**0**	34,747	**34,747**
Total operating expenses	**788,511**	**22,441**	**(165,971)**	**(381)**	**644,600**	**58,616**	**703,216**
Deficit or (Surplus) on the provision of services	**222,021**	**(40,903)**	**(5,534)**	**(381)**	**175,203**	**(188,714)**	**(13,511)**

Reconciliation of net cost of services in outturn report to overall surplus reported in management

	31 March 2013 £000's
Net Cost of Services in Service Analysis	**222,021**
Interest & Investment Income	8,167
Corporate Government Grants not included in the budget requirement	(29,232)
Central Adjustment (excluding HRA)	(17,225)
Budget Requirement	(190,667)
Budgeted Contribution to Balances	2,126
Overall Surplus Reported to Management	**(4,810)**

Notes to Main Financial Statements

SERVICE INFORMATION 2011/12 RECORDED IN OUTTURN REPORT

	Central Services	Social Care, Health & Housing	Environment and Community Services	Total
	£000's	£000's	£000's	**£000's**
Total Income	(8,507)	(204,917)	(440,793)	**(654,217)**
Total operating expenses	34,189	320,108	524,606	**878,903**
Corporate Items	(13,259)	350	(184)	**(13,093)**
Net Cost of Services	**12,423**	**115,541**	**83,629**	**211,593**

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

	£000's	
Cost of Services in Service Analysis (above)	**211,593**	
Corporate Items	13,093	Other movements in balances which are not directly a function of income or expenditure and are not part of service's controllable budgets.
Add service amounts not included in main analysis	192,147	The Housing Revenue Account (HRA) Net Cost of Services does not form part of the outturn report to management. This figure includes £191,571k relating to the self-financing settlement to Government.
Remove Net Cost of Service Adjustments	(2,656)	Amounts to repay the principal amounts for finance leases, revenue contribution to capital outlay and annual leave accrual are required to be shown separately from the Net Cost of Services in the accounting statements.
Remove amounts reported to management not included in Comprehensive Income and Expenditure net cost of services	796	The Code of Practice requires certain items to be shown below the Net Cost of Services in the Comprehensive Income and Expenditure Statement which are included within the service lines in the Outturn report.
Net Cost of Services in Comprehensive Income and Expenditure Statement	**414,973**	

Notes to Main Financial Statements

2011/12

Reconciliation to Subjective Analysis	Service Analysis	Corporate Items	Service Amounts not in Analysis	Net Cost of Service Adjustments	Not included in I&E services	Net Cost of Services	Below Net Cost of Services	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Fees, charges & other service income	(266,614)	0	(57,812)	209,047	0	**(115,379)**	(1,031)	**(116,410)**
Interest and investment income	0	0	0	0	0	**0**	(1,697)	**(1,697)**
Income from council tax	0	0	0	0	0	**0**	(110,405)	**(110,405)**
Government Grant and Contributions	(387,161)	0	0	0	1,850	**(385,311)**	(146,451)	**(531,762)**
Total Income	**(653,775)**	**0**	**(57,812)**	**209,047**	**1,850**	**(500,690)**	**(259,584)**	**(760,274)**
Employee expenses	261,791	0	0	0	(5,638)	**256,153**	0	**256,153**
Other service expenses	602,011	13,093	61,116	(211,703)	2,267	**466,784**	6,072	**472,856**
Depreciation, amortisation & impairment	0	0	0	0	0	**0**	0	**0**
Interest Payments	935	0	0	0	(411)	**524**	7,239	**7,763**
Precepts & Levies	631	0	0	0	0	**631**	631	**1,262**
Payments to Housing Cap Receipts Pool	0	0	0	0	0	**0**	1,059	**1,059**
Local Authority Housing settlement payment to Government for HRA self financing	0	0	191,571	0	0	**191,571**	0	**191,571**
Gain or Loss on Disposal of Non Current Assets	0	0	0	0	0	**0**	2,407	**2,407**
Total operating expenses	**865,368**	**13,093**	**252,687**	**(211,703)**	**(3,782)**	**915,663**	**17,408**	**933,071**
Deficit or (Surplus) on the provision of services	**211,593**	**13,093**	**194,875**	**(2,656)**	**(1,932)**	**414,973**	**(242,176)**	**172,797**

Reconciliation of net cost of services in outturn report to overall surplus reported in management

	31 March 2012 £000's	
Net Cost of Services in Service Analysis	**211,593**	
Exceptional items	2,263	Exceptional items primarily relates to the Municipal Mutual Insurance provision.
Levies and Corporate Budgets	11,000	
* Central Adjustments (excluding HRA)	(18,383)	* Central Adjustments include depreciation, impairments and pension costs which are initially charged to services but are required by statute to be reversed through the Movement in Reserves Statement.
Budget Requirement	(194,746)	
Contribution from Balances	(1,793)	
Corporate Government Grants not included in the budget requirement	(18,018)	
Overall Surplus Reported to Management	**(8,084)**	

28. 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:

	2012/13 £000's	2011/12 £000's
Fees payable in regard to external audit services carried out by the appointed auditor	207	348
Fees payable for the certification of grant claims and returns	208	185
Total External Audit costs	**415**	**533**

Non Audit Fees - The Council incurred £349k of costs during 2012/13 from Deloitte Real Estate (formerly Drivers Jonas Deloitte), a division forming part of Deloitte LLP, the Council's external auditors. This was in respect of project management, employers agent, quantity surveying and design monitoring services associated with the Council's Primary School Capital Programme.

29. AGENCY SERVICES

The Council provided agency services through the Heathrow Health Control Unit up to 1 August 2012 to the Health Protection Agency (HPA), at which point delivery of the service was transferred to the HPA. The cost of this service in 2012/13 was £548k (£1,799k in 2011/12) which was fully reimbursable.

30. MEMBER ALLOWANCES

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

	2012/13 £000's	2011/12 £000's
Salaries & Allowances	1,540	1,542
Expenses	0	1
Total	**1,540**	**1,543**

31. POOLED BUDGETS

A section 75 agreement is in operation between London Borough of Hillingdon and Hillingdon Primary Care Trust 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 2012-13 this service provided support to approximately 610 clients at a gross cost of £34,335k which included approximately 27 PCT clients for which the council received £3,805k.

A further section 75 agreement is in operation between London Borough of Hillingdon (LBH) and Hillingdon Primary Care Trust (HPCT) in respect of Community Equipment Services. This is a new S75 agreement which started on 1st April 2010. This is operating as a Pooled Budget with LBH and HPCT sharing the cost of the service 50:50. The service is to provide community equipment to assist residents with daily living tasks. The value of the Pooled Budget in 2012-13 was £1,242k and each party funded £621k.

32. 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 36.

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 by 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 2012/13 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 2012/13 was £18,890k (£19,812k 2011/12). A precept of £339k was paid to the London Pension Fund Authority in 2012/13.

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 2012/13 is shown in Note 30.

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
CENTRAL & NORTH WEST LONDON NHS FOUNDATION TRUST	Councillor Peter Kemp	£542,037
HILLINGDON CARERS	Councillor Judith Cooper	£468,624
HILLINGDON & EALING CITIZENS ADVICE	Councillor Elizabeth Melvin	£397,303
HILLINGDON & EALING CITIZENS ADVICE	Councillor George Cooper	£397,303
GROUNDWORK THAMES VALLEY LTD	Councillor George Cooper	£335,664
HILLINGDON MIND	Councillor Mary O'Conner	£279,287
HILLINGDON MIND	Councillor Peter Kemp	£279,287
HILLINGDON ASSOCIATION OF VOLUNTARY SERVICES	Councillor Judith Cooper	£86,768
HILLINGDON ASSOCIATION OF VOLUNTARY SERVICES	Councillor John Major	£86,768
RUISLIP/NORTHWOOD OLD FOLKS ASSOCIATION	Councillor Catherine Dann	£79,600
HILLINGDON AIDS RESPONSE TRUST	Councillor Peter Curling	£47,000
HILLINGDON CROSSROADS	Councillor John Major	£34,537
HILLINGDON COMMUNITY TRUST	Councillor Douglas Mills	£13,222

Precepts/Levies

In 2012/13 the following precepts and levies are considered related party transactions:

Greater London Authority Precept	£30,793k
Greater London Authority Crossrail	£12,714k
West London Waste Authority Levy	£8,484k
Lee Valley Regional Park Authority	£288k
Environment Agency	£196k

33. OFFICER EMOLUMENTS

The number of employees in 2012/13 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 in the senior officer emoluments note. 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 (Excluding Senior Employees)				SCHOOL EMPLOYEES			
Remuneration Band	**2012/13** Total	**2012/13** Due to Lump Sum	2011/12 Total	2011/12 Due to Lump Sum	**2012/13** Total	**2012/13** Due to Lump Sum	2011/12 Total	2011/12 Due to Lump Sum
£50,000 - £54,999	57	(1)	63	0	49	(2)	46	0
£55,000 - £59,999	30	(1)	35	(1)	25	0	40	0
£60,000 - £64,999	19	(4)	11	0	17	0	16	0
£65,000 - £69,999	6	0	15	(2)	20	0	26	0
£70,000 - £74,999	7	(1)	10	0	13	0	9	0
£75,000 - £79,999	4	(1)	2	0	7	0	11	0
£80,000 - £84,999	3	0	4	0	7	0	3	0
£85,000 - £89,999	1	0	1	(1)	1	0	2	0
£90,000 - £94,999	1	0	2	0	1	0	2	0
£95,000 - £99,999	0	0	1	0	0	0	0	0
£100,000 - £104,999	1	0	1	0	1	0	1	0
£105,000 - £109,999	0	0	0	0	1	0	0	0
£110,000 - £114,999	0	0	1	(1)	0	0	0	0
£115,000 - £119,999	0	0	0	0	0	0	1	0
£120,000 - £124,999	0	0	0	0	0	0	0	0
£125,000 - £129,999	0	0	0	0	0	0	0	0
£130,000 - £134,999	0	0	0	0	0	0	0	0
£135,000 - £139,999	0	0	0	0	0	0	0	0
£140,000 - £144,999	0	0	0	0	0	0	0	0
	129	**(8)**	146	(5)	**142**	**(2)**	157	0

Disclosure of Remuneration for Senior Employees (Schools):-

The 2 school employees detailed in the above table earning over £100,000 during 2012/13 are listed below.

Job Title	Pensionable Pay 2012/13	Pensionable Pay 2011/12
Headteacher - Harlington Community School	£103,353	£102,475
Headteacher - Brookside	£106,225	£117,396

In the 2011/12 Statement of Accounts an additional headteacher earning over £100k was disclosed. The school of this headteacher has subsequently acquired Academy status and thus is not included in the Council's 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 2012/13

			2012/13				
Group	**Job Title**		**Pensionable Pay**	**Expenses**	**Compensation**	**EER's pension Contributions**	**Total**
CE	Chief Executive (F Beasley)		£170,665	£14	£0	£34,301	£204,980
Finance	Corporate Director of Finance (P Whaymand)		£143,961	£0	£0	£28,936	£172,897
	Head of Corporate Finance		£91,988	£0	£0	£18,490	£110,478
	Head of Revenues & Benefits		£70,395	£401	£0	£14,069	£84,865
	Interim Head of Internal Audit	**1**	£20,294	£0	£0	£0	£20,294
	Head of Procurement	**2**	£31,724	£0	£0	£6,377	£38,101
	Head of Commissioning & Contracts		£91,909	£121	£0	£18,449	£110,479
	Finance Manager Residents Services		£87,273	£0	£0	£17,485	£104,758
	Finance Manager SC&H		£84,594	£0	£0	£17,003	£101,597
Residents	Deputy Chief Executive and Corporate Director of Residents Services		£168,316	£0	£0	£24,975	£193,291
	Deputy Director Public Safety & Environment		£109,658	£0	£0	£22,041	£131,699
	Deputy Director ICT, Highways and Business Services		£121,703	£0	£0	£24,462	£146,165
	Deputy Director Housing		£128,466	£0	£0	£25,822	£154,288
	Interim Chief Education Officer	**3**	£109,534	£0	£0	£0	£109,534
	Head of Transportation, Planning Policy & Community Engagement		£119,008	£108	£0	£23,843	£142,959
	Head of Planning, Building Control, Sport & Green Spaces		£100,043	£0	£0	£20,109	£120,152
	Head of Corporate Property and Construction		£92,658	£0	£0	£18,390	£111,048
SC&H	Corporate Director SC&H (L Sanders)		£153,309	£51	£0	£30,805	£184,165
	Deputy Director Children & Families		£113,567	£0	£0	£22,796	£136,363
	Interim Deputy Director Social Care and Health	**4**	£147,272	£0	£0	£0	£147,272
Administration	Head of Corporate Communications	**5**	£45,989	£0	£0	£4,961	£50,950
	Head of Democratic Services		£94,185	£0	£0	£18,931	£113,116
	Head of Human Resources		£89,956	£26	£0	£18,076	£108,058
	Head of Legal Services		£112,560	£0	£0	£22,624	£135,184
	Head of Policy Performance & Partnerships		£79,806	£0	£0	£16,041	£95,847
Leavers	Chief Executive (H Dunnachie)	**6**	£133,416	£0	£0	£0	£133,416
	Head of Internal Audit	**7**	£110,803	£0	£0	£12,823	£123,626
	Head of ICT Services	**8**	£57,914	£0	£0	£8,380	£66,294
	Head of Customer Services	**9**	£93,148	£0	£0	£12,563	£105,711
	Head of Older People's Services	**10**	£64,346	£0	£0	£8,032	£72,378
	Head of School Improvement Services	**11**	£70,906	£0	£0	£8,283	£79,189

Note: The Joint Director of Public Health is funded by both the Council and by Hillingdon PCT. The post holder's salary was paid by the PCT and the Council is charged 50% of the salary and associated on-costs. The total payable by the Council to the PCT during the year to 31 March 2013 was £114k.

1 - Employment commenced 13 February 2013
2 - Employment commenced 16 November 2012
3 - Employment commenced 31 July 2012
4 - Employment commenced 01 May 2012
5 - Employment commenced 28 August 2012
6 - Employment ended 12 December 2012
7 - Employment ended 15 January 2013
8 - Employment ended 31 October 2012
9 - Employment ended 19 February 2013
10 - Employment ended 25 September 2012
11 - Employment ended 31 August 2012

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 2011/12

Group	Job Title		2011/12 Pensionable Pay	Expenses	Compensation	EER's pension Contributions	Total
CE	Chief Executive (H Dunnachie)		£187,069	£0	£0	£0	£187,069
Central Services	Deputy Chief Executive and Corporate Director for Central Services (F Beasley)		£156,420	£0	£0	£28,312	£184,732
	Deputy Director Finance		£135,457	£285	£0	£24,518	£160,260
	Acting Head of Human Resources	1	£67,053	£722	£0	£12,137	£79,912
	Head of Legal Services		£114,957	£0	£0	£20,807	£135,764
	Head of Policy Performance & Partnerships		£77,412	£0	£0	£14,012	£91,424
	Head of Democratic Services		£91,788	£0	£0	£16,614	£108,402
	Head of Audit & Enforcement		£79,865	£112	£0	£14,456	£94,433
PEECS	Deputy Chief Executive and Corporate Director for PEECS (J Palmer)		£156,420	£0	£0	£28,312	£184,732
	Deputy Director Education		£116,424	£94	£0	£21,073	£137,591
	Head of Corporate Property and Construction	2	£87,168	£0	£0	£15,777	£102,945
	Deputy Director Public Safety & Environment		£97,732	£0	£0	£17,690	£115,422
	Head of Transportation Planning Policy & Community Engagement		£116,223	£613	£0	£21,036	£137,872
	Head of Planning Consumer Protection Sport & Green Spaces		£99,011	£0	£0	£17,921	£116,932
	Deputy Director ICT Highways and Business Services		£112,519	£0	£0	£20,366	£132,885
SCH&H	Corporate Director SCH&H (L Sanders)		£149,811	£10,753	£0	£27,116	£187,680
	Deputy Director Housing Services		£122,448	£41	£0	£22,163	£144,652
	Deputy Director Children & families		£106,155	£0	£0	£19,214	£125,369
	Head of Commissioning Contracts & Supply		£89,391	£534	£0	£16,180	£106,105
	Head of Older Peoples Services		£79,806	£0	£0	£14,445	£94,251
	Head of Disability & Mental Health Services		£72,150	£0	£0	£13,059	£85,209
Leavers	Head of Corporate Communications	3	£86,988	£32	£0	£15,745	£102,765
	Head of Human Resources	4	£79,624	£0	£0	£14,412	£94,036
	Head of Procurement	5	£65,686	£0	£0	£11,889	£77,575

Note: The Joint Director of Public Health is funded by both the Council and by Hillingdon PCT. The post holder's salary was paid by the PCT and the Council is charged 50% of the salary and associated on-costs. The total payable by the Council to the PCT during the year to 31 March 2012 was £121k.

1 - Employment commenced 01 December 2011
2 - Employment commenced 04 April 2011
3 - Post deleted 29 April 2011
4 - Post deleted 30 November 2011
5 - Post deleted 05 December 2011

34. 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 contributions in terms of added years remuneration, 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.

	LBH EMPLOYEES					
Remuneration Band	**2012/13 Total**	**Statutory Redundancy Payment**	**Discretional Redundancy Payment**	**Compensation Payment**	**Total Payment to Employees**	**Pension Strain Costs**
	Number	£000's	£000's	£000's	£000's	£000's
£0 - £20,000	94	391	245	55	691	549
£20,001 - £40,000	17	161	227	77	465	426
£40,001 - £60,000	0	0	0	0	0	0
	111	**552**	**472**	**132**	**1156**	**975**

	LBH EMPLOYEES					
Remuneration Band	**2011/12 Total**	**Statutory Redundancy Payment**	**Discretional Redundancy Payment**	**Compensation Payment**	**Total Payment to Employees**	**Pension Strain Costs**
	Number	£000's	£000's	£000's	£000's	£000's
£0 - £20,000	123	681	197	125	1003	396
£20,001 - £40,000	38	393	475	161	1029	238
£40,001 - £60,000	1	9	21	28	58	0
	162	**1083**	**693**	**314**	**2090**	**634**

	SCHOOL EMPLOYEES					
Remuneration Band	**2012/13 Total**	**Statutory Redundancy Payment**	**Discretional Redundancy Payment**	**Compensation Payment**	**Total Payment to Employees**	**Pension Strain Costs**
	Number	£000's	£000's	£000's	£000's	£000's
£0 - £20,000	9	39	8	7	54	0
£20,001 - £40,000	0	0	0	0	0	0
	9	**39**	**8**	**7**	**54**	**0**

	SCHOOL EMPLOYEES					
Remuneration Band	**2011/12 Total**	**Statutory Redundancy Payment**	**Discretional Redundancy Payment**	**Compensation Payment**	**Total Payment to Employees**	**Pension Strain Costs**
	Number	£000's	£000's	£000's	£000's	£000's
£0 - £20,000	29	124	108	0	232	0
£20,001 - £40,000	2	22	42	0	64	0
	31	**146**	**150**	**0**	**296**	**0**

35. 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 schools Finance (England) Regulations 2011. The Schools Budget includes elements for a restricted range of services provided on an 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 2012/13 are as follows:

	Schools Budget Funded by Dedicated Schools Grant		
	Central Expenditure £000's	**Individual Schools Budget £000's**	**Total £000's**
Final DSG for 2012/13 before Academy Recoupment			220,302
Academy figure recouped for 2012/13			(72,089)
Total DSG after Academy recoupment for 2012/13			148,213
Brought Forward from 2011/12			226
Carry-forward to 2013/14 agreed in advance			(226)
Agreed initial budgeted distribution in 2012/13	21,791	126,422	148,213
In year adjustments	1,400	(1,400)	0
Final budgeted distribution for 2012/13	**23,191**	**125,022**	**148,213**
Less Actual central expenditure	22,708		22,708
Less Actual ISB deployed to schools		125,022	125,022
Plus Local authority contribution for 2012/13	0	0	0
Carry-forward to 2013/14	**483**	**0**	**483**

36. GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

	2012/13 £000's	2011/12 £000's
Revenue Grant Income Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	1,531	20,277
Preventing Homelessness	768	0
Early Intervention Grant	11,943	10,904
Council Tax Freeze Grant	2,789	2,758
Learning Disability & Health Reform Grant	5,937	5,781
Housing & Council Tax Benefit Subsidy Admin Grant	2,265	2,418
New Homes Bonus	2,969	1,849
Other Grants	681	3,247
Total Non Specific Revenue Grants	**28,883**	**47,234**
Revenue Grant Income Credited to Services		
Department for Education		
Dedicated Schools Grant (DSG)	148,213	177,205
Pupil Premium	4,232	3,157
Schools standards fund	0	2,593
Department for Communities and Local Government:		
Troubled Families Grant	634	0
NNDR cost of collection	602	596
Department for Work and Pensions:		
Housing & Council Tax Benefit Subsidy	169,030	162,264
Home Office:		
Adult asylum seekers	5,952	6,259
Other grants	27,252	31,789
Total Grants Credited to Services	**355,915**	**383,863**
Total Revenue Grant Income	**384,798**	**431,097**

	2012/13 £000's	2011/12 £000's
Capital Grant Income credited to the Comprehensive Income and Expenditure Statement		
Disabled Facilities Grant	1,763	1,698
Sports England Grant	0	100
Education Funding Agency (2011/12 Standards Fund)	19,846	26,337
Transport for London	2,098	3,786
West London Housing Grant	132	872
HRA Pipeline Grant	0	2,317
Outer London Fund	450	93
DH Community Capacity	532	521
London Waste & Recycling Board Grant	0	119
Energy Efficiency Grant	0	174
Schools Capital Contributions	1,622	377
S106 Contributions	2,492	3,501
Other Capital Contributions	88	469
Total Capital Grants and Contributions Received	**29,023**	**40,364**

Capital Grant Income amounting to £22,599k (£35,467k in 2011/12) is included within Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement. The remaining £6,424k (£4,897k in 2011/12) was used to fund Revenue Expenditure Funded from Capital Under Statute (REFCUS) included within Net Cost of Services in the Comprehensive Income and Expenditure Statement.

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:

	2012/13 £000's	2011/12 £000's
Capital Grant & Contribution Receipts in Advance		
DFE Capital Grants	0	1,207
EFA Capital Grants	749	0
West London Housing Grant	0	120
HRA Pipeline Grant	301	0
Waste Grant	370	0
S106	13,458	14,284
Other	102	46
Total Grants Received in Advance	**14,980**	**15,657**

37. 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.

	2012/13 £000's	2011/12 £000's
Opening Capital Financing Requirement	416,958	217,620
Capital investment		
Property, Plant and Equipment	42,060	46,811
Intangible Assets	137	38
Revenue Expenditure Funded from Capital Under Statute	6,785	7,182
HRA settlement	0	191,571
Sources of finance		
Capital receipts	(7,457)	(4,973)
Government grants and other contributions	(34,618)	(34,640)
Sums set aside from revenue:		
Direct revenue contributions	(2,694)	(2,033)
Minimum Revenue Provision (MRP) / Loans Fund Principal	(12,820)	(4,179)
Other Revenue Provision	(396)	(439)
Closing Capital Financing Requirement	**407,955**	**416,958**
Explanation of movements in year		
(Decrease)/Increase in underlying need to borrow :		
- supported by Government financial assistance	0	0
- unsupported by Government financial assistance	(9,003)	199,338
(Decrease)/Increase in Capital Financing Requirement	**(9,003)**	**199,338**

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.

38. LEASES

In financial years prior to 2012/13 the Council acquired a number of vehicles, 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.

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 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.

Finance Leases

Plant, Property and Equipment	**Finance Lease Liabilities**		**Minimum Lease Payments**	
Outstanding obligations on 31 March	**2012/13**	**2011/12**	**2012/13**	**2011/12**
	£000's	£000's	**£000's**	£000's
Within 1 year (2012/13) held in current liabilities	263	389	1,205	1,391
2 - 5 years	1,021	1,033	4,097	4,397
More than 5 years	1,452	1,702	3,333	4,238
Total costs payable in future years	2,473	2,735	7,430	8,635
Total future lease payments	**2,736**	**3,124**	**8,635**	**10,026**

Operating Leases

Plant, Property and Equipment	**Operating Lease**	
Outstanding obligations on 31 March	**2012/13**	**2011/12**
	£000's	£000's
Within 1 year (2012/13) held in current liabilities	34	14
Total future lease payments	**34**	**14**

Operating lease commitments at the start of the year were £14k. However due to additional lease extensions, expenditure of £63k in 2012/13 (£101.3k in 2011/12) is contained within the Cost of Services in the Comprehensive Income and Expenditure Statement.

39. 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. Contracts which have fixed annual sums over £1,000k and over 4 years in length are disclosed below:

Supplier	Expenditure Reason £000's	Contract Value Per Annum £000's	Contract Dates	
			Start	Expire
Mitie Property Services	Facilities Management Services	3,438	01/11/2008	31/10/2015

Mitie Property Services - The Council has entered into a Facilities Management contract with Mitie for the provision of cleaning, caretaking, and building maintenance for certain Council properties.

The following Long Term Contracts are not fixed in nature, however the annual sum for 2012/13 was over £1,000k:

Orchard & Shipman
Kent County Council
Northgate Information Solutions
Medequip Assistive Technology
EDF Energy 1 Ltd
Liberata UK Ltd

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 2012/13 the Council paid principal of £253k, interest of £926k and service charges of £2,248k. Current forecasts of future payments, assuming satisfactory performance over the remaining 11 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's	Reimbursement of Capital Expenditure £000's	Interest £000's	Total £000's
Within 1 year (2013/14)	2,339	249	868	3,456
2 - 5 years	11,089	958	2,803	14,850
6 - 10 years	18,388	1,114	1,602	21,104
11 - 12 years	4,459	102	32	4,593
Total	**36,275**	**2,423**	**5,305**	**44,003**

In accounting for this arrangement the Council has complied with the principles as set out in the Code, which requires recognition of the property as the Council's asset with a corresponding liability. Note 6 on page 48 identifies the asset arising from this PFI.

The charge for the current year was £253k matching the principal repayment. The outstanding liability of the capital value at 31 March 2013 is £2,423k, of this £249k is due within a year and therefore included in creditors and the remaining £2,174k is shown as a deferred liability.

40. CONTINGENT LIABILITIES AND ASSETS

- Employers Liability Claim

At beginning of 2012 an Employment Tribunal upheld a claim, from an employee of London Borough of Hillingdon, of disability discrimination against the Council. It awarded the employee £15k damages for injury to feelings and adjourned a claim for monetary losses until later in 2012.

The employee has now submitted a Schedule of Loss which totals just less than £400k. The employee claims that the Council's discrimination and treatment has caused them to have infirmity with the result that they will never be fit for work again. The Council is currently awaiting the Tribunal's reasons for its decision and are likely to appeal. Once the reasons are received the Council will have 6 weeks to appeal. Furthermore, the employee has still to prove the full extent of their losses.

- Persimmon Homes

In March 2007, Persimmon Homes purchased land at Hillingdon House Farm from the Council for £19,250k. A claim has been received for misrepresentation in relation to a DEFRA licence for an abattoir which Persimmon Homes state has resulted in a loss to them in excess of £1,000k. No claim has yet been received but the Council will be defending any such claim as it believes there is no liability. As at 28 March 2013 no further correspondence has been received from Persimmon Homes. Persimmon Homes have until November 2013 to bring their claim against the Council.

- Contracts

- There are possible legal proceedings being threatened regarding an alleged breach of contract. The claim could amount to £200k but it is denied and will be defended.
- The Council has received letters threatening claims against the Council over breach of contract. These claims may amount to £1,000k and £300k. The Council is looking to bring a counter-claim against the complainant in relation to both matters.

- Care Group

In February 2011 a resident was placed in a private hospital operated by a Care Group. The Council was made aware of costs relating to substantial monitoring of the patient; however the Council did not agree to pay such expenses. The additional monitoring was administered for over 2 years and the costs currently amount to over £200,000. The Council will defend any claims.

41. EVENTS AFTER THE BALANCE SHEET DATE

Following the approval of applications for Academy status, four Community schools and two Foundation schools are expected to become Academies during 2013/14. Under Academy status, Community schools would not form part of the Council's accounts and hence will result in significant movements in income, expenditure, schools reserves and current assets for the 2013/14 Statement of Accounts. These schools reported income and expenditure in 2012/13 of £12,624k and £12,680k respectively and held reserves and corresponding current assets of £1,700k at 31 March 2013. In addition the net book value of £36,402k relating to school buildings will be removed from the Council's long term assets if their conversion is completed.

New arrangements for the local retention of a share of Non-Domestic Rates Income come into effect from 1 April 2013, resulting in Local Authorities assuming a share of the liability for any refunds awarded to businesses for backdated appeals, despite the original income being passported to Central Government. Local intelligence indicates that the Council's share of this liability is expected to be approximately £1,900k, which is treated as a Contingent Liability, rather than provision as required under proper accounting practice by virtue of CIPFA's LAAP Bulletin 96. Provision to fund this liability has been factored into the Council's General Fund revenue budgets for 2013/14 at this level.

Breach of Contract: In October 2012 the Council decided not to renew a contract with R S Gormanley Ltd for the provision of housing repairs but had issued a Purchase Order prior to this. Gormanley Ltd. claimed this constituted a binding contract and are therefore entitled to loss of profit. In addition, when the contract was terminated twelve former employees issued claims at Watford Employment Tribunal that they should have transferred to the Council under the Transfer of Undertaking (Protection of Employment) Regulations 2006 (TUPE). The Council disputed that TUPE applied but, on 4 June 2013, Watford Employment Tribunal found against the Council. A provision of £1,000k has been made against these claims.

The administrators of Heritable Bank issued a dividend of £2.5m in August 2013 bringing the total return to 94% of the claim. As this dividend exceeded previous estimates an impairment reversal of £1.3m was credited to the 2012/13 Income & Expenditure Account with the corresponding entry in the Balance Sheet.

42. SUMMARY OF TREASURY MANAGEMENT POLICY

The Council defines its treasury management activities as the management of the organisation's investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities to achieve optimum performance consistent with those risks.

The successful identification, monitoring and control of risks are the prime criteria by which the effectiveness of its treasury management activities will be measured. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives.

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 39).

The Council maintains a flexible policy regarding debt rescheduling and the market is continuously monitored for opportunities to redeem or restructure debt.

The Council's policy is to invest its surplus funds prudently and the investment priorities are: security of invested capital, liquidity of the invested capital and an optimum yield which is commensurate with security and liquidity. The speculative procedure of borrowing purely in order to invest is unlawful.

43. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council has adopted CIPFA's Revised Code of Practice on Treasury Management and complies with the Revised Prudential Code of Capital Finance for Local Authorities.

As part of the adoption of 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 Annual Investment Strategy in compliance with CLG Investment Guidance for Local Authorities. This guidance emphasises that priority be given to security and liquidity rather than yield. The Council's strategy together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The Council's activities exposes it to a variety of financial risks:

- 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

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised as outlined in the Annual Investment Strategy, which states that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch, S&P and Moody's Ratings Services. The Annual Investment Strategy also sets maximum sums that can be invested with any financial institution. The credit criteria applicable during 2012 in respect of financial assets held by the Council are as detailed below:

Long term minimum: A- (Fitch); A3 (Moody's;) A- (S&P)
Short term minimum: F1 (Fitch); P-1 (Moody's); A-1 (S&P)

The Council also considers other information such as corporate developments, market sentiment towards investment counterparties and other sources of intelligence before making deposits.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare, but possible, for such entities to be unable to meet their commitments. The risk of non-recovery applies to all of the Council's deposits.

Notes to Main Financial Statements

The table below summarises the amortised value of the Council's investment portfolio at 31 March 2013, and demonstrates that all investments were made in line with the Council's approved credit rating criteria.

Outstanding Investments as at 31 March 2013							
			Maturity of Investments				
	Fitch Rating or equivalent at time of Deposit	Fitch Rating or equivalent at 31 March 13	1-3 Months	3-6 Months	6-12 Months	Over 12 Months	Total
UK Banks			£000's	£000's	£000's	£000's	£000's
Bank of Scotland	A F1 1	A F1 1	8,904	0	0	0	8,904
Barclays	A F1 1	A F1 1	4,401	0	0	0	4,401
HSBC	AA- F1+ 1	AA- F1+ 1	9,203	5,021	0	0	14,224
Lloyds TSB Bank	A F1 1	A F1 1	6,038	0	0	0	6,038
Royal Bank of Scotland	A- F1 1	A- F1 1	14,805	0	0	0	14,805
			43,351	**5,021**	**0**	**0**	**48,372**
Icelandic Banks							
Heritable Bank	A F1 1	In default Credit Rating Withdrawn	0	2,467		0	2,467
Landsbanki Islands	A F1 2	In default Credit Rating Withdrawn	0	0	315	1,626	1,941
			0	**2,467**	**315**	**1,626**	**4,408**
Government & Local Authorities							
Kingston upon Hull CC	AA+	AA+	0	0	3,002	0	3,002
Newcastle CC	AAA	AA+	5,031	0	0	0	5,031
			5,031	**0**	**3,002**	**0**	**8,033**
Money Market Funds							
All funds held explicit money market fund ratings of AAA, with at least one of the rating agencies			**30,109**	**0**	**0**	**0**	**30,109**
Total Investments			**78,491**	**7,488**	**3,317**	**1,626**	**90,922**

The information above provides both current and at time of deposit credit ratings of institutions and durations of outstanding investments held by the Council. At the time investments were placed, the credit rating criteria were met. The disclosures above are given at their amortised value.

Credit Rating Definitions

The credit ratings provided show three indicators; the long term rating, short term rating and support rating.

Long Term		Short Term	
AAA	Highest credit quality	F1	Highest credit quality
AA	Very high credit quality	F2	Good credit quality
A	High credit quality	F3	Fair credit quality
BBB	Good credit quality	B	Speculative
BB	Speculative	C	High default risk
B	Highly speculative	RD	Defaulted on some financial commitments
CCC	Default possibility	D	Defaulted on all financial commitments
CC	Default imminent		
D	Defaulted		

Support		Money Market Funds
1	Extremely high probability of external support	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.
2	High probability of external support	
3	Moderate probability of support	Moody's: Aaa Money Market Funds are judged to be of an investment quality similar to Aaa-rated fixed income obligations.
4	Limited probability of support	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.
5	Possible support but cannot be relied upon	

Aged Analysis of other Financial Instruments

Other Financial Instruments	Not Overdue	Past Due 1-3 Months	Past Due 3-6 Months	Past Due 6-12 Months	Past Due Over 12 Months	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Available for Sale	106	0	0	0	0	106
Cash in Hand	15,968	0	0	0	0	15,968
Trade Receivables	5,160	1,029	1,111	574	815	8,689
Total	21,234	1,029	1,111	574	815	24,763

Borrowing

The Policy on borrowing is to spread exposure between Public Works Loans Board (PWLB) 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.

	On 31 March 2013			On 31 March 2012		
	PWLB	Market	**Total**	PWLB	Market	**Total**
	£000's	£000's	**£000's**	£000's	£000's	**£000's**
Nominal Value	298,504	48,000	**346,504**	308,782	48,000	**356,782**
Premium	(3,331)	0	**(3,331)**	(3,356)	0	**(3,356)**
Accrued Interest	897	615	**1,512**	986	621	**1,607**
Amortised Value	296,070	48,615	**344,685**	306,412	48,621	**355,033**

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 obviate this risk, the Council has a comprehensive cash flow management system 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:

	Limit for Debt Maturity	Debt Maturity at 31 March 2013	**31 March 2013**	31 March 2012
			£000's	£000's
Less than 1 year	25%	3.42%	11,790	11,884
Between 1 and less than 2 years	25%	2.69%	9,278	10,278
Between 2 and less than 5 years	50%	10.69%	36,833	28,833
Between 5 and less than 10 years	75%	30.59%	105,445	109,223
Between 10 and less than 20 years	100%	15.67%	54,000	66,000
Between 20 and less than 30 years	100%	15.69%	54,071	55,571
Between 30 and less than 40 years	100%	0.00%	0	0
Between 40 and less than 50 years	100%	7.33%	25,269	25,244
Over 50 years	100%	13.93%	48,000	48,000
Total			**344,686**	**355,033**

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.

Market Risk

Interest Rate Risk: The Council is exposed to risks arising from movements in interest rates. The Treasury Management Strategy aims to mitigate these risks by setting an upper limit of 50% on external debt that can be subject to variable interest rates. This strategy is periodically reviewed and adapted to reflect changing economic circumstances in light of actual movements in interest rates. Investments are also subject to movements in interest rates. As investments are made at fixed rates, but for shorter periods of time, there is greater exposure to interest rate movements. This risk is balanced against actions taken to mitigate credit risk.

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 – 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 (with all other variables held constant) the financial effect would be:

	£000's
Increase in interest payable on variable rate borrowings	515
Increase in interest receivable on variable rate investments	(1,167)
Impact on Surplus or Deficit on the Provision of Services	**(652)**
Share of overall impact credited to the HRA	(231)
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)	30,686

The impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the "Fair Value" disclosure note.

Price Risk: The Council does not generally invest in equity shares or bonds but it does hold historic balances in its accounts. The Council is consequently exposed to losses arising from movements in the prices of these shares and bonds. As these holdings have arisen from a donation, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio.

The £106k holdings are all classified as ‘Available for Sale’ and it is expected will not be voluntarily disposed, hence all movements in price will be shown in the Available for Sale Reserve with no impact on gains and losses recognised in Other Comprehensive Income and Expenditure.

Foreign Exchange Risk: As part of the first distribution from Landsbanki the Council currently has approximately 6,962k Icelandic Krona (ISK) (£37k at exchange rate on 31st March 2013) held in an Icelandic based escrow account. The Council is currently working with the LGA, Bevan Brittan and other affected authorities to research ways of converting the ISK funds.

All remaining 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. (As at 31 March 2013 £248,004k was at fixed rates and £50,500k at variable rates). 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.

£48,000k of debt 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. A LOBO which falls within a year of an interest change date is classified as variable. Over the next three years loans totalling £10,000k, £11,000k and £13,000k respectively are scheduled for rate change options.

In order to minimise debt costs the Council did not take any new borrowing during 2012/13, instead utilising internal resources to finance its long term borrowing requirement. Due to the high premiums attached to loans there were no opportunities to prematurely redeem or reschedule debt, however naturally maturing debt of £10,278k reduced the loan portfolio during 2012/13.

Financial Assets

The Council had a weighted average balance of investments (excluding unpaid Icelandic deposits) for 2012/13 of £116,954k. Within this figure a rolling balance of approximately £30,000k was required for day-to-day cash flow needs with the remainder being attributable to capital expenditure requirements. Throughout the year deposits were placed in instant access accounts and in fixed term deposits with varying maturity periods. This approach aimed to match investment maturities with expected expenditure and so spread interest rate risk. The term remaining on all deposits at year end was less than one year and therefore classified as variable.

44. TRUST FUNDS

The Council is responsible for a number of small trust funds which are not consolidated in the accounts. The Council administers the trust and bequest funds in accordance with the wishes of the benefactors and disbursements from funds are made in pursuance of the objectives of each fund. Surplus monies are invested and the funds receive income mainly from interest and dividends on investments.

	As at 31 March 2013 £000's	As at 31 March 2012 £000's
Education trusts - providing academic prizes	4	4
Library trusts - purchase of library books	11	10
Total	**15**	**14**

45. 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 has a commitment to make payments that need to be disclosed at the time that employees earn their future entitlement.

The Council participates in three defined benefit pension schemes, which are two funds of the Local Government Pension Scheme (LGPS) and the Teachers' Pension Scheme. Accounting for the Teachers' Pension Scheme varies from that of the LGPS and is expanded upon below.

For the two funds of the LGPS, contributions are made at a level intended to balance the pensions liabilities with investment assets. The two 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.

The adequacy of the funds' contributions and investments to resource future liabilities is reviewed tri-annually by actuaries appointed by the Council; the last took place during 2010/11 which assessed the position at 31 March 2010. The contribution rates were then set to meet the overall liabilities of the fund under Pension Fund Regulations. During 2012/13 employer's contribution rate was 20.1% with an additional 1% added to fund pension strain costs relating to early retirement. Employees contributed at variable rates between 5.5% and 7.5% of pensionable salary. The employer's contribution rate set for 2013/14 is 21.1% with a further 1% to cover pension strain costs.

Defined Contribution Pension Schemes

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 2012/13 was 14.1% (14.1% in 2011/12). The total contribution to the fund by the Council in 2012/13 was £7,555k (£9,892k in 2011/12), of this amount £590k was outstanding at 31 March 2013 (£670k at 31 March 2012). Subject to academy transfers, contributions to the fund are expected to remain unchanged for 2012/13.

With regard to the Teachers' Pensions Scheme there were no contributions remaining payable at the year end. 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 authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. There were no lump sums awarded in 2012/13, 2011/12 or 2010/11, and £876k paid in respect of on-going payments in 2012/13 (£834k in 2011/12).

As the London Borough of Hillingdon is a major contributor to the London Pension Fund Authority (LPFA) Pension Scheme it has been combined with London Borough of Hillingdon Pension Fund in the figures below.

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 the General Fund Balance via the Movement in Reserves Statement during the year:

Comprehensive Income and Expenditure Statement	**LBH Pension Fund of the LGPS**		**LPFA Pension Fund**		**Total**	
	31 March 2013 £000's	**31 March 2012 £000's**	**31 March 2013 £000's**	**31 March 2012 £000's**	**31 March 2013 £000's**	**31 March 2012 £000's**
Cost of Services:						
Current service costs	18,305	18,885	0	0	18,305	18,885
Past service costs	28	0	0	0	28	0
Settlements and curtailments	(6,077)	(5,632)	0	0	(6,077)	(5,632)
Total Net Cost Of Services	**12,256**	**13,253**	**0**	**0**	**12,256**	**13,253**
Financing and Investment and Expenditure						
Interest costs	42,560	44,556	251	311	42,811	44,867
Expected return on assets in the scheme	(32,542)	(38,638)	(115)	(157)	(32,657)	(38,795)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**10,018**	**5,918**	**136**	**154**	**10,154**	**6,072**
Amounts to be met from Government Grants and Local Taxation						
Movement on pension reserve	**22,274**	**19,171**	**136**	**154**	**22,410**	**19,325**
Actual amount charged against council tax for pensions in the year						
Employer's contributions payable to scheme	18,890	19,812	0	0	18,890	19,812
Contributions in respect of unfunded benefits	2,310	2,196	6	6	2,316	2,202
	21,200	**22,008**	**6**	**6**	**21,206**	**22,014**

In addition the Comprehensive Income and Expenditure Statement included an actuarial loss of £58,859k in 2012/13 (£67,442k loss in 2011/12). The cumulative amount of actuarial losses recognised in the Comprehensive Income and Expenditure Statement since 2004/05 is £332,830k.

The Council expects to make payments of £19,561k in respect of contributions to the scheme during the financial year 2013/14.

46. PENSION SCHEMES BALANCE SHEET DISCLOSURES

Reconciliation of present value of scheme liabilities

	LBH Pension Fund of the LGPS		LPFA Pension Fund		Total	
	31 March 2013 £000's	31 March 2012 £000's	31 March 2013 £000's	31 March 2012 £000's	31 March 2013 £000's	31 March 2012 £000's
Opening Benefit Obligation	895,278	820,944	5,749	5,946	901,027	826,890
Current Service Cost	18,305	18,885	0	0	18,305	18,885
Interest Cost	42,560	44,556	251	311	42,811	44,867
Contributions by Members	6,280	6,957	0	0	6,280	6,957
Actuarial Losses/(Gains)	105,077	48,149	371	75	105,448	48,224
Past Service Cost	28	0	0	0	28	0
Losses on Curtailments	624	1,779	0	0	624	1,779
Liabilities Extinguished on Settlements	(9,113)	(13,717)	0	0	(9,113)	(13,717)
Estimated Unfunded Benefits Paid	(2,310)	(2,196)	(6)	(6)	(2,316)	(2,202)
Estimated Benefits Paid	(30,385)	(30,079)	(602)	(577)	(30,987)	(30,656)
Closing Defined Benefit Obligation	**1,026,344**	**895,278**	**5,763**	**5,749**	**1,032,107**	**901,027**

Reconciliation of fair value of scheme assets

	LBH Pension Fund of the LGPS		LPFA Pension Fund		Total	
	31 March 2013 £000's	31 March 2012 £000's	31 March 2013 £000's	31 March 2012 £000's	31 March 2013 £000's	31 March 2012 £000's
Opening Fair Value of Employer Assets	584,868	575,064	2,960	3,380	587,828	578,444
Expected Return on Assets	32,542	38,638	115	157	32,657	38,795
Contributions by Members	6,280	6,957	0	0	6,280	6,957
Contributions by the Employer	18,890	19,812	0	0	18,890	19,812
Contributions in respect of Unfunded Benefits	2,310	2,196	6	6	2,316	2,202
Actuarial Gains/(Losses)	46,460	(19,218)	129	0	46,589	(19,218)
Assets Distributed on Settlements	(2,412)	(6,306)	0	0	(2,412)	(6,306)
Estimated Unfunded Benefits Paid	(2,310)	(2,196)	(6)	(6)	(2,316)	(2,202)
Estimated Benefits Paid	(30,385)	(30,079)	(602)	(577)	(30,987)	(30,656)
Closing Fair Value of Employer Assets	**656,243**	**584,868**	**2,602**	**2,960**	**658,845**	**587,828**

The expected return on scheme assets is determined by considering the expected returns available on the assets according to the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates on return experienced in the respective markets.

The actual return on scheme assets in the year was £79,290k (£19,640k in 2011/12).

Scheme history

	2012/13	2011/12	2010/11	2009/10	2008/09
	£000's	£000's	£000's	£000's	£000's
Present value of liabilities:					
LBH	(1,026,344)	(895,278)	(820,944)	(994,245)	(616,469)
LPFA	(5,763)	(5,749)	(5,946)	(6,158)	(5,400)
Fair Value of Assets:					
LBH	656,243	584,868	575,064	561,122	400,528
LPFA	2,602	2,960	3,380	3,268	3,510
Deficit in the scheme:					
LBH	(370,101)	(310,410)	(245,880)	(433,123)	(215,941)
LPFA	(3,161)	(2,789)	(2,566)	(2,890)	(1,890)
Total	**(373,262)**	**(313,199)**	**(248,446)**	**(436,013)**	**(217,831)**

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £1,032,107k is offset by the scheme assets of £658,845k to give the net pension liability of £373,262k 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.

47. 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 2010. The appointed actuary for LBH is Hymans Robertson LLP and for LPFA is Barnett Waddingham.

	LBH Pension Fund of the LGPS		LPFA Pension Fund	
	31 March 2013	31 March 2012	31 March 2013	31 March 2012
Financial Assumptions: (% p.a.)				
Pension Increase Rate	2.8%	2.5%	2.2%	2.5%
Long Term Salary Increase Rate	5.1%	4.8%	3.9%	4.2%
Expected Return on Assets	4.5%	5.6%	4.3%	4.3%
Discount Rate	4.5%	4.8%	1.3%	4.6%
Expected Return on Assets by Category:				
Cashflow Matching	N/A	N/A	4.3%	3.3%
Equities	4.5%	6.3%	4.3%	6.3%
Target Return Portfolio	N//A	N/A	4.3%	4.5%
Bonds	4.5%	4.3%	N/A	N/A
Property	4.5%	4.4%	N/A	N/A
Cash	4.5%	3.5%	4.3%	3.0%
Mortality Assumptions:				
Longevity at 65 for current pensioners:				
- Men	20.8	20.8	21.1	21.0
- Women	24.1	24.1	24.0	23.9
Longevity at 65 for future pensioners:				
- Men	22.3	22.3	23.0	23.0
- Women	25.7	25.7	25.9	25.8
Take-up of option to convert annual pension to tax free lump sum pre-April 2008	50%	50%	50%	50%
Take-up of option to convert annual pension to tax free lump sum post-April 2008	75%	N/A	75%	N/A

The assets held by the schemes consist of the following categories, by proportion of total assets held:

	London Borough of Hillingdon Pension Fund		London Pension Fund Authority Pension Fund	
	31 March 2013	31 March 2012	31 March 2013	31 March 2012
Categories of assets held:				
Cashflow Matching	0%	0%	31%	32%
Equities	65%	66%	14%	13%
Target Return Portfolio	0%	0%	54%	53%
Bonds	23%	23%	0%	0%
Property	7%	8%	0%	0%
Cash	5%	3%	1%	2%

History of experience gains and losses

Gains and losses arising as a result of differences between actuarial assumptions included in the CIES and actual experience over the period are set out below as a percentage of assets and liabilities at 31 March 2012.

	2012/13	2011/12	2010/11	2009/10	2008/09
Difference between expected and actual return on assets:					
LBH (Gain)/Loss	(7.1%)	3.3%	4.2%	(22.9%)	41.2%
LPFA (Gain)/Loss	(5.0%)	0.0%	(17.2%)	(7.6%)	17.0%
Experience gains and losses on liabilities:					
LBH (Gain)/Loss	(0.1%)	1.3%	(4.9%)	0.1%	0.0%
LPFA (Gain)/Loss	0.0%	0.1%	7.1%	(0.2%)	0.3%

Other Financial Statements

The Housing Revenue Account (page 97)

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

The Collection Fund Account (page 101)

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.

Pension Fund Accounts (page 104)

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 - Comprehensive 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 government grants. 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 HRA Balance.

	Notes	Year ended 31 March 2013 £000's	Year ended 31 March 2012 £000's
Expenditure			
Repairs and maintenance		16,548	15,073
Supervision and management		14,223	13,962
Rents, rates, taxes & other charges		24	12
Increase in provision for bad debts		97	295
Housing Revenue Account Subsidy payable	*4*	(31)	15,400
Debt management costs		195	495
Depreciation and Impairment of non current assets		9,002	15,658
Reversal of previous impairment		(11,813)	0
HRA Self Financing Loan Settlement		0	191,571
		28,245	**252,466**
Income			
Gross dwelling rents		(54,260)	(51,147)
Gross non dwelling rents		(1,849)	(1,940)
Charges for services and facilities		(3,398)	(3,261)
Contributions towards expenditure		(1,421)	(1,464)
		(60,928)	**(57,812)**
Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement		(32,683)	194,654
HRA Services share of Corporate and Democratic Core		643	626
Net Cost of HRA services		**(32,040)**	**195,280**
(Gain) on sale of HRA non current assets		(3,056)	(216)
Interest payable and similar charges		7,383	2,112
HRA investment income		(115)	(116)
Capital Grant Income		(120)	(2,989)
(Surplus)/Deficit for the year on HRA services		**(27,948)**	**194,071**

Paul Whaymand

Corporate Director of Finance
26 September 2013

Movement on the HRA Balance

	2012/13 £000's	2011/12 £000's
(Surplus)/Deficit for the year on HRA services	(27,948)	194,071
Additional amount required by statute or non-statutory proper practices to be debited or credited to the General Fund balance for the year.		
Gain/(Loss) on sale of HRA non current assets	3,055	216
Capital Grant Income	120	2,989
Premium on early redemption of HRA debt	44	50
HRA share of contributions to or from the Pension Reserve	202	391
Capital Expenditure funded by the HRA	0	74
Depreciation and Impairment on Non Current Assets	11,813	(7,078)
Repayment of HRA Debt	6,752	0
HRA Self Financing Loan Settlement	0	(191,571)
Transfer to Earmarked Reserves	285	369
Increase in HRA balance for the year	**(5,677)**	**(490)**
HRA Balance Brought forward	(13,412)	(12,922)
MR Reserves	(1,123)	0
HRA Reserves carried forward	**(20,212)**	**(13,412)**
HRA Share of earmarked reserves	(715)	(430)
Total HRA Balances	**(20,927)**	**(13,842)**

1. HOUSING STOCK

The Council was responsible at 31 March 2013 for managing dwellings.

The stock was as follows:

	Total Properties at 31 March 2013	Total Properties at 31 March 2012
1 Bed Properties	3,646	3,612
2 Bed Properties	3,659	3,679
3 Bed Properties	2,838	2,852
4 plus Bed Properties	234	234
Total	**10,377**	**10,377**

Notes to Housing Revenue Account

2. VALUE OF HRA ASSETS

	Gross Book Value at 31 March 2013 £000's	Depreciation for Year 31 March 2013 £000's	Accumulated Depreciation to 31 March 2013 £000's	Net Book Value at 31 March 2013 £'000s
Operational Assets				
Council dwellings	523,000	(8,537)	(8,581)	505,882
Other land & buildings	19,553	(430)	(498)	18,625
Vehicle, plant & equipment	3,833	(35)	(835)	2,963
Non Operational Assets				
Assets Under Construction	0	0	0	0
Investment Properties	70	0	0	70
Total	**546,456**	**(9,002)**	**(9,914)**	**527,540**
	Gross Book Value at 31 March 2012 £000's	**Depreciation for Year 31 March 2012 £000's**	**Accumulated Depreciation to 31 March 2012 £000's**	**Net Book Value at 31 March 2012 £'000s**
Operational Assets				
Council dwellings	503,752	(8,581)	(8,581)	495,171
Other land & buildings	20,437	(433)	(498)	19,939
Vehicle, plant & equipment	949	(114)	(835)	114
Non Operational Assets				
Assets Under Construction	7,612	0	0	7,612
Investment Properties	70	0	0	70
Total	**532,820**	**(9,128)**	**(9,914)**	**522,906**

The vacant possession value of dwellings within the authority's HRA as at 31 March 2013 was £2,053m, this differs from the balance sheet value of £528m which is based on the economic use value of social housing. The difference of £1,525m between these two figures shows the economic cost to the Government of providing housing at below open market rents.

For 2012/13 depreciation of £8,537k in respect to Council dwellings, £430k in respect to other land and buildings and £35k in respect of vehicles, plant, furniture and equipment was charged to the HRA.

Council dwellings were revalued in 2010/11 resulting in all depreciation charged within that year being written back.

3. CAPITAL EXPENDITURE

Capital Expenditure on HRA council dwellings during 2012/13 totalled £5.2k.This was financed by:

	Total at 31 March 2013 £000's	Total at 31 March 2012 £000's
Revenue contribution	0	60
Major repairs allowance	4,379	8,581
Capital receipts	743	4,418
Other contributions	120	2,989
	5,242	**16,048**

Capital receipts from the sale of HRA properties during 2012/13 totalled £6,615k of which £1,564k was paid to Central Govt under Pooling arrangements and £743k used towards capital financing.

Notes to Housing Revenue Account

4. RENT ARREARS

At 31 March 2013 the gross HRA rent arrears amounted to £3,966k (£3,873k in 2011/12) of which £3,873k (£3,751k in 2011/12) relates to dwellings and £93k (£122k in 2011/12) to commercial rent.

5. BAD DEBT PROVISION

The provision for bad debts on all HRA debts as at 31 March 2013 was £2,424k (£2,650k in 2011/12). Of this £2,179k (£2,492k in 2011/12) relates to dwellings and £245k (£158k in 2011/12) to non-dwellings.

6. MAJOR REPAIRS RESERVE

HRA resource accounting requires the maintenance of a Major Repairs Reserve (MRR) and holds depreciation charged to the HRA in excess of the major repairs allowance. The movements on this reserve are shown below.

	2012/13 £000's	2011/12 £000's
Balance as at 1 April	0	0
Depreciation transferred to reserve	9,002	9,128
Amount used to finance capital expenditure	(4,379)	(8,581)
Repayment of debt principal	(3,500)	0
Transfer to the Capital Adjustment Account	0	(547)
	1,123	**(0)**

The £1123k will be used to finance capital expenditure on dwellings.

7. 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 cost for 2012/13 was £202k against £391k for 2011/12.

Collection Fund Account

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

Statement of Income and Expenditure

	Notes	Year ended 31 March 2013 £000's	£000's	Year ended 31 March 2012 £000's	£000's
Income					
Council tax	*3*		122,580		120,224
Transfers from General Fund for Council Tax benefits	*3*		21,992		22,148
Income collectable from business ratepayers	*6*		322,800		325,047
Income collectable relating to Crossrail			12,440		13,232
Contribution towards previous years' estimated surplus/(deficit)	*4*		(1,666)		1,837
			478,146		**482,488**
Expenditure					
Precepts & demands:					
London Borough of Hillingdon	*4*	111,556		110,311	
Greater London Authority	*4*	30,744	142,300	30,709	141,020
Business rates:					
Cost of collection	*6*		627		625
Payment to national pool	*6*		334,613		337,654
Provision for doubtful debts					
Council Tax Write-offs	*7*		(147)		(204)
Council Tax Write-backs	*7*		155		379
Council Tax Provisions	*7*		(387)		1,057
			477,161		**480,531**
(Surplus) for the Year			**(985)**		**(1,957)**
COLLECTION FUND BALANCE					
Fund (surplus) at beginning of year			(2,702)		(745)
(Surplus) for the year			(985)		(1,957)
Fund (surplus) at end of year:			(3,687)		(2,702)
Analysis of year end deficit:					
Council tax	*5*		(3,687)		(2,702)
			(3,687)		(2,702)

Paul Whaymand
Corporate Director of Finance
26 September 2013

Notes to Collection Fund Account

1. THE COUNCIL TAX SYSTEM

Council Tax is the means of raising income from local residents to pay for Council services. Council Tax is levied on domestic properties and the charge is based on the valuation band assessed for each dwelling. The Inland Revenue has appointed a Listing Officer for the borough who is responsible for property valuations, valuation registers and appeals.

2. ACCOUNTING POLICIES

The Collection Fund Income and Expenditure Account is prepared on an accruals basis and complies with appropriate regulations and the Code of Practice on Local Authority Accounting. The transactions of the Collection Fund are wholly prescribed by legislation.

3. INCOME FROM COUNCIL TAX

The council tax base, which is used in the tax calculation, is based on the number of dwellings in each band on the listing produced by the Listing Officer. This is adjusted for exemptions, discounts, disabled banding changes and appeals. The tax base estimate for 2012/13 was 100,236 (99,118 in 2011/12) as calculated below.

Band	Estimated number of Properties	Discounts & Exemptions	Net estimated number of Properties	Band D Equivalent Ratio	Band D Equivalent 2012/13	Band D Equivalent 2011/12
A	799	(141)	658	6/9	439	427
B	5,343	(958)	4,385	7/9	3,411	3,336
C	21,567	(2,510)	19,057	8/9	16,940	16,644
D	43,173	(2,938)	40,235	9/9	40,235	39,933
E	17,211	(966)	16,245	11/9	19,855	19,526
F	9,100	(515)	8,585	13/9	12,401	12,312
G	4,345	(245)	4,100	15/9	6,834	6,735
H	366	8	374	18/9	748	698
	Total				100,863	99,611
	Adjustment for non-collection				(1,311)	(1,295)
	Ministry of Defence (MOD) contribution				684	802
	Council tax base				**100,236**	**99,118**
	Council Tax Rate for Band D (£)				**1,419.65**	**1,422.75**
	Demand on the Collection Fund (£000's)				**142,300**	**141,020**

The Demand on the Collection Fund of £142,300k (£141,020k in 2011/12) represents the anticipated Council Tax income yield for the year. The actual income yield to the Collection Fund for the year was £144,572k (£142,372k in 2011/12).

Notes to Collection Fund Account

4. PRECEPTS AND DEMANDS ON THE COLLECTION FUND

The demand on the Collection Fund is split between the Council and the Greater London Authority (GLA). The in-year surplus of £2,651k and the drawdown of the previous year's estimated surplus of £1,666k are also split accordingly.

The split between the Council and the GLA is shown below:

	Precept/Demand £000's	Share of 31 March 2013 Surplus £000's	**2012/13 £000's**	2011/12 £000's
London Borough of Hillingdon	111,556	2,073	113,629	110,405
Greater London Authority	30,744	578	31,322	30,735
Total	142,300	2,651	144,951	141,140

£113,629k is the amount of council tax income included in the Comprehensive Income and Expenditure Statement. The share of the 31 March 2013 surplus of £2,651k is made up of the surplus on the Collection Fund for the year of £985k and the contribution to previous year's surplus of £1,666k.

5. CONTRIBUTIONS TO COLLECTION FUND SURPLUS OR DEFICIT

The surplus of £3,687k relating to the Council Tax will be credited in subsequent financial years to the Council and the GLA in proportion to the value of the respective demands on the Collection Fund.

6. INCOME FROM NATIONAL NON-DOMESTIC RATES

Under the arrangements for Uniform Business Rates, the Council collects non-domestic rates in the Borough based on rateable values which are assessed by the District Valuer, multiplied by a uniform rate which is set by Central Government.

The total amount, less certain relief's and other deductions, is paid to a central pool managed by the Government, which in turn is redistributed to local authorities as a standard amount per head of relevant population. The total non-domestic rateable value at 31 March 2013 was £779,744k. The National Non-Domestic multiplier for the year was 45.8p and 45.0p for small businesses.

	2012/13 £000's	2011/12 £000's
NNDR Income Collectable from ratepayers	335,240	338,279
Cost of Collection Allowance	(627)	(625)
Amount Paid to Central Government Pool	334,613	337,654
NNDR redistributed to Hillingdon Council	(79,004)	(65,599)

The NNDR redistributed to the Council is shown in the Comprehensive Income and Expenditure Statement under Taxation and Non-Specific Grant Income.

7. WRITE OFFS AND WRITE BACKS

Contributions are made from the Collection Fund Income and Expenditure Account to a provision for bad debts. During 2012/13 the Council Tax bad debt provision was decreased by £387k (bad debt provision was increased by £1,057k in 2011/12).
The amounts related to irrecoverable debts written off in year are shown below:

	2012/13 £000's	2011/12 £000's
Write Offs:		
Council tax	(147)	(204)
NNDR	(2,502)	(4,204)
Write Backs:		
Council tax	155	379
NNDR	30	711
Total	**(2,464)**	**(3,318)**

Pension Fund Accounts and Net Asset Statement

	Notes	Year Ended 31 March 2013 £000's	Year Ended 31 March 2012 £000's
Contributions	*4*	31,871	30,520
Transfers In	*5*	284	3,703
Less: Benefits	*6*	(31,424)	(32,007)
Less: Leavers	*7*	(1,957)	(3,509)
Less: Administrative expenses	*8*	(589)	(752)
Net additions from dealings with members		**(1,815)**	**(2,045)**
Investment income	*9*	14,054	9,936
Changes in market value of investments	*10*	61,904	14,213
Taxes on income		(19)	(48)
Investment management expenses	*12*	(3,922)	(3,539)
Net return on investments		**72,017**	**20,562**
Net Increase in the fund during the year		**70,202**	**18,517**
Net Assets at start of year		**612,850**	**594,333**
Net Assets at end of year		**683,052**	**612,850**

		31 March 2013 £000's	31 March 2012 £000's
Investment Assets	*10*	682,984	612,095
Investment Liabilities	*11*	(3,432)	(544)
Current Assets	*13*	4,358	1,956
Current Liabilities	*14*	(858)	(657)
TOTAL NET ASSETS		**683,052**	**612,850**

The Pension Fund Accounts summarise the transactions of the scheme and shows the net assets at the disposal of members. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is shown in the actuarial statement included in the Annual Report on pages 21-22 and these accounts should be read in conjunction with this.

Paul Whaymand
Corporate Director of Finance
26 September 2013

Notes To Pension Fund Accounts

1. DESCRIPTION OF FUND

The London Borough of Hillingdon Pension Fund ("the fund") is part of the Local Government Pension Scheme and is administered by London Borough of Hillingdon. The Council is the reporting entity for this pension fund. The following description of the fund is a summary only. For more details, reference should be made to the London Borough of Hillingdon Pension Fund Annual Report 2012/13 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General: The fund is governed by the Superannuation Act 1972 and administered in accordance with the following secondary legislation:
- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined pension scheme administered by London Borough of Hillingdon to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies within the borough.

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 the scheme. But since 01 February 2013 all new employees of the Council are automatically enrolled, with option to opt out of the scheme within three months of auto enrolment.

FUND OPERATION AND MEMBERSHIP

The Local Government Pension Scheme is a defined benefit scheme, administered under the provisions of the Local Government Pension Scheme Administration Regulations 2008 and the Local Government Pension Scheme (Benefits, Contributions and Membership) Regulations 2007 to provide benefits for members and retired members. The benefits include a pension payable to former members and their dependents and a lump sum retirement allowance (for any member with service pre 01 April 2008). The scheme is administered locally by the Council and the fund is a separate entity from the Council and its accounts and balance sheet are separate financial statements.

The fund is financed by contributions from the Council, 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 Council and other participating employers are set through the triennial actuarial valuation at a rate sufficient to meet the long-term liabilities of the fund.

Employers who contribute to the fund in addition to London Borough of Hillingdon are:

Admitted Bodies:

Genuine Dining Ltd
Greenwich Leisure
Heathrow Travel Care
Hillingdon & Ealing Citizens Advice
Look Ahead Housing & Care
Mitie Cleaning
Mitie FM
Stag Security Services

Scheduled Bodies:

Barnhill Community School
Belmore Primary School
Bishop Ramsey School
Bishopshalt School
Coteford Junior School
Cranford Park School
Douay Martyrs School
Eden Academy
Guru Nanak Academy
Harefield Academy
Haydon School
Hewens Academy
LBDS Frays Academy
London Housing Consortium
Northwood School
Queensmead School
Stockley Academy
Swakeleys Academy
Willows Academy
Uxbridge College
Uxbridge High School
Vyners Academy
Wood End Park School

Notes To Pension Fund Accounts

1. DESCRIPTION OF FUND. (CONTINUED)

As at 31 March 2013 there were 6,213 active employees contributing to the fund, with 5,498 in receipt of benefit and 5,883 entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2013	31 March 2012
Number of employers with active members	32	23
Number of employees in scheme		
London Borough of Hillingdon	5,225	4,987
Other employers	988	961
Total	**6,213**	**5,948**
Number of Pensioners		
London Borough of Hillingdon	5,047	4,969
Other employers	451	409
Total	**5,498**	**5,378**
Deferred pensioners		
London Borough of Hillingdon	4,671	4,363
Other employers	1,212	1,129
Total	**5,883**	**5,492**

The pension fund investments are managed externally by fund managers: Adams Street Partners, JP Morgan Asset Management, Kempen International Investments, LGT Capital Partners, Macquarie Investment, Marathon Global Investors, Newton Asset Management, Ruffer LLP, State Street Global Advisors and UBS Global Asset Management. In addition there is one direct investment in a pooled fund vehicle with M&G Investments.

The fund is overseen by London Borough of Hillingdon Pension Fund Committee, which is a committee of London Borough of Hillingdon, the administering authority. The performance of the fund managers is monitored by the Pensions Committee that consisted of the following members in 2012/13:

Pensions Committee

Cllr Philip Corthorne (Chairman)
Cllr Richard Lewis (Vice-Chairman)
Cllr David Simmonds
Cllr Raymond Graham
Cllr Paul Harmsworth
Cllr Janet Duncan
Mr John Holroyd (Pensioner/Deferred Scheme Member Representative) (Non Voting)
Mr Andrew Scott (Active Scheme Member Representative) (Non Voting)

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 2012/13 and underpinned by Local Government Pension Scheme (Management & Investments of Funds) Regulations 2009. The accounting policies have been drawn up in line with recommended accounting principles as specified in the Code of Practice on Local Authority Accounting and disclosed below.

3. ACCOUNTING POLICIES

a) Accounts Preparation - The accounts have been prepared in accordance with the recommendations of CIPFA and comply with both the Local Authority Accounting and Pension Statement of Recommended Practice.

b) Accruals concept - Income and expenditure are recorded on an accruals basis, except for transfer values which are accounted on a cash basis. Group transfers are accounted for under the agreement which they are made.

3. ACCOUNTING POLICIES (CONTINUED)

c) 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 is used. 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. All assets are disclosed in the financial statements at their fair value.

d) 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.

e) Acquisition costs of investments occur as brokerage commission when investments are purchased. They are recorded in the cost figure on an accruals basis.

f) Investment management expenses are recorded at cost when the fund managers/custodian invoice the Fund on a quarterly basis. Expenses are recorded on an accruals basis.

g) Administration expenses recharged to the pension fund are monitored throughout the year in accordance with the budget and are charged to the pension fund at the end of the financial year.

h) 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.

i) 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.

j) 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.

k) 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.

l) 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

m) Unquoted private equity investments - Fair value of private equity investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by investment managers using IFRS fair value principles and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), which the British Venture Capital Association is a founding member. The Value of unquoted private equities at 31 March 2013 was £39,617k (£37,007k at 31 March 2012).

n) Assumptions made about the future and other major sources of estimation uncertainty - The Statement of Accounts contains estimated figures that are based on assumptions made by the fund 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 net assets statement at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

item	Uncertainties	Effect if actual results differ from assumptions
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.	The total private equity investments in the financial statements are £39,617k. There is a risk that this investment may be under- or overstated in the accounts.

Notes To Pension Fund Accounts

4. CONTRIBUTIONS

	31 March 2013 £000's	31 March 2012 £000's
Employers		
Normal	17,050	17,566
Deficit funding	6,677	4,954
Members		
Normal	7,920	7,877
Additional contributions	224	123
	31,871	**30,520**

Deficit Funding:- At the last actuarial valuation as at 31 March 2010 the fund was 78% funded, with the remaining 22% deficit to be recovered over a period of 25 years with a common contribution rate of 22.4%.

Schedule of contributions by body	31 March 2013 £000's	31 March 2012 £000's
Employers		
LB Hillingdon	19,118	19,568
Scheduled Bodies	4,286	2,580
Admitted Bodies	323	372
Members		
LB Hillingdon	6,639	6,905
Scheduled Bodies	1,400	971
Admitted Bodies	105	124
	31,871	**30,520**

5. TRANSFERS IN

	31 March 2013 £000's	31 March 2012 £000's
Individual transfers in from other schemes	284	3,703

6. BENEFITS

	31 March 2013 £000's	31 March 2012 £000's
Pensions	26,818	24,874
Commutations and lump sum retirement	4,496	6,440
Lump sum death benefits	110	693
	31,424	**32,007**

	31 March 2013 £000's	31 March 2012 £000's
Schedule of benefits by employer		
LB Hillingdon	30,950	31,525
Scheduled Bodies	380	386
Admitted Bodies	94	96
	31,424	**32,007**

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2013 £000's	31 March 2012 £000's
Refunds of contributions	0	4
State scheme premiums	0	1
Individual transfers out to other schemes	1,957	3,504
	1,957	**3,509**

8. ADMINISTRATIVE EXPENSES

	31 March 2013 £000's	31 March 2012 £000's
Administration and processing	545	683
Audit fee	21	37
Actuarial fee	23	32
	589	**752**

9. INVESTMENT INCOME

	31 March 2013 £000's	31 March 2012 £000's
Dividends from equities	6,662	6,132
Income from index-linked securities	396	737
Income from pooled investment vehicles	1,988	1,648
Interest on cash deposits	118	83
Other (for example from stock lending or underwriting)	4,890	1,336
	14,054	**9,936**

10. INVESTMENT ASSETS

	Value at 1 April 2012 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value at 31 March 2013 £000's
Equities	167,191	251,835	(228,265)	2,793	193,554
Government Bonds	0	130	(127)	(3)	0
Index-linked securities	39,594	8,438	(8,701)	2,843	42,174
Pooled investment vehicles	363,215	164,897	(169,778)	56,815	415,149
	570,000	**425,300**	**(406,871)**	**62,448**	**650,877**
Other investment balances	4,217			(685)	3,048
Fund managers' cash	37,878			141	29,059
Total Investment Assets	**612,095**			**61,904**	**682,984**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments. The carrying amount of all assets is quoted at fair value.

Transaction costs are included in the cost of purchases and sale proceeds. These include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £357k (£337k in 2011/12). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

Notes To Pension Fund Accounts

10. INVESTMENT ASSETS (CONTINUED)

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value at 31 March 2013 £000's	Market Value at 31 March 2012 £000's
Adams Street Partners	23,366	20,791
JP Morgan Asset Management	74,981	72,012
Kempen International Investments	46,884	0
LGT Capital Partners	18,215	17,011
M&G Investments	16,351	11,149
Macquarie Infrastructure	8,536	1,205
Marathon Global Asset management	0	58,670
Newton Asset Management	22,819	0
Ruffer LLP	131,368	118,378
State Street Global Advisors	142,038	132,251
UBS Global Asset Management (Equities	135,737	112,777
UBS Global Asset Management (Property	48,574	48,628
Other*	10,683	18,679
Total	**679,552**	**611,551**

* Other includes transition assets, pending trades and recoverable tax

Forward Foreign Exchange Contracts

Counterparty and Currency		Bought £000's	Sold £000's	Unrealised Change £000's	Trade Date	Settle Date
Northern Trust	GBP - JPY	350	350	0	27/03/2013	02/04/2013
Northern Trust	GBP - USD	900	896	4	27/03/2013	02/04/2013
Northern Trust	GBP - JPY	370	370	0	28/03/2013	02/04/2013
Northern Trust	GBP - JPY	13,496	13,559	(63)	11/01/2013	15/04/2013
Northern Trust	GBP - JPY	4,616	4,614	2	26/03/2013	15/04/2013
Northern Trust	GBP - EUR	26,909	26,347	562	06/02/2013	14/05/2013
Northern Trust	GBP - AUD	2,547	2,668	(121)	06/02/2013	14/05/2013
Northern Trust	EUR - GBP	2,616	2,671	(55)	06/03/2013	14/05/2013
Northern Trust	GBP - USD	17,542	17,997	(455)	13/02/2013	15/05/2013
Northern Trust	GBP - EUR	1,342	1,297	45	11/03/2013	14/06/2013
Total unrealised gains		**70,688**	**70,769**	**(81)**		

As at 31 March 2013 ten forward foreign exchange contracts were in place for £70,769k with unrealised loss of £81k respectively. The objective of these contracts is to offset exposure to changes and fluctuations in currency exchange rates with the goal of minimising exposure to unwanted risk. Any gain or loss in the contract will be offset by an equivalent movement in the underlying asset value if converted into sterling.

Investment Assets by Asset Class

	31 March 2013 £000's	31 March 2012 £000's
Equities		
UK quoted	147,385	126,322
Overseas quoted	46,169	40,869
	193,554	**167,191**
Index Linked Securities		
UK Public Sector quoted	21,428	13,933
Overseas Public Sector Quoted	20,746	25,661
	42,174	**39,594**
Pooled Investment Vehicles		
UK Managed funds - other	260,800	107,174
UK Unit Trusts - property	46,465	48,076
Overseas Unit Trusts - other	68,267	170,893
Private Equity	39,617	37,072
	415,149	**363,215**
Other Investment balances		
Forward foreign exchange unrealised gain	0	1,688
Amount due from brokers	1,615	1,081
Outstanding dividend entitlements and recoverable withholding tax	1,433	1,448
	3,048	**4,217**
Cash deposits		
Sterling	29,059	37,878
	29,059	**37,878**
	682,984	**612,095**

Note: There are no investments that are more than 5% of the Net Asset Value

10. INVESTMENT ASSETS (CONTINUED)

AVC Investments

Additional voluntary contributions paid by scheme members are not included in the accounts in accordance with Regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998. 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 provisional information provided by Prudential, the fund's AVC provider, value of assets under management as at 31 March 2013 was £5,298k and as at 31 March 2012 £5,400k. Any transfer of additional contributions into the fund during the year are included in the transfer value as detailed in note 5.

11. INVESTMENT LIABILITIES

	31 March 2013 £000's	31 March 2012 £000's
Amount outstanding to brokers	3,351	544
Forward foreign exchange unrealised loss	81	0
	3,432	**544**

12. INVESTMENT MANAGEMENT EXPENSES

	31 March 2013 £000's	31 March 2012 £000's
Administration, management and custody	3,796	3,412
Performance measurement services	12	4
Other advisory fees	114	123
	3,922	**3,539**

13. CURRENT ASSETS

	31 March 2013 £000's	31 March 2012 £000's
Employers' contributions due	157	151
Employees' contributions due	56	56
Debtor: London Borough of Hillingdon	215	858
Debtor: Other Entities	4	3
Cash balances	3,926	888
	4,358	**1,956**

NB: The current assets all relate to amounts due from local government bodies with the exception of cash which is held with bodies external to government.

14. CURRENT LIABILITIES

	31 March 2013 £000's	31 March 2012 £000's
Creditor: Other Entities	849	656
Creditor: London Borough of Hillingdon	9	1
	858	**657**

NB: A total of £849k is due to bodies external to government, namely investment managers, with all remaining amounts due to local government bodies.

15. FINANCIAL INSTRUMENTS

a) Classification of Financial Instruments

	31 March 2013	31 March 2012
Financial Assets	**£000's**	**£000's**
Fixed Interest Securities	42,174	39,594
Equities	193,554	167,191
Pooled Investments	321,011	276,863
Pooled Property Investments	46,465	48,076
Private Equity/Infrastructure	47,673	38,277
Derivative Contracts	0	1,687
Cash	29,059	37,878
Debtors	3,048	2,529
	682,984	612,095
Financial Liabilities		
Derivative Contracts	(81)	0
Creditors	(3,351)	(544)
	(3,432)	(544)
	679,552	**611,551**

b) Net Gains and Losses on Financial Instruments

	31 March 2013	31 March 2012
Financial Assets	**£000's**	**£000's**
Fair Value through profit and loss	61,985	30,589
Financial Liabilities		
Fair Value through profit and loss	(81)	(16,376)
	61,904	**14,213**

c) Fair Value of Financial Instruments and liabilities

	31 March 2013	31 March 2013	31 March 2012	31 March 2012
	£000's	**£000's**	**£000's**	**£000's**
Financial Assets	Fair Value	Carrying Value	Fair Value	Carrying Value
Fair Value through profit and loss	650,877	650,877	570,000	570,000
Loans and receivables	32,107	32,107	42,095	42,095
Total Financial assets	**682,984**	**682,984**	**612,095**	**612,095**
Financial Liabilities				
Fair Value through profit and loss	(3,432)	(3,432)	(544)	(544)
Loans and receivables	0	0	0	0
Total Financial Liabilities	**(3,432)**	**(3,432)**	(544)	(544)

The carrying amount for 31 March 2012 has been restated to show the fair value as stated in the financial statements.

15. FINANCIAL INSTRUMENTS (CONTINUED)

d) Valuation of financial instruments carried at fair value

Values as at 31 March 2013	Quoted Market Price	Using Observable Inputs	With Significant unobservable inputs	
	Level 1 £000's	Level 2 £000's	Level 3 £000's	Totals £000's
Financial assets at fair value through profit and loss	552,791	46,465	63,741	662,997
Loans and Receivables	15,150	2,109	2,728	19,987
Total Financial Assets	**567,941**	**48,574**	**66,469**	**682,984**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(3,432)	0	0	(3,432)
Total Financial Liabilities	**(3,432)**	**0**	**0**	**(3,432)**
Net Financial Assets	**564,509**	**48,574**	**66,469**	**679,552**

Values as at 31 March 2012	Quoted Market Price	Using Observable Inputs	With Significant unobservable inputs	
	Level 1 £000's	Level 2 £000's	Level 3 £000's	Totals £000's
Financial assets at fair value through profit and loss	484,187	48,075	49,404	581,666
Loans and Receivables	29,059	576	794	30,429
Total Financial Assets	**513,246**	**48,651**	**50,198**	**612,095**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(544)	0	0	(544)
Total Financial Liabilities	**(544)**	**0**	**0**	**(544)**
Net Financial Assets	**512,702**	**48,651**	**50,198**	**611,551**

16. PRIVATE EQUITY VALUATIONS

The Investment Sub Committee have undertaken a review of the audited Financial statements for the Private Equity funds on behalf of the London Borough of Hillingdon Pension Fund by Adam Street Partners and LGT and considered their valuation processes adopted for illiquid markets. The ISC are assured that the valuation process is rigorous and result in valuations that, within materiality, represents fair value at the reporting date.

17. 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 Pension Fund 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.

17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

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. Possible losses from shares sold short is 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 movements in market price risk are reasonably possible for the 2013/14 reporting period.

Asset Type	Potential market movements (+/-)
UK quoted equities	12.90%
Overseas quoted equities	11.80%
UK Public Sector quoted Index-Linked Securities	6.50%
Overseas Public Sector quoted Index-Linked Securities	6.50%
Corporate Bonds	4.00%
UK Managed funds - other	12.90%
UK Unit Trusts - property	2.30%
Overseas Unit Trusts - other	11.80%
Private Equity	4.70%

The potential price changes disclosed above are broadly consistent with a one-third standard deviation movement in the value of the assets. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows:

17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Asset type	**Value as at 31 March 2013**	**Percentage Change**	**Value on Increase**	**Value on Decrease**
	£000	%	£000	£000
Cash and Cash equivalents	29,059	0.00	29,059	29,059
Investment Assets				
UK quoted equities	147,385	12.90	166,398	128,372
Overseas quoted equities	46,169	11.80	51,617	40,721
UK Public Sector quoted Index-Linked Securities	21,428	6.50	22,821	20,035
Overseas Public Sector quoted Index-Linked Securities	20,746	6.50	22,094	19,938
UK Managed funds - Equities	100,447	12.90	113,405	87,489
UK Managed funds - Bonds	53,742	4.00	55,892	51,592
UK Unit Trusts - property	46,465	2.30	47,534	45,396
Overseas Unit Trusts - Equities	94,622	11.80	105,787	83,457
Overseas Unit Trusts - Bonds	72,200	4.00	75,088	69,312
Private Equity/Infrastructure	47,673	4.70	49,914	45,432
Net Derivative assets	(81)	0.00	(81)	(81)
Investment income due	1,433	0.00	1,433	1,433
Amounts receivable for sales	1,615	0.00	1,615	1,615
Amounts payable for purchases	(3,351)	0.00	(3,351)	(3,351)
Total Assets Available to pay benefits	**679,552**		**739,225**	**620,419**

Asset type	**Value as at 31 March 2012**	**Percentage Change**	**Value on Increase**	**Value on Decrease**
	£000	%	£000	£000
Cash and Cash equivalents	37,878	0.00	37,878	37,878
Investment Assets				
UK quoted equities	126,322	15.60	146,027	106,617
Overseas quoted equities	40,869	14.70	46,877	34,861
UK Public Sector quoted Index-Linked Securities	13,933	6.00	14,769	13,097
Overseas Public Sector quoted Index-Linked Securities	25,661	6.00	27,201	24,121
UK Managed funds - Equities	56,402	15.60	65,201	47,603
UK Managed funds - Bonds	50,772	6.00	53,818	47,726
UK Unit Trusts - property	48,076	4.70	50,335	45,815
Overseas Unit Trusts - Equities	110,429	14.70	126,662	94,196
Overseas Unit Trusts - Bonds	59,259	6.00	62,815	55,703
Private Equity/Infrastructure	38,277	3.30	39,040	36,546
Net Derivative assets	1,688	0.00	1,688	1,688
Investment income due	1,448	0.00	1,449	1,449
Amounts receivable for sales	1,081	0.00	1,081	1,081
Amounts payable for purchases	(544)	0.00	(544)	(544)
Total Assets Available to pay benefits	**611,551**		**674,297**	**547,837**

17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Interest Rate Risk is 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 balances and cash and cash equivalents.

The fund's direct exposure to interest rate movements as at 31 March 2013 and 31 March 2012 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 2013 £000's	31 March 2012 £000's
Cash and cash equivalents	2,488	11,667
Cash	26,570	26,211
Fixed Interest Securities	168,118	149,625
Total	**197,176**	**187,503**

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.

Asset Type	Carrying amount as at 31 March 2013	Change in the net assets available to pay benefits	
		1%	-1%
	£000's	£000's	£000's
Cash Equivalents	2,488	25	(25)
Cash	26,570	266	(266)
Fixed Interest Securities	168,118	1,681	(1,681)
Total change in assets available	**197,176**	**1,972**	**(1,972)**

Asset Type	Carrying amount as at 31 March 2012	Change in the net assets available to pay benefits	
		1%	-1%
	£000's	£000's	£000's
Cash Equivalents	11,667	117	(117)
Cash	26,211	262	(262)
Fixed Interest Securities	149,625	1,496	(1,496)
Total change in assets available	**187,503**	**1,875**	**(1,875)**

Currency Risk is 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 2013 the Fund had a 100% Euro and 50% AU$ 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 2013 and as at the previous period ending 31 March 2012.

17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Currency exposure by asset type

	Asset value as at 31 March 2013	Asset value as at 31 March 2012
	£000's	£000's
Overseas quoted Securities	46,169	40,869
Overseas Corporate Bonds	72,200	59,259
Overseas Index-linked Bonds	20,746	25,661
Overseas managed funds	94,622	110,429
Private Equity/Infrastructure	47,673	38,277
	281,410	**274,495**

Currency risk sensitivity analysis - Following analysis of historical data in consultation with WM Company, the funds data provider. The Fund considers the likely volatility associated with foreign exchange rate movements to be 5.6%, based on the data provided by WM. A 5.6% fluctuation in the currency is considered reasonable based on WM'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. A 5.6% 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:

Currency exposure by asset type

	Asset value as at 31 March 2013	Change in the net assets available to pay benefits	
		+5.6%	-5.6%
	£000's	£000's	£000's
Overseas quoted Securities	46,169	48,754	43,584
Overseas Corporate Bonds	72,200	76,243	68,157
Overseas Index-linked Bonds	20,746	21,908	19,584
Overseas managed funds	94,622	99,921	89,323
Private Equity/Infrastructure	47,673	50,343	45,003
	281,410	**297,169**	**265,651**

Currency exposure by asset type

	Asset value as at 31 March 2012	Change in the net assets available to pay benefits	
		+10%	-10%
	£000's	£000's	£000's
Overseas quoted Securities	40,869	44,956	36,781
Overseas Corporate Bonds	59,259	65,185	53,333
Overseas Index-linked Bonds	25,661	28,227	23,095
Overseas managed funds	110,429	121,472	99,386
Private Equity/Infrastructure	38,277	42,105	34,449
	274,495	**301,945**	**247,045**

17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Credit Risk - The risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation.

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 who assign 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.

Forward Currency Contracts are with Northern Trust which holds a strong Standard & Poors credit rating of AA-. Their financial stability across a wide array of market and economic cycles is demonstrated by the fact that they have held this rating for the past twenty years. Their continued balance sheet strength and ratings outlook reflects the diversity of business, consistent financial performance and conservative approach. Their credit rating is regularly monitored along with market indicators and media coverage to ensure their credit worthiness is maintained.

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 HSBC which holds a AA- long term credit rating (or equivalent) and Natwest (A-) across three rating agencies and they maintain their status as well capitalised and strong financial organisations. Deposits are placed in the AAAm rated Northern Trust Money Market Fund and SSgA Sterling Liquidity sub-Fund which offers the benefits of a diversified pool of underlying investments, 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 2013 was £16,046k (31 March 2012: £29,500k) and this was held with the following institutions.

Summary	Rating	Balances as at 31 March 2013	Rating	Balances as at 31 March 2012
Money market funds		**£000**		**£000**
Northern Trust Global Sterling Fund A	AAAm	10,832	AAAm	17,494
SSgA Sterling Liquidity Fund Sub-Fund	AAAm	2,488	AAAm	11,667
Bank current accounts				
Natwest (Capita)	A-	1,169	A-	0
HSBC Plc	AA-	1,557	AA-	388
Total		16,046		29,549

Liquidity Risk - The risk the Pension Fund will have difficulties in paying its financial obligations when they fall due.
The Pension Funds holds a working cash balance in its own bank accounts (HSBC and Natwest - Capita) and Money Market Fund to which it has instant access to cover the payment of benefits and other lump sum payments. 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 2013 these assets totalled £599,200k, with a further £16,046k held in cash by fund managers.

18. ACTUARIAL POSITION

The Fund's actuary, Hymans Robertson, carried out the latest triennial actuarial valuation of the fund as at 31 March 2010. On the basis of the assumptions adopted, the valuation showed that the value of the fund represented 78% of the fund's accrued liabilities at the valuation date. The total net assets of the fund at 31 March 2010 was £564,000k. The value of the deficit at that date was £163,000k.

The valuation exercise resulted in the revision of employers' contribution rates set to recover the deficiency over a period of 25 years. The total common contribution rate is 22.4% for the period of 1 April 2011 to 31 March 2014.

The contribution rates were calculated using the projected unit method and the main actuarial assumptions used were:

Price Inflation (CPI) - 3.30% Funding Basis Discount Rate - 6.10%

Pay Increases - 5.30%

19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

Following the introduction of IFRS the fund is now required under IAS 26 to disclose the actuarial present value of promised retirement benefits. The calculation of this disclosed amount must be determined in accordance with IAS 19. The general financial assumptions used in preparing the IAS26 valuation are summarised below:

Description	**31 March 2013**	**31 March 2012**
	% P.a.	**% P.a.**
Inflation /Pensions Increase Rate	2.8%	2.5%
*Salary Increase Rate	5.1%	4.8%*
Discount Rate	4.5%	4.8%

*Salary increase are assumed to be 1% p.a. until 31 March 2015 reverting to long term assumption shown thereafter

An IAS 26 valuation was carried out for the fund as at 31 March 2013 by Hymans Robertson LLP with the following results:

Description	**31 March 2013**	**31 March 2012**
	£000	**£000**
Present Value of Promised Retirement Benefits	1,066,000	889,000
Assets	683,052	612,850
Deficit	382,948	276,150

These figures are presented for the purposes of IAS 26 only. They are not relevant for the calculations undertaken for funding purposes or other statutory purposes under UK pensions 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.

20. 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. The Council ceased provision of administration services for the pension fund on 01 April 2013. These services have now been contracted out to Capita Hartshead Administration Services and Administration charges for 2012/13 was £535k compared to £683k in 2011/2012 paid to London Borough of Hillingdon for the fund administration services.
No senior officers or Pension committee member had any interest with any related parties to the pension fund.

20. RELATED PARTY TRANSACTIONS (CONTINUED)

Governance

There are five members of the pension fund committee who are active members of the pension fund. These members are Cllr Philip Corthorne (Chairman), Cllr David Simmons, Cllr Paul Harmsworth, Cllr Janet Duncan and Cllr Richard Lewis. Each member is required to declare their interest at each meeting.

Key management personnel

Two key employees of the London Borough of Hillingdon hold key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees and their financial relationship with the fund (expressed as cash-equivalent transfer values) are set out below:

	Accrued pension as at 31 March 2013	Accrued pension as at 31 March 2012
	£000's	£000's
Corporate Director of Finance	1,107	658
Senior Service Manager - Corporate Finance	622	442

21. SECURITIES LENDING ARRANGEMENTS

On the 12th December 2006 the London Borough of Hillingdon Pension Fund Committee agreed to engage Northern Trust Global Investments Limited to carry out Securities Lending. As at 31 March 2013, securities worth £34,022k were on loan by Northern Trust from our portfolio and collateral worth £46,480k was held within the pool including Hillingdon. In the same period, a net income of £46k was received.

22. STATEMENT OF INVESTMENT PRINCIPLES (SIP)

The SIP is reviewed annually and a current version is available on the Pensions Fund pages of the Council's web site: www.hillingdon.gov.uk and included in the Annual Report.

23. BULK TRANSFER

There were no bulk transfers into or out of the Fund during the financial year 2012/13.

24. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2013 totalled £45,175k (31 March 2012: £53,800k).
These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of between four and six years from the date of each original commitment.

25. CONTINGENT ASSETS

Three 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 event of employer default.

26. POST BALANCE SHEET EVENTS

Barings Asset Management was appointed in March 2013 to reduce style concentration risk in the Absolute return strategy of Ruffer LLP, with a mandate total of circa £63,000k (9% of fund's assets). The funding for the new mandate was derived from a reduction of Ruffer assets under management from 19% to 12% and the remaining 2% from UBS UK Equities Portfolio, thus increasing absolute return portfolio holdings to 21% and reducing UK Equities to 19%. Transition of assets and funding of the new mandate took place between 17-24 April 2013 and was overseen by Nomura International Plc.

London Borough of Hillingdon

Annual Governance Statement 2012-13

1 Scope of Responsibility

The London Borough of Hillingdon is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The London Borough of Hillingdon also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the London Borough of Hillingdon 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.

The London Borough of Hillingdon is following a code of corporate governance, which is consistent with the principles of the CIPFA / SOLACE Framework '*Delivering Good Governance in Local Government'.* This statement explains how the authority has complied with the code and also meets the requirements of Regulation 4(3) of the Accounts and Audit Regulations 2011 in relation to the publication of an Annual Governance Statement.

2 The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled and its 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.

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 London Borough of Hillingdon's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the London Borough of Hillingdon for the year ended 31 March 2013 and up to the date of approval of the Statement of Accounts.

3 The Governance Framework

The London Borough of Hillingdon 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 below demonstrate how Hillingdon maintains effective internal controls and an effective governance system.

1 **The London Borough of Hillingdon'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 regularly reviewed at full Council meetings and also more comprehensively on an annual basis at each AGM.

2 Part 2 of the constitution outlines the **roles and responsibilities** of the Executive, Non-executive, Mayor, Overview and Scrutiny committees, Standards committee and officer functions. There is an ethical framework governing the conduct of members and co-opted members, introduced by the Localism Act 2011, which came into force on 1st July 2012. The governance arrangements for Hillingdon comprise:

- A structure of the Leader of the Council, a Cabinet and Policy Overview and Scrutiny Committees
- A Corporate Management Team
- Senior Management Teams
- The Audit Committee, led by an independent chairman
- Standards Committee and a Code of Conduct for Members and Co-opted Members

3 Part 2, article 7 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 Director's responsibilities.

4 Part 3 of the Constitution sets out the **'Scheme of Delegations to Officers'**. This governs the responsibility allocated to officers of the London Borough of Hillingdon to perform the authority's activities. This is periodically updated to reflect the changes to Director's responsibilities in line with business priorities.

5 Part 5 of the Constitution sets out formal **'Codes of Conduct'** governing the behaviour and actions of all elected Council members and Council officers. An updated 'Code of Conduct for Members and Co-opted Members' was adopted on 5 July 2012 to meet the provisions of the Localism Act 2011. The code ensures 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 regularly reviews the code and guidance to ensure these requirements reflect changes to the Council structure.

6 **A Member training programme** is devised for each municipal year. Given that there is a new ethical regime in place for Members and Co-opted Members of the Council, training on the new Code of Conduct took place in the Autumn of 2012, delivered by the Borough Solicitor and Head of Democratic Services. Complaints about a breach of the Code will be handled in accordance with the requirements of the Localism Act 2011. A Whips Protocol has been introduced as part of the new framework and complainants are now expected to use it first, with complaints only to be escalated to the Monitoring Officer and Standards Committee if they cannot be resolved through this process. The Council has also put in place a comprehensive induction and training programme for elected councillors along with specific training on risk, scrutiny, planning and licensing rules.

7 **A Code of Corporate Governance** sets out the London Borough of Hillingdon's governance structure, decision making process and areas of responsibility. Originally adopted in 2002, the code reflects the authority's governance structure and corporate responsibilities, and is founded on the fundamental principles of openness, integrity and accountability and sets out the policies, systems and procedures in place to achieve this.

8 **A Member 'Register of Interests'** records the interests of elected members of the London Borough of Hillingdon. There is a separate 'Related Parties' register that members and senior officers are required to complete each year declaring the relationship and nature of any related party transactions, which the authority has entered into.

9 **A Member / Officer Protocol** to govern and regulate the relationship between the London Borough of Hillingdon's elected members and appointed officers. This has been developed in consultation with the political leadership, all Council members and officers.

10 **A formal whistle-blowing policy**, which is based on the Public Interest Disclosure Act 1998, allows Council staff and contractors working for the authority to raise complaints regarding any behaviour or activity within the authority, ranging from unlawful conduct to possible fraud

or corruption. The Monitoring Officer has overall responsibility for maintaining and operating the policy, along with reporting on outcomes to the Standards Committee.

11 **The London Borough of Hillingdon** has set out its vision of 'Putting Our Residents First' and established four priority themes for delivering efficient, effective and value for money services. The priority themes are; 'Our People, 'Our Heritage, 'Our Environment' and 'Sound Financial Management'. The delivery of these priorities will be achieved through a combination of strategic management programmes, which include: the Hillingdon Improvement Programme, Business Improvement Delivery programme and the financial and service planning process (Medium Term Financial Forecast).

12 **The Hillingdon Improvement Programme (HIP)** is Hillingdon'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. HIP has helped to change the culture of the organisation and 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, our primary and secondary schools and how well they feel informed, through regular feedback. HIP is consistently trying to improve Hillingdon by continuing to deliver a range of innovative projects, drive forward major cultural change and enhance Hillingdon's reputation. The programme is led by the Leader of the Council, and the Chief Executive and Corporate Director for Administration is the programme director. Cabinet members and directors are also responsible for specific HIP projects.

13 **The Business Improvement Delivery (BID)** programme is a key part of HIP and was been designed to fundamentally transform the way the Council operates. Through the programme, savings of £17.7 million were delivered in 2012-13 in addition to the £15.6 million and £26.2 million delivered in 2010-11 and 2011-12 respectively. 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.

14 **The Medium Term Financial Forecast (MTFF)** process is the system of service, financial and annual budget planning. This runs from the preceding spring to February with a robust challenge process involving Members and Corporate Directors. Monthly reports on key financial health indicators are produced and communicated through the finance management team.

15 The **Sustainable Community Strategy (SCS)** sets out the Local Strategic Partnership aims and ambitions for the London Borough of Hillingdon over the next 10 years. The Local Strategic Partnership (Hillingdon Partners) has overall responsibility for the Sustainable Community Strategy; the priorities have been reviewed and updated to reflect the changing circumstances of the borough.

16 **Hillingdon Partners** reviewed its structure and governance arrangements following the abolition of the Comprehensive Area Assessment and the Local Area Agreement. The review agreed to focus partnership work around key priorities, and streamline delivery theme groups and arrangements for reporting partnership performance and risk.

17 **A Joint Strategic Needs Assessment** (JSNA) outlines the current and future health and wellbeing needs of the population over the short-term (three to five years) and informs service planning, commissioning strategies and links to strategic plans such as the Health and Wellbeing Strategy and the Sustainable Community Strategy. Following a redesign of the JSNA in 2011, further work has been undertaken to refresh the content in 2012 to reflect changes in regional and local data and to ensure it functions as a flexible and comprehensive needs assessment. The JSNA is 'live' and can be accessed via the Council's website and as such is updated throughout the year rather than refreshed annually.

18 **An independent Audit Committee** operates to oversee the financial reporting, provide an independent 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 consistent with CIPFA's *'Audit Committees – Practical Guidance for Local Authorities 2005*.

19 The Performance Management Framework is a Council-wide framework requiring service areas and teams to set annual team plans, targets, identify risk and report performance against Council priorities and SCS priorities. Performance is 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.

20 The London Borough of Hillingdon has established an effective **risk management system**, including:

- **A corporate risk management framework** outlining the, roles, responsibilities and processes for capturing, reporting and taking action to mitigate key corporate and directorate risks. Team, directorate and corporate risk registers enable the identification, quantification and management of risks to delivering the Council's objectives. Group risk registers are regularly updated, reviewed by each Senior Management Team and the most significant risks are elevated to the Corporate Risk Register. The framework is reviewed annually.

- **A Corporate Risk Management Group** (CRMG) reviews the risk registers on a quarterly basis and advises the Cabinet and Corporate Management Team on the significant risks. Twice annually, the risk reporting arrangements are reviewed and updated, if appropriate, by the Audit Committee. Where appropriate, the Medium Term Financial Forecast (MTFF) embraces the potential financial impact of significant risks.

- **Risk management training** is provided when required. An e-learning training package is in place and accessible for all staff and is included in the induction programme.

21 **Occupational Health and Safety Services** provide advice and support to the Corporate Safety Forum, Group Health and Safety Advisors and managers regarding health and safety issues. The Corporate Safety Forum assists in ensuring a consistent approach to health and safety management is adopted throughout the Council. It reviews health and safety performance across the Council and discusses matters of topical and strategic interest that have corporate health and safety consequences.

22 Through the **Hillingdon Information Assurance Group** (HIAG) the Council implements and review policies, procedures and training to ensure a high level of information security assurance and effective data and information management.

23 The London Borough of Hillingdon has **an Anti-Fraud and Corruption Strategy** approved by members and communicated to all staff. It is underpinned by and refers to the full range of policies and procedures supporting corporate governance arrangements such as Codes of Conduct, Standing Orders, Register of interests and whistle-blowing.

24 **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. The Scheme of Delegation specific to each directorate is available on the Hillingdon's internal web pages. In 2012 these schemes were reviewed and updated to account for changes to the Council structure and roles and responsibilities of Corporate Directors.

25 The London Borough of Hillingdon operates a system to **monitor legislative changes** and ensure that the authority is fully compliant with laws and regulations.

26 **Hillingdon'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 'Horizon' to ensure they have the skills, knowledge & behaviours to deliver the Council's priorities. This includes induction programmes, e-learning packages and a range of vocational development courses under the Qualifications and Credit Framework. In addition, the Hillingdon Academy is now well established as a leadership programme aimed at providing the Council's future leaders. The Council also offers staff the opportunity to achieve professional qualifications and meet their continuing professional development (CPD) requirements.

27 The **Performance and Development Appraisal (PADA)** process, completed by all officers and senior managers, records employee's key objectives and tasks, sets targets for when these must be delivered and identifies staff learning and development needs. There are competency frameworks for staff, managers, senior officers and Directors, with descriptors outlining the performance that is expected at each level. Performance reviews are completed on a bi-annual basis against the relevant competency framework and PADA guidance is available to support both staff and managers through the process.

28 Hillingdon has a set of **consultation/engagement standards** that demonstrate a commitment for building strong relationships with residents, visitors and businesses throughout the borough. The standards set out Hillingdon's commitment to engage, consult and respond to the views of local communities. The standards also support Hillingdon's commitment to transparency and the need for sharing information with residents. Resident and stakeholder feedback supports and informs corporate intelligence, which drives business planning, policy and decision making including commissioning and procurement of services. An annual customer engagement plan is in place covering all Council services to align customer engagement to support the delivery of Council priorities

29 **Hillingdon's Pride of Place** initiative encourages residents to contribute their ideas on neighbourhood improvements so that they can feel PROUD to live in Hillingdon. The aim is to raise civic pride by showing how residents can make a real difference and contribute directly to a range of activities and specific projects to improve their local area. The initiative brings together other successful programmes such as 'Street Champions' and 'Chrysalis', and gives residents the opportunity to meet informally with their ward councillors and discuss improvements directly with Council officers through a variety of community engagement events across the borough.

30 The Council has in place a well-established **Petition Scheme**, including e-Petitions. This is widely used by people in the borough to submit their views on local matters directly to decision-makers. The scheme was reviewed and revised by the Council in May 2013.

4 Review of Effectiveness

The London Borough of Hillingdon has 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 executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

Overall the review of effectiveness concluded that internal control systems have been in place for the financial year ended 31 March 2013 and, except for the internal control issues detailed in section 5, management and control systems are operating effectively in accordance with good practice.

The review has been informed by a range of management information and improvement action, including:

1 A comprehensive annual programme of scrutiny and review by the Policy Overview and Scrutiny Committees and the Audit Committee.

2 The role and responsibilities of the Corporate Director of Finance, detailed in the Code of Corporate Governance, as a key member of the leadership team actively involved in all material business decisions to safeguard public money and sound financial management on behalf of the authority.

3 The work of the external auditors as reported in their annual audit letter.

4 The work of Internal Audit service, which develops its annual work plan after an assessment of risk. The Head of Audit and Enforcement reported regularly during the year to both the Corporate Management Team and the Audit Committee and has provided a satisfactory level of assurance on the internal control environment in 2012-13.

5 The internal control assurance statement template was updated for the 2012-13 review. The template provides more detail on the assurances required and the evidence to support them. Statements were received from all Deputy Directors and Heads of Service covering the financial year 2012-13. Statements provide confirmation that the control environment is operating effectively to safeguard the delivery of services and that any significant control issues have been raised and are being dealt with appropriately.

6 The London Borough of Hillingdon has continued to maintain effective financial management throughout the financial year, with unallocated reserves increasing to £30.3 million as at 31 March 2013.

7 The London Borough of Hillingdon has a clear commitment to a capable and fit for purpose procurement function. Working through a co-located business partner model, Procurement ensures a best value approach to expenditure commitment. By engaging with directorates, Procurement supports the delivery of financial and service level requirements to meet the wider corporate objectives with a ‘Resident First’ approach. Progress and performance of Procurement delivery is regularly reviewed with directorate Senior Management Teams and the Corporate Management Team. Processes and procedures are regulated through revised Procurement & Contract Standing Orders enabling the appropriate oversight of decisions.

8 Implementation of performance measures ensures that each area achieves its targets in service delivery, financial control, and good governance.

9 Throughout 2012-13 the London Borough of Hillingdon has made substantial progress to implement new procedures and protocols and strengthen existing governance arrangements. This includes:

- A review and refresh of the Council’s Constitution
- Adopting an updated Code of Conduct for Members and Co-opted Members
- Updating the scheme of delegations for each directorate

5 Significant Governance Issues

The London Borough of Hillingdon has implemented a range of improvement actions, as part of its overall continuous improvement programme, to strengthen governance arrangements and control systems. Through the Council's BID programme, current ways of working are also being rigorously challenged and tested against processes and procedures applied in the business world, which is unusual for Local Government. This has meant that Hillingdon's approach has identified issues and therefore improvements that other Local Authorities may not.

All internal control issues reported in the 2011-12 AGS have been resolved, except that:

1. Historic weaknesses were identified in the monitoring and control of some construction projects, specifically around financial reporting. As part of a BID transformation project, new processes and procedures have been put in place that include “gateway sign offs”. Staff are being trained and new documentation is being rolled out. Moving forward, the new Asset Management Service will bring together all property, construction and maintenance functions and these new ways of working will be implemented consistently across the service for all teams.

Following a review of the effectiveness of the system of internal control, the following governance issues have been identified in 2012-13:

2. The monthly budget monitoring process in passenger services was found to be insufficiently robust which resulted in a budget overspend picked up in Q4. A transport panel has now been set up to vet all applications for travel assistance and a more thorough monitoring approach between the manager and finance services has been implemented.

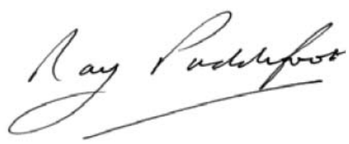
3. In October 2012, the Residents Services directorate took responsibility for all Housing functions. Planned audit reviews and a subsequent BID review have highlighted control issues around the lack of formalised processes and procedures, contract management activity and regard to corporate ways of working and protocols. These issues are being addressed as part of the BID Asset Management and Tenancy Sustainment Programmes.

    - Specifically in housing repairs, a lack of contract management arrangements has led to legal challenge by a supplier and their staff.

4. A review of the Council’s approach to contract management found that there was insufficient rigour in the monitoring of supplier contract terms, which is a requirement of standing orders and key to ensuring the Council obtains value for money. In order to ensure consistent compliance with standing orders and the consolidation of contracts, Corporate Procurement and Social Care Commissioning functions have been brought together and a new Category Management approach is being implemented. This has also generated financial savings.

5. As part of the ongoing changes to the organisation though the BID process, there is a need to constantly review and update policies and procedures to take account of the change in roles and responsibilities. - scheme of delegations, succession plans, structure charts etc.

The London Borough of Hillingdon will, over the coming year, take steps to address the above matters to further enhance our governance arrangements. The authority is satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and will monitor their implementation and operation as part of the next annual review.



Fran Beasley
Chief Executive
23 September 2013

Cllr Ray Puddifoot
Leader of the Council
23 September 2013

Glossary of Terms

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 authority 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 authority'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 local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

CONTINGENCY - Money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

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 authority'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 authority for goods and services received where payment has not been made at the date of the balance sheet.

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 authority 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 authority'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.

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 authority 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 local authority 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 authority.

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.

MINIMUM REVENUE PROVISION - (MRP) - The minimum amount, which must be charged each year to an authority'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 a local authority 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 authority or consumed by an authority 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 authority.

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.

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 authority offset by that part of depreciation relating to the revaluation.

REVENUE EXPENDITURE - The day-to-day running costs incurred by an authority 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 Authority 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.

UNUSABLE RESERVES - Balances held by the Council which cannot be used to meet service expenditure

USEFUL LIFE - The period over which the local authority 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.

EXTERNAL AUDITOR REPORT ON THE PENSION FUND ANNUAL REPORT AND ACCOUNTS

Contact: Nancy Leroux
Telephone: 01895 250353

SUMMARY

The attached report summarises the findings of the External Auditor on the audit of the 2012/13 Pension Fund Annual Report and Accounts. The auditor has indicated that, subject to clearance of final points they expect to issues an unmodified opinion on the financial statements. A verbal update on the final outcome will be given at the meeting.

RECOMMENDATIONS

1. To consider and approve the Annual Report of the Pension Fund,

2. To note the auditor's findings

BACKGROUND

1. The Council as an administering authority under the Local Government Pension Scheme Regulations is required to produce a separate set of accounts for the scheme's financial activities and assets and liabilities.

2. The contents and format of the accounts are determined by statutory requirements and mandatory professional standards as established by the Chartered Institute of Public Finance (CIPFA) in their Statement of Recommended Practice (SORP).

3. The Pension Fund Accounts were subject to a separate audit by the Council's external auditors, Deloitte LLP, which must be completed by 30 September 2013.

4. Whilst Audit Committee formally approves the Council's Statements of Accounts, which incorporates the Pension Fund Accounts, the Annual Report requires the approval of Pensions Committee. This report will also be taken to Audit Committee on 26 September 2013.

SCOPE OF THE EXTERNAL AUDIT

5. Auditors are required to communicate to elected Members matters of governance that arise from the audit of the financial statements. These cover, in addition to an update on the audit status:

- Key audit risks
- Identified misstatements
- Accounting and internal control systems
- Current Accounting and Regulatory Issues

6. In addition, the Auditor requires a “Representation Letter” to be signed by management. The contents of this letter are set out at Appendix 1 to the attached Deloitte report. The letter has to include representations from management on matters material to the statement where sufficient appropriate evidence cannot reasonably be expected to exist.

COMMENT ON THE CONTENTS OF THE REPORT

7. The report gives a comprehensive account of the work undertaken during the audit and includes several auditor mandatory reporting requirements. The report is positive and reports satisfactorily on the key audit risks. There was only one uncorrected misstatement identified and that was in relation to the calculation of deficit funding contributions where an historic split between normal and deficit contributions was used rather that the split from the 2010 valuation.

8. In relation to accounting and internal control systems, Deloitte have made one recommendation and that relates to the misstatement mentioned above. On receipt of the 2013 valuation results a process will be implemented to ensure the updated split is used to produce the next financial statements.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

BACKGROUND DOCUMENTS

None

Deloitte.

London Borough of Hillingdon

Report to the Pension Committee and Audit Committee on the year ended 31 March 2013 Local Government Pension Fund Audit

Final Report

2013

Contents

Executive summary

We have pleasure in setting out in this document our report to the Pension and Audit Committees of the London Borough of Hillingdon for the year ended 31 March 2013 for discussion at the committee meetings scheduled for 24 September 2013 and 26 September 2013 respectively. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2013.

This summary is not intended to be exhaustive but highlights the most significant matters to which we would like to bring your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

Status	Description	Detail
Key findings on audit risks and other matters		
We have concluded satisfactorily on each of the key audit risks identified in our audit plan. We did not identify any additional risks in the course of our work.	We discuss within Section 1 the results of our work in relation to key audit risks which have been identified as being significant to the 2012/13 accounts, and which were presented to the Audit Committee in February 2013 as follows: **Key risks** 1. **Contributions**: The risk surrounding identification, calculation and payment of contributions, due to the complexities surrounding admitted bodies, has been addressed through our testing. No issues were noted with the exception of an incorrect classification of the contributions between employer deficit and employer normal contributions. As such an adjustment was posted increasing deficit contributions and decreasing normal contributions by £1.5 million; 2. **Benefits:** Complexities in the calculation of both benefits in retirement and ill health and death benefits have been reviewed during our testing with no issues identified; 3. **Financial instruments**: The unquoted investments have been agreed to independent returns from the investment managers. It was identified that the valuation provided by Northern Trust was as at December 2012 for Adams Street Partners due to the lack of available information to the Hillingdon team. On receipt of updated valuations in July an uncorrected adjustment of £404,000 was identified to increase the value of investments. We continued to identify that some of the private equity funds' audited financial statements included an emphasis of matter paragraph indicating the uncertainties over valuation of equities in illiquid markets. We have held discussions with the managers of these funds to ensure that the valuation techniques represent the most accurate fair value of the equities. In October 2012 the scheme transferred the assets from Marathon to SSgA totalling £60.6m. Subsequently in January 2013 these assets were transferred from SSgA to Kempen and Newton, including a gain of £5.1m whilst the assets were in transition from Marathon to Newton and Kempen. We audited the two transfers between Marathon and SSgA and from SSgA to Kempen and Newton with no issues noted. 4. **Management Override of Controls**: all testing was completed with satisfactory results.	Section 1

Executive summary (continued)

Status	Description	Detail
Audit status		
Subject to the clearance of final points, we expect to issue an unmodified audit opinion on the financial statements.	We are satisfied that the status of the audit is as expected at this stage of the timetable agreed in our audit plan. We have substantially completed our audit in accordance with our Audit Plan which was presented to you prior to the commencement of the audit subject to the satisfactory completion of the matters set out below: • receipt of signed management representation letter (see appendix 1); and • update of post balance sheet event review. We will report to you verbally in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters. At the date of this report and subject to the satisfactory completion of the outstanding matters referred to above, there are no matters in relation to the Local Government Pension Fund information that would result in the issuance of a modified audit opinion.	
Identified misstatements		
Uncorrected misstatements are detailed in Appendix 2	Audit materiality was set at £7.5m (2011/12: £7.5m), which is consistent with that of the local government audit. The basis on which this is calculated is set out in our report to the audit committee. This is slightly higher than set out in the planning meeting report, which was based on a preliminary materiality for the Authority before the year end results were available, however we continue to report all unadjusted misstatements greater than £380,000 (2% of materiality) to the Audit and Pension Committees. There is one identified uncorrected misstatement above this level that we wish to bring to your attention in Appendix 2.	Appendix 2
Accounting and internal control systems		
Calculation of deficit funding	We have one area for improvement surrounding the calculation of deficit contributions resulting from the adjustment noted. We have previously identified one area for improvement in relation to the internal control system. This improvement related to the review of the underlying private equity funds. We note that improvements have been made in this area. Further detail on the area for improvement in the internal control system is included in Section 3 of the report.	Section 3

1. Key audit risks

The results of our audit work on key audit risks are set out below:

Contributions	
Audit risk	Unlike the positions in the private sector, we are not required to issue a separate statement on contributions for the Fund. Nevertheless, in view of the complexity arising from the participation of different employers within the Fund, we have included the identification, calculation and payment of contributions as an area of significant risk.
Deloitte response	We have performed the following testing to address the significant risks around contributions: • reviewed the design and implementation of controls present at the Fund for ensuring contributions from all Scheduled and Admitted bodies are identified and calculated correctly; • we have received from officers an analysis of contribution rates by employer and signed monthly statements from each Scheduled and Admitted body; • we performed tests of detail to test whether each material income stream was calculated in accordance with the actuarial valuation and schedule of rates; and • we developed an expectation based on changes in membership numbers and changes in contribution rates to analytically review the contributions received in the year, the results of which fell within our tolerance level. It was noted that an incorrect allocation of the contributions was being disclosed in the fund account. As such £1.5 million has been posted as an adjustment to re-allocate to deficit funding from employer normal contributions. All other testing was completed with satisfactory results.

1. Key audit risks (continued)

Benefits	
Audit risk	The changes that were made to the Fund from April 2008 which introduced complexities into the calculation of both benefits in retirement and ill health and death benefits continue to require careful consideration. The changes are in addition to the annual increases required by the 1997 Regulation and Pensions (Increase) Act 1971.
Deloitte response	The following tests were performed to address the significant risk around benefits: • we reviewed the design and implementation of controls present at the Fund for ensuring the accuracy, completeness and validity of benefits through discussion with the pensions team and testing to controls were in force during the year under review; • we obtained a schedule of benefits paid and supporting calculations and tested whether benefits paid were in accordance with the appropriate rules; • we performed tests of detail on a sample of benefits paid, by agreement to supporting documentation, to test whether benefits were in all material respects correctly calculated, by reference to their qualifying service, Fund rules and benefit choices made; and • we developed an expectation based on changes in membership numbers and pension increases to analytically review the benefits paid in the year. All testing was completed with satisfactory results.

1. Key audit risks (continued)

Financial instruments	
Audit risk	The Fund makes some use of investments in unquoted investments vehicles, such as private equity houses. As at 31 March 2013 the scheme had £39.6m (2012: £37.1m) in these holdings. Although these funds are normally subject to third party external audit, up to date audited accounts were not available at the time that the pension fund accounts were compiled and audited. In such cases, year end fair values of investments in such funds will need to be estimated on the basis of unaudited information. In addition, market volatilty raises questions about how to value these investments. It would normally be expected that the reasonableness of the fund managers' valuation could be assessed by comparison with the funds' latest available audited accounts as adjusted for subsequent cash movements (investments and distributions) between the pooled investment vehicle and the investors. However, market volatility means such comparison may be inappropriate especially when there is a significant time period between the latest audited accounts and the fund year end. As these investments are more complex to value we have identified the Fund's investments private equity funds as a significant risk. In October 2012 the scheme transferred the assets from Marathon to SSgA totalling £60.6m. Subsequently in January 2013 these assets were transferred from SSgA to Kempen and Newton, including a gain of £5.1m whilst the assets were in transition. In addition derivative financial instruments were identified as a risk due to the complexities in the valuations, however the scheme has only £81,000 investment liability relating to these products in the current year.
Deloitte response	The following tests were performed to address the significant risk around investments: • we have reviewed the design and implementation of controls present at the Fund for ensuring investments are valued correctly; • we reviewed the internal control reports to gain an understanding of the control environment at the investment managers and reviewed management's consideration of these reports. • we have obtained a further understanding of the valuation of investments. The value of unquoted private equity vehicles represents less than 6% (2012: 6%) of the assets of the Fund as a whole, totalling £39.6m (2012: £37.1m). The majority of the investments held by the Fund are in investments which have a quoted value £564.5m (2012: £512.7m) or are derived from quoted values £75.4m (2012: £61.7m); • we have reconciled the total value of the investments held by the Fund as reported in the investment report from Northern Trust to the value of investments reported in the Net Assets Statement; • we have compared the valuations provided by Northern Trust to the reports provided by the investment manager; • we have performed a test of detail on a sample basis of quoted investment and compared the value reported by the Northern Trust to the quoted price obtained from Bloomberg, DataStream or other third party sources; • we have audited the transition of assets between Marathon and SSgA (totalling £60.6m) and subsequently from SSgA to Kempen and Newton (£44.3m to Kempen and £21.4m to Newton) via agreement to investment manager confirmations and the transition reports; and • we have performed a test of detail on a sample basis of the unquoted pooled investments to the valuations received from the external investment managers.

1. Key audit risks (continued)

Financial instruments (continued)	
Deloitte response (continued)	We identified that the valuations used by Northern Trust for Adams Street Partners are based on the quarterly reporting from Adams Street Partners. The valuation is then maintained until the next report is available. Thus the valuation shown as at 31 March 2013 relates to the December valuations. The valuations as at March are not provided until July by Adams Street which is subsequent to the preparation of the accounts. We received confirmations of these valuations as part of our audit procedures and identified an increase in the value of these investments of £404,000. This adjustment remains as uncorrected and is included in Appendix 2. In addition it was noted that the audited accounts for the LGT funds again contained modified opinions. The scheme has £18.2m (2012: £17.0m) in these funds. The financial statements of the funds included an emphasis of matter paragraph over the valuation of the illiquid investments. We held discussions with the fund manager to satisfy ourselves that the values of the investments are unlikely to contain a material error. Our discussions included gaining a further understanding of the valuation process used and comparing this to the industry standard. In line with the prior year an additional disclosure has been included in the financial statements to give the users of the accounts better information on the risks surrounding this type of investment. Note 16 contains the following wording: *"The Investment Sub Committee have undertaken a review of the audited financial statements for the private equity funds on behalf of the London Borough of Hillingdon Pension Fund by Adam Street Partners and LGTand considered their valuation processes adopted for illiquid markets. The ISC are assured that the valuation process is rigorous and result in valuations that, within materiality, represents fair value at the reporting date."* We note that steps have been made for the committee to annually review the funds' audited accounts to satisfy themselves that the valuations provided are sufficiently accurate following our recommendations in the prior year, see section 2. We also note that, whilst not an adjustment, there are pricing differences totalling £768,000 between the custodian and the investment managers. This is due to the different pricing streams available to investment managers and custodians. The total represents 0.1% of the fund which is not considered significant. Other than the above no issues were identified during our audit procedures.

1. Key audit risks (continued)

Management override of controls	
Audit risk	We are required by ISA 240 'The auditors responsibility to consider fraud in an audit of the financial statements' to presume there is a significant risk of management override of the system of internal control
Deloitte response	Our audit work included: • we have reviewed analysis and supporting documentation for journal entries, key estimates and judgements; • we have performed substantive testing on journal entries to confirm that they have a genuine, supportable rationale; • we have reviewed ledgers for unusual items and on a test basis investigated the rationale of any such postings; • we have reviewed significant management estimates and judgements such as year end accruals and provisions and consider whether they are reasonable; and • we have made enquiries of those charged with governance as part of our planning and detailed audit processes. We have noted no issues during the completion of the above procedures.

2. Other issues

Administration migration

Migration of administration to Capita Hartshead

The scheme made a decision to outsource its administration from 1 April 2012. The administration is now completed by Capita Hartshead. There are a number of considerations to monitor during the change over of administration. These include:

- Monitoring of the data migration between systems.
- Adjustment to processes to incorporate.
- Ongoing service level monitoring.

The pensions team implemented the monitoring of these areas during the transition and subsequently. The data migration between the historic Heywood system and Capita system was completed through the download of data by Heywood into a set format and this was then provided to Capita. The data was checked for completeness through a reconciliation of record numbers in each system and through the comparison to the final back up data.

The relevant processes involving administration were updated to incorporate the use of Capita as set out in the service level agreement. The service levels provided by Capita are monitored on an ongoing basis.

Deloitte response

We have held discussions with management surrounding the monitoring of the transfer of administration to Capita. The process was considered to be appropriate and we have reviewed the final data reconciliations on completion of the transfer with no issues noted.

3. Accounting and internal control systems

Control observation

The following observation was noted in the current period:

Accuracy of deficit contributions allocation	
Observation	It was noted during testing that the calculation of deficit funding contributions was being completed using a historic split rather than the split provided by the latest actuarial valuations. Whilst there is no issue with the total amount being paid, an adjustment was noted to re-allocate £1.5m of contributions between normal and deficit.
Recommendation	We recommend a process be implemented that confirms the appropriate allocation with the latest actuary valuation when the deficit contributions are being calculated.
Management response	On receipt of the 2013 triennial valuation results, a process will be set up which will ensure the appropriate allocation of deficit contributions is included in the working papers for future years accounts.
Owner	Nancy le Roux

Prior period control observation

The following was noted in the prior period for which we detail an update below:

Review of private equity funds financial statements	
Observation	Whilst an annual review process has been implemented to review the annual statements received from the private equity firms, there remains no procedure in place to complete a detailed review of the underlying private equity funds annual audited financial statements. It was again noted that the audit opinion on some of the funds was modified to include an emphasis of matter paragraph raising attention to the possibility the valuation may differ from that shown due to the illiquid market for these securities. This could lead to incorrect valuation of these funds in the pension scheme financial statements.
Recommendation	We recommend that a process is implemented to review annually the audited financial statements for all private equity funds. The committee should consider any issues identified by the auditors and the impact on the scheme should be assessed and disclosure included in the accounts to explain any uncertainties identified.
2013 update	An agenda item has been added to the investment subcommittee meeting in June to review the valuation basis for these funds and confirm this basis is considered appropriate.
Conclusion	The implementation of this review is considered to be satisfactory.

4. Current accounting and regulatory issues

Upcoming financial reporting developments

For reference, the following developments in the pension industry may impact the governance arrangements and financial statements of the London Borough of Hillingdon. Whilst we appreciate that Local Government Pension Fund are not regulated by the Pensions Regulator we consider their guidance to be indicative of what is currently considered to be best practice in the pensions sector. In addition, whilst the Fund is not a company some information surrounding governance best practice may be of interest.

Pensions Act 2013	
	The Pension Act 2013 has received Royal Assent in parliament and hence will come in to force from 2015. The key changes of the bill are: • reform the state pension system through the introduction of a single-tier state pension; • manage future changes to the State Pension age including bringing forward the increase in State Pension age to 67; • reform the range of benefits associated with bereavement; • boost the consolidation of small pension pots; • introduce a new statutory objective for the Pensions Regulator; and • strengthen existing legislation relating to occupational pensions. It is anticipated that LGPS will begin to be regulated by the Pension Regulator as part of this bill from 2015. This will mean that the schemes will need to consider the guidance put in place by the regulator and comply with the best practice advice from 2015. Further information can be found at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/197840/pensions-bill-ia-summary.pdf

4. Current accounting and regulatory issues (continued)

The new LGPS 2014 project

On 22 December 2011, an agreement reached by the Local Government Association (LGA) and local government unions on how to take forward the future reform of the Local Government Pension Scheme (LGPS) in England and Wales was accepted by the Government. The agreement consists of:

- A set of principles covering:
  - The design of a new LGPS.
  - The future management and cost of the scheme.
  - Governance of the LGPS.
- A timetable for implementing the new scheme by April 2014.
- A project outline for managing the process of agreeing, by April 2012, the 'big ticket' elements of the new scheme.

During April 2012, following the acceptance by Government of a principles document submitted by the Local Government Association, UNISON and GMB on how to take forward the reform of the Local Government Pension Scheme (LGPS) in England and Wales.

The project is continuing with the largest change being the introduction of the Career Average Revalued Earnings Scheme being introduced from 1 April 2014.

Other changes include:

- Accrual rate changed to 1/49th.
- Retirement age will be consistent with state retirement age.
- Average contribution of 6.5% based on actual pay.
- 50/50 option for members not wishing to contribute to full benefits.

Further information is available at:
http://www.lgps.org.uk/lge/core/page.do?pageId=15431012

5. Other matters for communication

As part of our obligations under International Standards on Auditing (UK & Ireland), we are required to report to you on the matters listed below.

Independence	We consider that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised. If the Audit or Pension Committee wishes to discuss matters relating to our independence, we would be happy to arrange this.
Non-audit services	We are not aware of any inconsistencies between APB Revised Ethical Standards for Auditors and the Administering Authority's policy for the supply of non audit services or of any apparent breach of that policy. Fees payable to the auditor for the audit of the annual accounts of the London Borough of Hillingdon (excluding VAT) have been provided to the audit committee in the report covering the local authority. Our fee is consistent with the scale fee determined by the Audit Commission.
International Standards on Auditing (UK and Ireland)	We consider that there are no additional matters in respect of those items highlighted in our publication "Briefing on audit matters" to bring to your attention that have not been raised elsewhere in this report or our audit plan.
Liaison with internal audit	No internal audit reports were completed in the year. No adjustments were made to the audit approach as a result of this.
Written representations	A copy of the representation letter to be signed on behalf of the Authority is attached at Appendix 1.
Relationships	There are no relationships (including the provision of non-audit services) we have with the London Borough of Hillingdon, its trustees and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence, together with the related safeguards that are in place.

6. Responsibility statement

The Audit Commission published a 'Statement of responsibilities of auditors and of audited bodies' alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audited bodies by summarising where, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body begin and end, and what is expected of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our audit plan has been prepared on the basis of, and our audit work carried out in accordance with the Code and the Statement of Responsibilities, copies of which have been provided to the Council by the Audit Commission.

The audit may include the performance of national studies developed by the Audit Commission, where the auditors are required to follow the methodologies and use the comparative data provided by the Audit Commission. Responsibilities for the adequacy and appropriateness of these methodologies and the data rest with the Audit Commission. The audit may also include reviews such as this report which address locally determined risks and issues the scope of which is agreed with management in advance of the work. In this case it is for management to determine whether the scope is adequate and appropriate to their needs.

While our reports may include suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of the Pension Fund's system of internal control was conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards and the Code of Audit Practice. We make these suggestions in the context of our audit but they do not in any way modify our audit opinion which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.

Any conclusion, opinion or comments expressed herein are provided within the context of our opinion on the financial statements and our conclusion on value for money as a whole, which was expressed in our auditor's report.

We view this report as part of our service to you for corporate governance purposes and it is to you alone that we owe a responsibility for its contents. We accept no duty, responsibility or liability to any other person as the report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

Deloitte LLP.

Deloitte LLP

Chartered Accountants
St Albans
5 September 2013

Appendix 1: Draft representation letter

Deloitte LLP

Our Ref: ***MGB/HB/2013*** ***Date:***

Dear Sirs

London Borough of Hillingdon Pension Fund (the "Fund")

This representation letter is provided in connection with your audit of the financial statements of the Fund for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Fund, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, the financial transactions of the Pension Fund during the year ended 31 March 2013, and the amount and disposition of the Fund's asset and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the Fund year.

We acknowledge as members of London Borough of Hillingdon Council our responsibilities for ensuring that the financial statements are prepared which give a true and fair view, for keeping records in respect of active members of the Fund and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

1. All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of Officer and Committee member meetings, have been made available to you.

2. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.

3. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to this letter.

4. 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.

5. We are not aware of any significant facts relating to any frauds or suspected frauds affecting the Fund involving:
   (i). management;
   (ii). employees who have significant roles in internal control; or
   (iii). others where the fraud could have a material effect on the financial statements.

6. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by members, former members, employers, regulators or others.

7. We are not aware of any actual or possible instances of non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.

8. Where required, the value at which assets and liabilities are recorded in the net asset statement is, in the opinion of the Authority, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Fund. Any significant changes in those values since the balance sheet date have been disclosed to you.

9. We confirm the completeness of the information provided regarding the identification of related parties, and the adequacy of related party disclosures in the financial statements. We have made enquiries of any key managers or other individuals who are in a position to influence, or who are accountable for the stewardship of the Fund and confirm that we have disclosed in the financial statements all transactions relevant to the Fund and we are not aware of any other such matters required to be disclosed in the financial statements, whether under Statement of Recommended Practice – Financial Reports of Pension Funds (revised May 2007) ("Pensions SORP 2007") or other requirements.

10. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to wind up the Fund. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Fund's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

11. You have been informed of all changes to the Fund rules during the year and up to the current date.

12. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Fund's financial statements.

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

14. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

15. There have been no events subsequent to 31 March 2013 which require adjustment of or disclosure in the financial statements or notes thereto.

16. There have been no irregularities involving management or employees who have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.

17. The pension Fund accounts and related notes are free from material misstatements, including omissions.

18. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

19. The Fund has satisfactory title to all assets.

20. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

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

22. We confirm that:

   - all retirement benefits and Funds, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;

- all settlements and curtailments have been identified and properly accounted for;
- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the valuation of the Fund liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

23. All trades in complex financial instruments are in accordance with our risk management policies, have been conducted on an arm's length basis and have been appropriately recorded in the accounting records, including consideration of whether the complex financial instruments are held for hedging, asset/liability management or investment purposes. None of the terms of the trades have been amended by any side agreement and no documentation relating to complex financial instruments (including any embedded derivatives and written options) and other financial instruments has been withheld.

24. We confirm that the Pension Fund Annual Report is compliant with the requirements of Regulations 34(1)(e) of the Local Government Pension Fund (Administration) Regulations 2008 and related guidance.

25. We confirm that the information that is contained within the Pension Fund Annual Report and Accounts for the year to 31 March 2013 is complete, accurate and consistent with the information that is contained within the Accounts.

We confirm that the above representations are made on the basis of adequate enquiries of other officials of the Fund (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of London Borough of Hillingdon

Appendix 2: Audit adjustments

Uncorrected misstatements

We report all individual identified unrecorded audit adjustments in excess of £380,000 and other identified misstatements in aggregate not adjusted by management in the table below. The following potential misstatements have been identified during the course of our audit to date but have not been adjusted:

		Credit/ (charge) to current year fund account £'000	Increase/ (decrease) in net assets £'000	Increase/ (decrease) in contributions £'000
Factual / Judgemental misstatements				
Investment valuation	[1]	404	404	-
Total		404	404	-

[1] The private equity valuations for March were noted to be £404,000 higher than the carrying valuation in the accounts. As such, an adjustment is noted to increase the asset value and change in market value.

We will obtain written representations from the authority confirming that after considering all uncorrected items, both individually and in aggregate, in the context of the consolidated financial statements taken as a whole, no adjustments are required.

Disclosure misstatements

No disclosure deficiencies identified.

DELOITTE - ANNUAL AUDIT LETTER - DRAFT

Contact Officer: Nancy Leroux
Telephone: 01895 205353

SUMMARY

This is a covering report to Deloitte's Draft Annual Audit Letter which provides a summary of the expected conclusions from their audit work undertaken for the year ended 31 March 2013.

RECOMMENDATIONS

The Committee is asked to note the report and that a final version will be copied to them prior to submission to the Audit Commission.

INFORMATION

The letter identifies the key areas of Deloitte's work over the year, their findings in each area and the focus of their work going forward:

1. The Council's Financial Statements – it is planned to issue an unmodified opinion on the Council's accounts for the year ended 31 March 2013.
2. The Local Government Pension Scheme Annual Report – it is planned to issue an unmodified opinion on the information in the Council's pension scheme annual report for the year ended 31 March 2013.
3. Value for Money conclusion – it is planned to issue an unmodified opinion on the Council's arrangements for securing value for money during the year ended 31 March 2013.
4. Whole of Government Accounts – work is ongoing on the audit of the WGA and is expected to be completed by 4 October 2013.
5. Grants Certification – there will be a separate letter on grant certification issued to Audit Committee early in 2014.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None

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Deloitte.

London Borough of Hillingdon

Annual Audit Letter to the Members of the Council for the year ended 31 March 2013

DRAFT

16 September 2013

Contents

Executive summary

We are required to issue an annual audit letter (the “Letter”) to the London Borough of Hillingdon (“the Council” or “Hillingdon”) following completion of our audit procedures for the year ended 31 March 2013. That Letter will be published on the Audit Commission website. This is a draft of the Letter for review and comment by the Audit Committee prior to our finalisation of the Letter. We will finalise the Letter once we have signed our audit opinion on the Council’s statement of accounts, completion certificate and pension scheme annual report which we intend to do in the meeting on the 26th September 2013. The Letter’s main messages are:

The Council’s financial statements	Subject to finalisation of audit procedures we intend to issue an unmodified opinion on the Council’s financial statements for the year ended 31 March 2013.
The Council’s local government pension scheme annual report	Subject to finalisation of audit procedures we intend to issue an unmodified opinion on information in the Council’s pension scheme annual report for the year ended 31 March 2013.
Value for money conclusion	Subject to finalisation of audit procedures we intend to issue an unmodified conclusion on the Council’s arrangements for securing value for money for the year ended 31 March 2013.
Whole of Government Accounts consolidation return	We will be reporting to the National Audit Office ahead of the 4 October deadline and after the signing of the Council’s financial statements. Subject to finalisation of audit procedures we will be reporting that we consider the consolidated return to be consistent with the audited statutory accounts and that there are no errors above £1m to report.
Grants certification	We undertake work on grant claims and other returns on behalf of the Audit Commission and provide certificates to grant funders on compliance with aspects of the terms on which funds have been claimed. We will provide a separate, detailed letter to the Council early in 2014 on the outcome of this work, but at this point there are no matters which we consider need to be brought to your attention.

There are no individually significant recommendations which we wish to bring to Members’ attention here.

1. Introduction

The purpose of this letter

The purpose of this Annual Audit Letter ("Letter") is to summarise the key issues arising from the work that we have carried out during the year.

We have addressed this Letter to the members of the Council as it is the responsibility of the members to ensure that proper arrangements are in place for the conduct of its business and that the Council has relevant safeguards and properly accounts for public money.

The Letter will be published on the Audit Commission website at www.audit-commission.gov.uk and should also be posted on the Council's website.

Responsibilities of the Appointed Auditor and the Council and scope of our work

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including local authorities. As your appointed auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we review and report on:

- the Council's financial statements;
- the Council's local government pension scheme annual report; and
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion) in respect of its local authority functions.

We also provide an assurance report to the National Audit Office on the financial information prepared by the Council for consolidation into the Whole of Government Accounts.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

As an additional responsibility to those set out in the Code, we also undertake grant certification work on behalf of the Audit Commission.

2. Financial reporting

Key issues arising from the audit of the Council's accounts

We have issued a separate report to the Audit Committee for the year ended 31 March 2013, which details the findings from our audit of the financial statements and the Council's value for money arrangements.

In that report we explained how we focused our work on areas which involve more complex accounting judgements and estimation including:

- accounting for grant income;
- valuation of property;
- valuation of the local Government pension fund liability;
- Housing Revenue Account self-financing;
- recording of capital and revenue expenditure; and adequacy of bad debt levels; and
- management override of controls.

In our work todate, which is subject to finalisation of audit procedures, we did not identify any significant issues arising from these areas and we consider management's judgements to be reasonable. A number of audit adjustments were identified through our work and subsequently corrected and reflected in the published Statement of Accounts.

Our report to the Audit Committee also includes some recommendations to assist with future financial control and reporting. These recommendations are in respect of: checking the accuracy of data submitted to the actuaries, further training in respect of journal postings, fixed asset valuations, the capital budgeting and monitoring process, a review of the Audit Committee terms of reference, formalising the approach to the National Fraud Initiative at the Council and email archiving.

Key issues arising from the audit of the pension scheme accounts within the pension scheme annual report

We will report separately to the Audit Committee in respect of the work we performed over the pension scheme.

Our work identified a proposed misstatement of £0.4m which, if corrected, would have increased net assets and increased the change in the market value. Management did not correct this as they considered it to be immaterial. We intend to issue an unmodified opinion on the pension scheme accounts within the pension scheme annual report.

Whole of Government Accounts

Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on the Council's whole of government accounts return. Our report is used by the National Audit Office ("NAO") for the purposes of their audit of the Whole of Government Accounts.

We will be reporting to the National Audit Office on the Whole of Government Accounts ahead of the 4 October deadline. Subject to finalisation of our audit procedures we will be reporting that we consider the consolidation return to be consistent with the audited statutory accounts and that there are no uncorrected errors above £1m to report.

3. Value for money conclusion

The scope of our work

We are required to issue a conclusion on whether we are satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources in respect of its local authority functions. This is known as the value for money ("VFM") conclusion.

Our conclusion is given in relation to the following criteria specified by the Audit Commission:

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2013
The organisation has proper arrangements in place for securing financial resilience.	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Approach to our work

We draw sources of assurance relating to our VFM responsibilities from:

- the audited body's system of internal control as reported on in its Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on our responsibilities;
- any work mandated by the Commission – of which there was none in 2012/13; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

Risk assessment

We undertook a risk assessment to identify potential risks to the value for money conclusion. The areas where we paid special attention to were:

- The monitoring and control of construction contracts;
- capital budgeting and forecasting; and
- evidence of achieving savings.

Overall conclusion

On the basis of the work performed, we confirmed our preliminary assessment that there were no risks which required us to carry out other locally determined work and so we intend to issue an unmodified VFM conclusion.

4. Grants

Under Section 28 of the Audit Commission Act 1998, the Commission is responsible for making arrangements for certifying claims and returns in respect of grants or subsidies made or paid by Central Government or a Public Authority to a Local Authority. The Commission, rather than its appointed auditors, has the responsibility for making certification arrangements. The appointed auditor carries out work on individual claims as an agent of the Commission under certification arrangements made by the Commission which comprise certification instructions which the auditor must follow.

Our programme was in progress at the time of writing. We will issue a separate Annual Audit Letter in respect of the grants programme in early 2014, following the completion of the programme. At this point there are no matters which we consider need to be brought to your attention.

5. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and in this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the "Briefing on audit matters" circulated to you in February 2012 and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to the Council and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Deloitte LLP

Chartered Accountants
St Albans

16 September 2013

Appendix 1: Analysis of professional fees

The professional fees earned by Deloitte in respect of the period 1 April 2012 to 31 March 2013 are as follows:

	2013 £'000	2012 £'000
Fees payable in respect of our work under the Code of Audit Practice in respect of the London Borough of Hillingdon's annual accounts, assurance report on the Whole of Government accounts and the value for money conclusion	207.1	345.2
Fees payable for the audit of the London Borough of Hillingdon's pension scheme annual report	21.0	36.5
	228.1	381.7
Fees payable for the certification of grant claims (Note 1)	90.2	120.0
Total fees payable in respect of our role as Appointed Auditor	318.3	501.7
Non audit fees		
Deloitte Real Estate contract monitoring engagement (Note 2)	157.1*	177.8

Note 1: Our work in respect of 2012/13 is ongoing and the amount shown above is an estimate only. The 2012-13 scale fees that the Audit Commission has set include reductions of up to 40% on 2011-12 fees. These result from savings generated from the outsourcing of the Audit Commission's in-house Audit Practice and internal efficiency savings that the Commission is passing on to audited bodies. Under our new arrangements with the Audit Commission, Deloitte's net re-imbursement for external services provided remains unchanged from those previously agreed. The scale fee reductions do not therefore have an impact on our ability to continue offering a high quality service to you.

The fees receivable in respect of private and voluntary funds and in respect of the local government pension scheme are dealt with in separate reports to this meeting of the Audit Committee.

Note 2: In our audit plan issued to you on 27 February 2013 we reported that one of our divisions, Deloitte Real Estate, was successful in its proposal to monitor the delivery of a building contract for the expansion of six primary schools. We do not consider this to compromise our independence as external auditor to the Council and we have also received approval from the Audit Commission to undertake this work.

* The draft financial statements show a fee in respect of £349k for 2012/13. The reason for the difference is two-fold: firstly, the fee shown above is the net figure excluding subcontractor fees, plus some timing differences of invoices.

WORK PROGRAMME 2013/14

Contact Officer: Khalid Ahmed
Telephone: 01895 250833

REASON FOR ITEM

This report is to enable the Committee to review meeting dates and forward plans.

OPTIONS AVAILABLE TO THE COMMITTEE

1. To confirm dates for meetings

2. To make suggestions for future working practices and/or reviews.

INFORMATION

All meetings to start at 5.00pm

Meetings	Room
25 June 2013	CR 4A
26 September 2013	CR 4
12 December 2013	CR 4
11 March 2014	CR 3A

AUDIT COMMITTEE

2013/14 DRAFT Work Programme

25 June 2013	**Corporate Fraud Team Work Plan**	**Head of Internal Audit**
	Consolidated Fraud Report	**Head of Internal Audit**
	Review of the Internal Audit Terms of Reference	**Head of Internal Audit**
	Annual Review on the Effectiveness of Internal Audit	**Head of Internal Audit**
	Draft Annual Governance Statement	**Chief Executive and Corporate Director of Central Services / Head of Policy**
	Head of Internal Audit Annual Assurance Statement	**Head of Internal Audit**
	Internal Audit Progress Report	**Head of Internal Audit**
	Audit Committee Annual Report to Council	**Head of Internal Audit**
	New Terms of Reference of the Audit Committee	**Democratic Services Manager**
	Audit Committee Work Programme	**Democratic Services Manager**

Meeting Date	Item	Officer/member
26 September 2013	**Approval of the 2012/13 Statement of Accounts and External Audit Report on the Audit for the year ended 31 March 2013**	**Director of Finance/Deloitte**
	Deloitte Annual Audit Letter	**Director of Finance/Deloitte**
	External Audit Report to the Audit Committee on the 2012/13 audit of the Pension Fund Financial Statements	**Director of Finance/Deloitte**
	Category Management approach to Contract Management	**Head of Procurement**
	Internal Audit Progress Report and plan amendments	**Head of Internal Audit**
	Risk Management Quarter 1 Report – PART II	**Head of Policy**

	Audit Committee Work Programme	**Democratic Services Manager**

12 December 2013	*** Private Meeting with Head of Audit to take place before the meeting**	
	Internal Audit Progress Report and plan amendments	**Head of Internal Audit**
	Treasury Management Strategy 2014/15	**Director of Finance**
	Internal Audit Corporate Fraud Update	**Head of Internal Audit**
	Deloitte Annual Grant Audit Letter	**Director of Finance/Deloitte**
	Audit Committee Work Programme	**Democratic Services Manager**

	*** Private meeting with the Council's External Auditors to take place before the meeting**	
11 March 2014	**Internal Audit Progress Report**	**Head of Internal Audit**
	Internal Audit Strategy	**Head of Internal Audit**
	Internal Audit Operational Plan	**Head of Internal Audit**
	Review of Internal Audit Terms of Reference,	**Head of Internal Audit**
	Annual Governance Statement – Interim Report	**Chief Executive and / Head of Policy**
	Balances and Reserves Statement	**Director of Finance**
	Deloitte – 2013/14 Annual Audit Plan	**Director of Finance/Deloitte**
	Risk Management Report Part II	**Head of Policy**
	Audit Committee Work Programme	**Democratic Services Manager**

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of the Local Government (Access to Information) Act 1985 as amended.

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